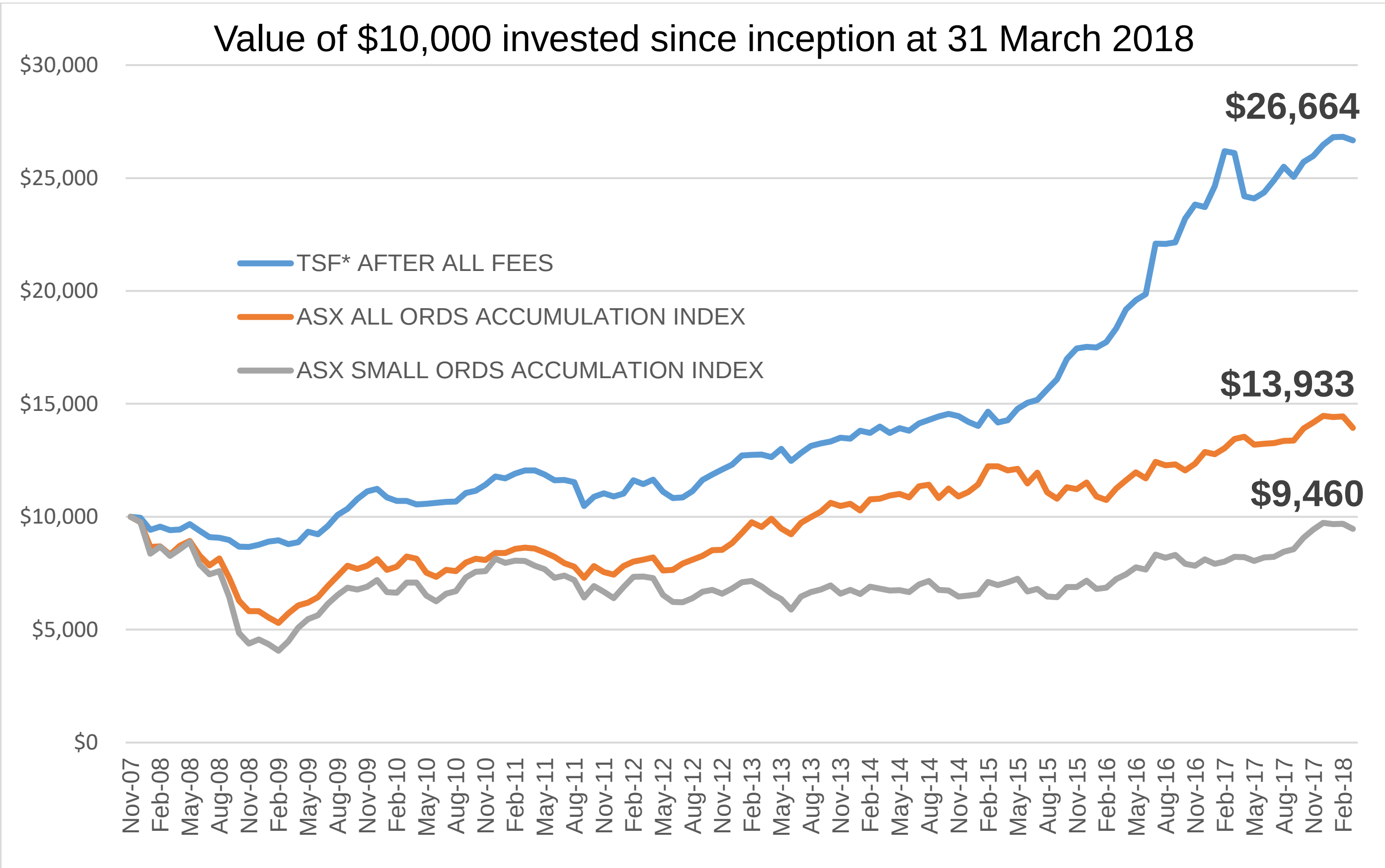
The Supervised Fund (TSF)

Monthly Report – March 2018

Performance Analysis (as at 31 March 2018)	TSF after all fees	Small Ords Accumulation	All Ords Accumulation
1 month	**-0.6%**	-2.3%	-3.5%
6 months	**6.4%**	10.5%	4.2%
2 years p.a.	**20.6%**	14.3%	11.3%
3 years p.a.	**23.4%**	10.7%	4.4%
5 years p.a.	**15.9%**	6.4%	7.9%
7 years p.a.	**12.3%**	2.7%	7.7%
10 years p.a.	**11.0%**	1.4%	5.3%
Since inception p.a. (Dec. 2007)	**10.2%**	-0.5%	3.3%

Past performance is no indication of future performance



*Please note TSF return assumes reinvestment of all distributions (as do the indices).

Portfolio at 31 March 2018

Top 10 Positions	% of NAV
Kangaroo Island Plantation Timbers Limited	26%
Cash	20%
HGL Limited	13%
Hillgrove Resources Limited	11%
Po Valley Energy Limited	7%
Engenco Limited	6%
Bisalloy Steel Group Limited	5%
Physical Gold	5%
Spicers Limited	2%
Bell Financial Group Limited	2%

- 0.7% of capital is invested in put and call options over stock market indices.
- 2% of capital is invested in non-ASX listed investments (excluding cash).
- 18% of capital is invested in oil, gas and resources companies (excluding gold).
- 5% of capital is invested in physical gold and gold mining companies.
- 67% of capital is invested in companies with market capitalisations of less than $150m.

Commentary

The Supervised Fund's March return of –0.6% was largely driven by decreases in the share prices of Po Valley Energy (down 12%), Engenco (down 8%) and Hillgrove Resources (down 7%). These were somewhat offset by increases in put options over the S&P (up 73%), HGL (up 12%) and Bisalloy Steel Group (up 9%).

Po Valley stock declined on no negative news. On 1 March 2018, the company's board rejected a proposed takeover of its three Italian gas fields as the offer was too low (see earlier commentary on the takeover). Concurrently, Po Valley released an independent expert's report that valued two of its gas fields at €46.8m (about A$75m). This compares to the company's present market capitalisation of $24m. In addition, Po Valley shares are currently trading *cum* a distribution to PVE shareholders of 80m shares in its former subsidiary, Coro Energy (previously called Saffron Energy). The market value of these shares is about A$6m. Thus, based on this publicly available information, Po Valley is worth about A$81m, or 13.6c per share. This is a 240% premium to the last traded price of 4c.

We believe the reasons for the considerable undervaluation include the complexity of recent corporate events, including the rejected takeover; the illiquidity of the stock; the lack of exposure to the market, with management traditionally focusing on operations rather than promoting the company to potential investors; the lack of broker coverage; and the lack of institutions, with Supervised Investments the only fund with a meaningful holding. Consistent with our strategy of focusing on unloved stocks, we have used this to our advantage and have been buying shares on–market at what we deem current cheap prices. The Supervised Fund now holds 6.3% of the company.

We have held stock in Po Valley since 2009. We took a meaningful position in June 2015 when participating in a placement at 2.5c per share and increased our holding when underwriting and participating in a 2.5 for 1 rights issue at 0.5c per share in April 2016.

We believe that as the company progresses through certain milestones this year and next, including further exploration at its Selva field and receiving productions concessions there and at its Teodorico field, the shares should begin to reflect their inherent value.

Engenco and Hillgrove stock also fell on no news. During the month, Hillgrove furthered plans to turn its open pit mine, which will be depleted in mid–2019, into a pumped hydroelectric energy storage system. This could provide significant upfront cash to the company, allowing it pay off creditors, and minimise the mine rehabilitation costs. We should hear more about this prospect in the coming few months.

HGL's shares appreciated on no news. However, there was considerable insider buying, which is always a propitious indicator to the market. Kevin Eley, a director, bought 123,262 shares on-market over the last month at an average price of 50c. This was his first on-market purchase in five years. Kevin could be deemed a relatively sophisticated investor, having been chairman of Hunter Hall International. Peter Miller, HGL's chairman, bought twice in March, increasing his personal holding from 161,313 shares to 494,029 shares at an average price of 47.5c. This included Peter's first on-market purchase in over sixteen years as chairman and eighteen years as a director. It is a favourable sign that two of the people with the most intimate understanding of the company, who have each been directors of HGL for over sixteen years, are buying material amounts.

During the month, the fund purchased a parcel of 754,325 HGL shares at 47.5c. This brings our total holding to 5,438,715 (13% of the portfolio and 9.3% of HGL). We believe the stock is worth upwards of 70c per share; they are currently trading at 50c.

Bisalloy shares rose following the company's announcement that Rheinmetall had been selected by the Australian government as the successful bidder for the $5.2bn Land 400 Phase 2 Armoured Vehicle Program. Rheinmetall will use Bisalloy steel in the 211 Boxer Combat Reconnaissance Vehicles (CRVs) it is contracted to provide to the Australian Defence Force. Production will begin in late 2018, with the first Boxer CRV delivered in 2020. This furthers Bisalloy's stated intention to focus on expanding its offering of defence–grade, armour steel. On 5 April, the company announced it had received an initial order of 250 tonnes of armour steel from Naval Group Australia for the government's SEA1000 Future Submarines Project, a $50bn program to build 12 new submarines by the 2040s.

Outlook

It is an uncertain time for equity markets. There are mixed messages coming from the US: tax cuts and government spending should boost growth, whilst protectionist policies could lead to trade wars, high inflation and increased interest rates. Consequently, we have decided to go long volatility by adopting a straddle strategy, in which we hold both call and put options over the S&P. We have 4 call contracts (with 7% of the portfolio long the S&P) and 14 put contracts (with 23% of the portfolio short the S&P). With this net short position, we have retained our strategy of using put options as insurance in the case of a serious market downturn; yet with the call options we will still benefit from general volatility. We have 0.7% of unitholder capital invested in these options. With our puts, 20% cash position and 5% gold, we have effectively insured 48% of our portfolio against a global market downturn.

6 April 2018

The Supervised Fund's Historical Performance

	TSF after all fees	Small Ords Accumulation	All Ords Accumulation
Since inception p.a. (Dec 2007)	10.2%	-0.5%	3.3%
Financial year to date	9.5%	15.4%	5.3%
Calendar year to date	0.7%	-2.8%	-3.7%
FY17	22.6%	7.0%	13.1%
FY16	32.0%	14.4%	2.0%
FY15	9.0%	0.4%	5.7%
FY14	10.6%	13.1%	17.6%
FY13	15.3%	-5.3%	20.7%
FY12	-6.8%	-14.6%	-7.0%
FY11	9.4%	16.4%	12.2%
FY10	15.1%	11.2%	13.8%
FY09	-1.7%	-28.6%	-22.1%

The Fund's benchmark is 5% per annum. Small Ords Accumulation and All Ords Accumulation are included for the sake of comparison to the predominant Australian equity indices.