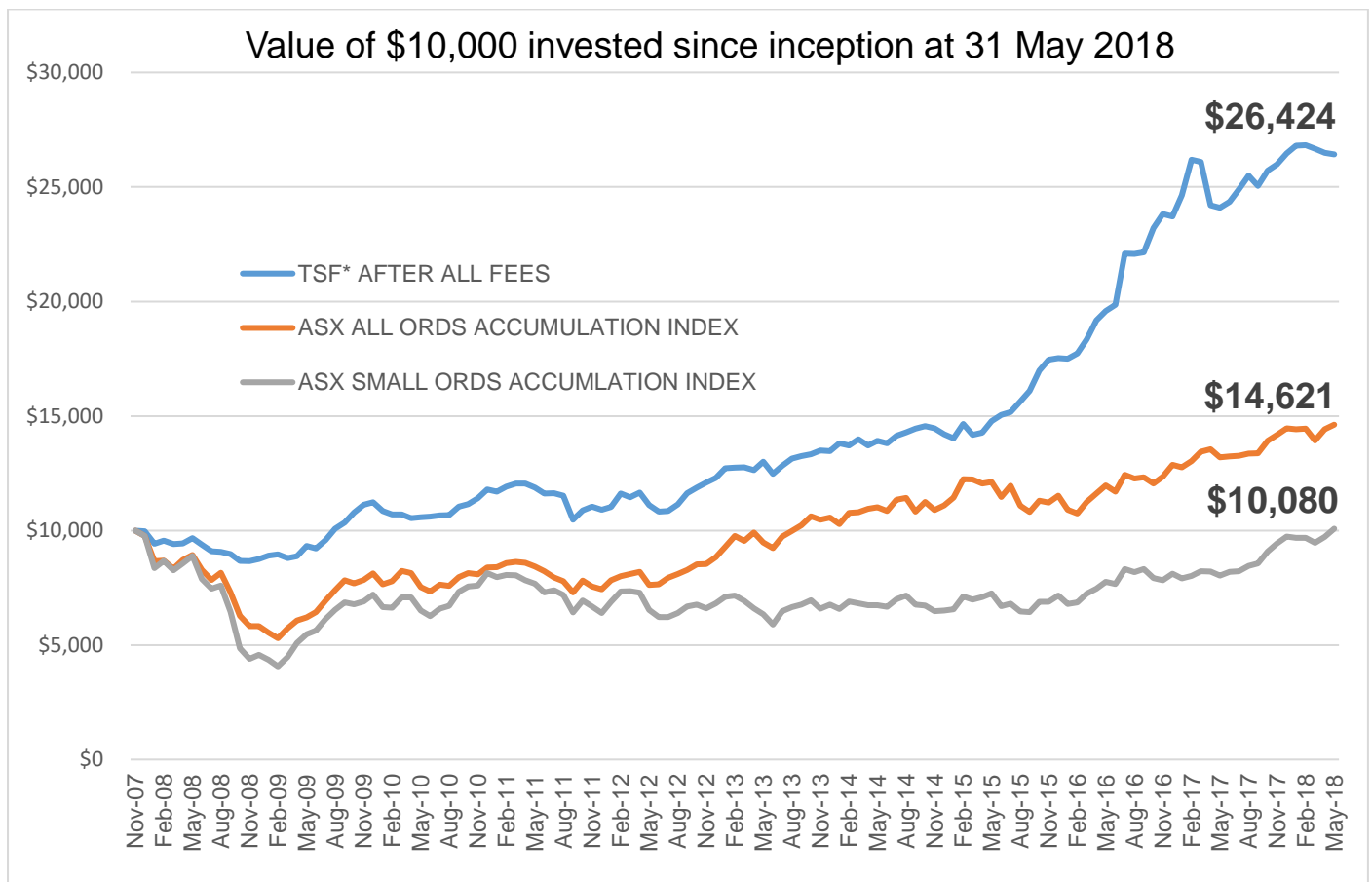


The Supervised Fund (TSF) Monthly Report – May 2018

Performance Analysis (as at 31 May 2018)	TSF after all fees	Small Ords Accumulation	All Ords Accumulation
1 month	-0.3%	3.7%	1.4%
1 year	9.6%	25.4%	10.8%
2 years p.a.	16.1%	13.9%	10.5%
3 years p.a.	21.4%	11.6%	6.4%
5 years p.a.	15.2%	9.7%	9.1%
7 years p.a.	12.1%	4.0%	8.2%
10 years p.a.	10.6%	1.3%	5.1%
Since inception p.a. (Dec. 2007)	9.8%	0.3%	4.0%

Past performance is no indication of future performance



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

Portfolio at 31 May 2018

Top 10 Positions	% of NAV
Kangaroo Island Plantation Timbers Limited	24%
Cash and government bonds	16%
Hillgrove Resources Limited	14%
HGL Limited	13%
Po Valley Energy Limited (equity and convertible notes)	10%
Engenco Limited	6%
Bisalloy Steel Group Limited	5%
Physical Gold	5%
Spicers Limited	3%
Coro Energy Limited	2%

- 0.1% of capital is invested in put and call options over stock market indices.
- 6% of capital is invested in non-ASX listed investments (excluding cash).
- 25% of capital is invested in oil, gas and resources companies (excluding gold).
- 6% of capital is invested in physical gold and gold mining companies.
- 71% of capital is invested in companies with market capitalisations of less than \$150m.

Winners and Losers in May 2018

We are introducing the following table into our monthly reports. This is to give unitholders a clearer picture of what is driving the Fund's results.

Winners	Contribution to fund return	Gross return	Losers	Contribution to fund return	Gross return
Po Valley Energy Limited	1.1%	14.1%	Kangaroo Island Plantation Limited	-1.4%	-5.8%
Spicers Limited	0.3%	12.5%	Bisalloy Steel Group Limited	-0.3%	-5.0%
HGL Limited	0.3%	2.1%	Engenco Limited	-0.1%	-1.9%

Commentary

The Supervised Fund's May return of -0.3% was driven by decreases in the share prices of Kangaroo Island, Bisalloy Steel and Engenco, somewhat offset by increases in Po Valley Energy, Spicers and HGL.

During May, Po Valley Energy returned capital to shareholders by way of a distribution of 1 share in former subsidiary Coro Energy for every 5.9 Po Valley shares.¹ Consequently, The Supervised Fund received 6.4m shares in AIM-listed Coro, worth A\$372k as at 31 May 2018. Coro has two of Po Valley's former producing gas fields and £14m in the bank with the stated intention of acquiring gas assets in South East Asia. We are meeting with the CEO and deputy CEO of Coro in Sydney in the first week of June and will get a better idea of the company's strategy.

¹ Coro was previously named "Saffron Energy".

We maintain our excitement in Po Valley's future. During the month, the company submitted an application for a production concession at its prospective onshore gas field, Selva. We await the result in July. Po Valley also had its AGM towards the end of May. There were no material announcements but the chairman released a useful presentation. This was the first for two years and is further indication the company is now in a clean and promising position after a series of complex corporate transactions that lasted for almost eighteen months.

The share price of Spicers appreciated on no news. However, at an equity funds management conference on 14 May, an investment manager proffered Spicers as a top stock pick, referring to "hidden" assets comprising land in Tasmania and Singapore worth around 6c per share (compared to the last traded price at the time of 3.2c). The company's stock subsequently rose to 3.9c per share on record high volume and closed the month at 3.6c.

HGL appreciated after the company released its half-yearly report. Underlying net profit, after some balance sheet write-downs associated with its two recently divested businesses, was \$2.2m, up 21% on the prior corresponding period. Consequently, the dividend increased by 20% to 1.5c. Nevertheless, the share price appreciated by 2.1%. We continue to believe the company is substantially undervalued. If it can maintain its current run rate and make a profit from continuing operations of \$4.4m for the full year, it would be on a p/e ratio of 6.5x (as at the last traded price of 48.5c per share). This is possible, given its half year result excluded full period results for two recent acquisitions, all of which have the potential to contribute positively to profits in the second half. Moreover, the stock is currently trading on a fully franked dividend yield of 8.9%. HGL is in the favourable position of having \$9m in franking credits and tax losses of \$25.7m, meaning it could pay up to \$25.7m worth of fully franked dividends on non-taxed income.

Kangaroo Island shares fell on no news. The company's delay in publishing an Environmental Impact Statement (EIS) on its proposed wharf is presumably weighing on the patience of some shareholders. We remain hopeful about the future of the proposed timber export facility, despite the wait being longer than initially expected. The company has cited inclement weather as a major factor for the hold-up.

The share prices of Bisalloy and Engenco similarly depreciated on no news, both trading on low volume throughout May without any material business updates.

David Constable

12 June 2018

The Supervised Fund's Historical Performance

	TSF after all fees	Small Ords Accumulation	All Ords Accumulation
Since inception p.a. (Dec 2007)	9.8%	0.3%	4.0%
Financial year to date	8.5%	22.9%	10.5%
Calendar year to date	-0.2%	3.6%	1.1%
FY17	22.6%	13.1%	7.0%
FY16	32.0%	2.0%	14.4%
FY15	9.0%	5.7%	0.4%
FY14	10.6%	17.6%	13.1%
FY13	15.3%	20.7%	-5.3%
FY12	-6.8%	-7.0%	-14.6%
FY11	9.4%	12.2%	16.4%
FY10	15.1%	13.8%	11.2%
FY09	-1.7%	-22.1%	-28.6%

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.

DISCLAIMER

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