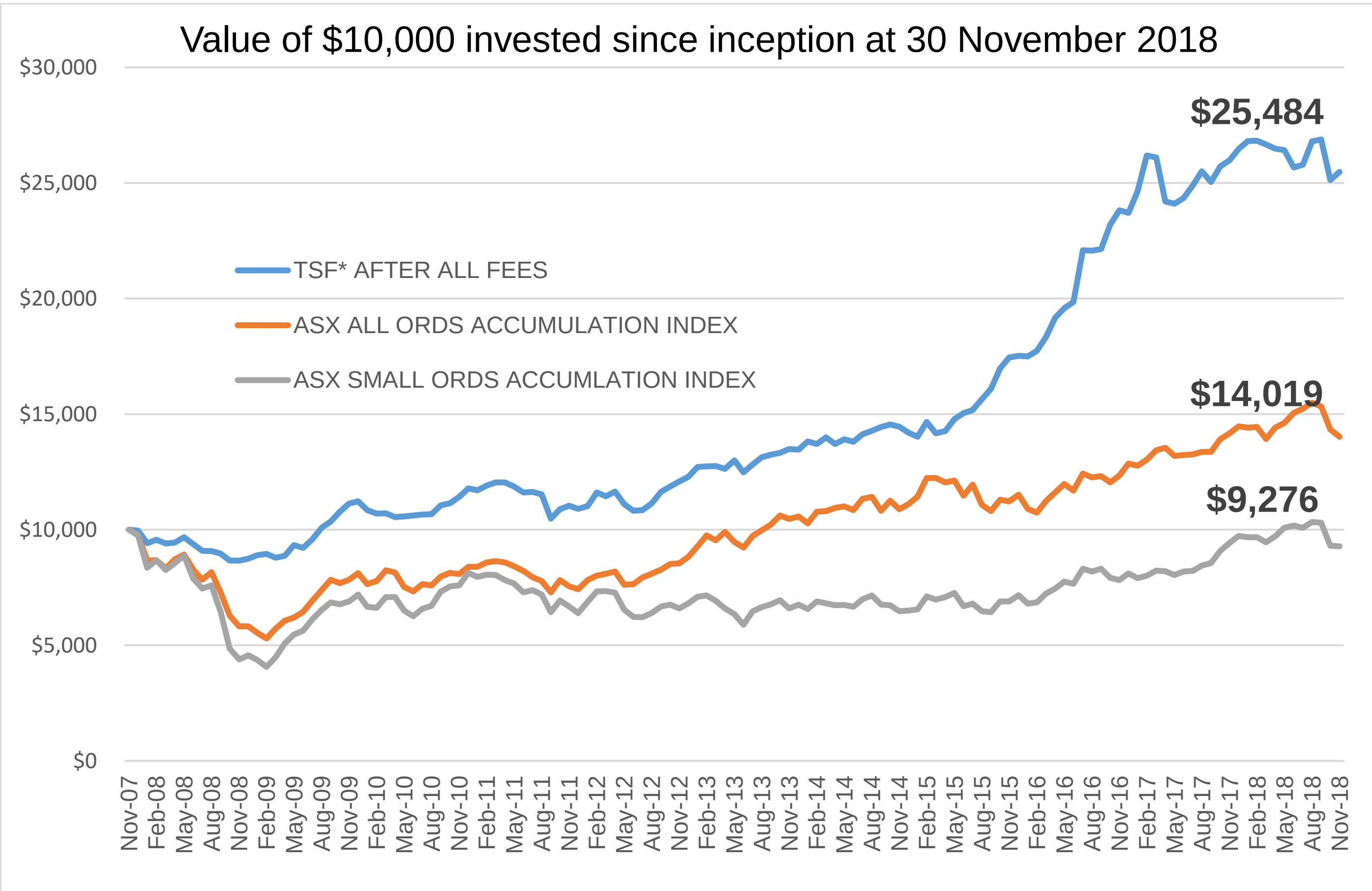
The Supervised Fund (TSF)

Monthly Report – November 2018

Performance Analysis (as at 30 November 2018)	TSF after all fees	All Ords Accumulation	Small Ords Accumulation	Benchmark
1 month	**1.4%**	-2.2%	-0.4%	0.4%
1 quarter	**-4.9%**	-9.5%	-10.3%	1.2%
1 year	**-1.9%**	-1.1%	-1.6%	5.0%
2 years p.a.	**3.4%**	6.6%	8.9%	5.0%
3 years p.a.	**13.4%**	7.7%	10.4%	5.0%
5 years p.a.	**13.6%**	6.0%	7.1%	5.0%
7 years p.a.	**12.7%**	9.2%	4.8%	5.0%
10 years p.a.	**11.4%**	9.2%	7.8%	5.0%
Since inception p.a. (Dec. 2007)	**9.4%**	3.3%	-0.7%	5.0%

Past performance is no indication of future performance



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

Portfolio at 30 November 2018

Top 10 Positions	% of NAV
Kangaroo Island Plantation Timbers Limited	25%
HGL Limited	15%
Po Valley Energy Limited (equity and convertible notes)	13%
Hillgrove Resources Limited	10%
Cash	10%
Engenco Limited	8%
Bisalloy Steel Group Limited	6%
Physical Gold ETF	5%
Coro Energy Limited	2%
Avita Medical Limited	1%

- 6% of capital is invested in non-ASX listed investments (excluding cash).
- 26% of capital is invested in oil, gas and resources companies (excluding gold).
- 6% of capital is invested in physical gold and gold mining companies.
- 76% of capital is invested in companies with market capitalisations of less than $150m.

Commentary

Winners in November 2018	Contribution to fund return	Gross return	Losers in November 2018	Contribution to fund return	Gross return
HGL Limited	2.8%	23.8%	Kangaroo Island Plantation Timbers Limited	-0.7%	-3.4%
Po Valley Energy Limited	0.9%	7.2%	Engenco Limited	-0.5%	-3.8%
Bisalloy Steel Group Limited	0.3%	4.0%	Coro Energy Limited	-0.4%	-19.7%

November was a busy month for The Supervised Fund, with four of our companies holding AGMs. These are always good opportunities to hear about the progress of the company since the last report, and catch up with the board, management, and fellow shareholders. In particular, we were pleased with developments at Bisalloy and Engenco, which together account for 14% of the portfolio. The former continues to go from strength to strength, with demand for its quench and tempered steel benefitting from sustained repair and maintenance expenditure by mining companies in addition to increased spending on defence by civilians and governments. The company released guidance for FY19, with EBITDA expected to be between $9.5m to $10.5m, between 16% and 28% greater than FY18. This puts the company on a forward EV/EBITDA ratio of about 4.5x, which, for a company that grew its EBITDA by 66% in FY18, seems cheap.

Engenco also appears to be in a favourable position. The company has increased earnings per share by more than 6 times since we first acquired stock in FY16. Remarkably, this has been done without the company increasing its borrowings; in fact, debt has decreased from $17m to nil over this period. We believe this has been possible due to an impressive board and management team that has focused on improving company culture and increasing market share by delivering high quality service, all in the context of a more favourable economic climate. There are a number of exciting long-term prospects, especially in the rail sector. The federal government's most recent budget pledged $8bn to expand Victorian transport infrastructure, with numerous rail projects being undertaken in the next decade. In addition, major train companies continue to outsource maintenance to the likes of Engenco. In the context of these opportunities, we believe the company is cheap at its current enterprise value of $125m. This puts it on a trailing twelve-month EV/EBITDA ratio of 7x, compared to the industry average of 15x. In addition, Engenco has $99.9m in tax losses that can be used to offset future profits and $10.6m in franking credits. This means it can pay $34.3m of fully franked dividends from non-taxed profits.

The Australian market is particularly precarious, with the ASX All Ordinaries declining in November for the third consecutive month. The Index's measured volatility is the highest it has been since June 2016. This is presumably a result of the sustained global trade tension and China's increasingly uncertain position. As always, we are continuing to hunt for undervalued stocks and are maintaining a significant holding in cash and gold, which together comprise 15% of the portfolio.

David Constable

17 December 2018

The Supervised Fund's Historical Performance

	TSF after all fees	**All Ords Accumulation**	**Small Ords Accumulation**
Since inception p.a. (Dec 2007)	**9.4%**	3.3%	-0.7%
Financial year to date	**-0.8%**	-6.9%	-8.9%
Calendar year to date	**-3.7%**	-3.1%	-4.7%
FY18	**5.4%**	13.7%	24.2%
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.