



# SUPERVISED HIGH YIELD FUND

Supervised Investments Australia Limited

Conservative Opportunism

## Monthly Performance Report

January 31, 2016

The Supervised High Yield Fund ARSN 600 244 102 (**SHYF** or **Fund**) is an Australian Dollar hedged international Debt Securities managed investment scheme. The Manager's objective is to deliver capital preservation whilst generating a high return, low risk portfolio.

### Investment Policy

The Fund is managed using an absolute return investment process. This process uses economic analysis and asset research combined with historic worst case stress testing to search out and discover the lowest risk best reward investment opportunities in the debt market. The Fund does not invest in junk bonds.

### Unit Price and Performance Update

The Fund's net asset value (**NAV**) is calculated at the end of each month and represents the value of the Fund's assets less the value of the liabilities of the Fund (including the Fund's fees, costs and taxes). The value of a Fund unit is then calculated by dividing the Fund NAV by the number of units on issue in the Fund at the end of the relevant month.

Fund returns have been calculated using exit prices and reinvestment of distribution.

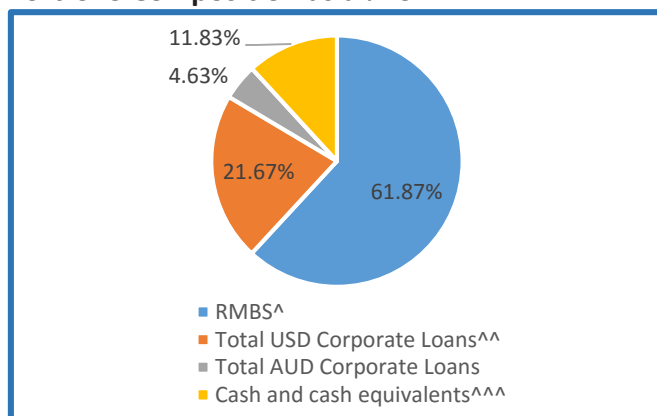
FUND INFORMATION AS AT 31 JANUARY 2016	\$ Value
Net asset value of fund (NAV)	\$19.195 million
Pre distribution unit price	\$12.3633
Distribution paid per unit	\$0.00
Ex distribution unit price	\$12.3633
Buy / Sell Spread	0

Compound Annual Returns to 31 JANUARY 2016 <sup>^</sup>	Fund	Benchmark <sup>*</sup>	Relative Performance
1 Month	-0.51%	0.30%	-0.81%
3 Months	-0.11%	0.88%	-0.99%
6 Months	1.16%	1.78%	-0.62%
1 Year	4.30%	3.63%	0.67%
3 Years	6.23%	3.91%	2.32%
5 Years	7.92%	4.44%	3.48%
Since commencement <sup>**</sup>	9.47%	4.59%	4.88%

<sup>^</sup>Returns are after fees and expenses; <sup>\*</sup>The Fund's current benchmark is the RBA bank rate plus 1.5%. The Fund's benchmark since commencement to June 2013 was the RBA bank rate plus 1.0% and in July 2013 it was changed to RBA bank rate plus 1.5%; <sup>\*\*</sup> Fund commenced on 1 April 2009.

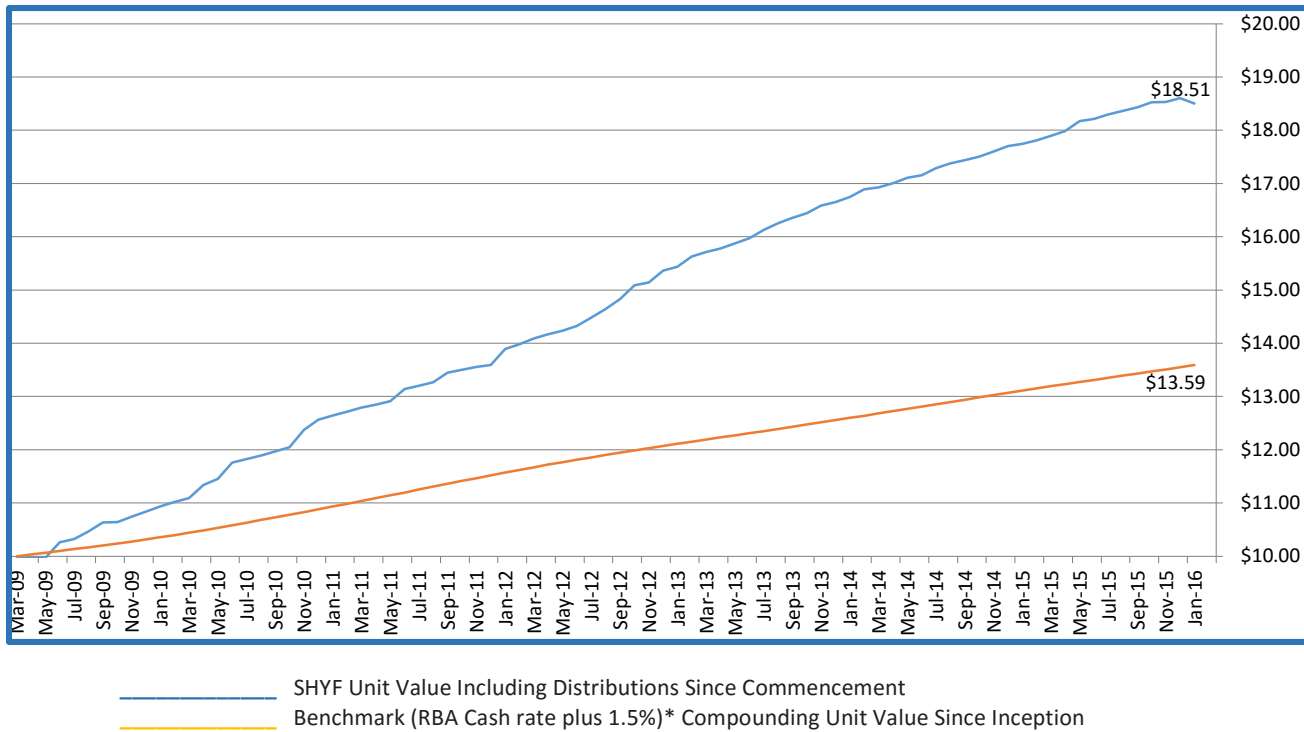
**Source:** Supervised Investments Australia Limited, the investment manager of the Fund. Past performance is no guarantee of future performance and no guarantee of future performance is implied.

### Portfolio Composition as a % of NAV



<sup>^</sup> AUD Residential Mortgage Backed Securities; <sup>^^</sup> USD Collateralised Secured Corporate Loan Obligations; <sup>^^^</sup> Includes cash at bank, cash held in margin accounts plus other receivables less payables. **Source:** Supervised Investments Australia Limited, the investment manager of the Fund. Past performance is no guarantee of future performance and no guarantee of future performance is implied.

## Fund Unit Value Including Distributions since inception versus its Benchmark\*



\*The Fund's current benchmark is the RBA bank rate plus 1.5%. The Fund's benchmark since commencement to June 2013 was the RBA bank rate plus 1.0% and in July 2013 it was changed to RBA bank rate plus 1.5%.

Source: Supervised Investments Australia Limited, the investment manager of the Fund. Past performance is no guarantee of future performance and no guarantee of future performance is implied.

### Manager's Comment

The Supervised High Yield Fund unit price in January 2016 decreased by 0.51% (net of fees). January marks our 82nd month of operations and only the second time the Fund has reported a negative monthly return. During the past year the Fund has returned 4.30% compared to its benchmark return of 3.63%, and its annualised compound return since inception was 9.47% versus its benchmark of 4.59%.

The Fund's investments in Australian corporate debts, US collateralised secured corporate debts and Australian RMBS were all revalued downwards producing book value losses reflected in the unit price. However the Fund received 100% of all principal and interest obligations falling due during the Month. These principal and interest receipts validate in a real way the Funds investment philosophy of only investing in debt securities that can survive our worst case stress testing regime. Highlighting the variance that exists between market value and final interest and loan maturity value of the marketable debt securities in which the fund invests.

For Instance during January and February the Fund received final repayment on two RMBS securities at 100% of the security's face value, even though these securities when purchased at market price were purchased at a discount to face value of 27% and 10.5% respectively. This highlights the difference that can develop between the market value and the final realised value of a debt security. Analysing the difference between face value and market value is part of the process we use to discover investment opportunities.

Market conditions in January were the worst we have seen since 2008. Crude oil trading at USD27 a barrel, whilst in the corporate and mortgage debt markets debt security values were falling as investors sought to concentrate new investments in haven assets such as gold, cash and Treasury Bonds. The yield on the benchmark US Ten Year Treasury Note fell by 35% from 2.3% to a low of 1.5% over the past three months, whilst credit spreads in the USD Corporate loan market have increased by circa 1.5% to 2.0% for BBB and BB borrowers and by 0.4% to 0.7% for AAA to A borrowers. These moves were reflected in the Australian Treasury and credit market which takes its lead from the United States.

These market changes produce opportunities particularly in the Corporate Loans market, where we are now concentrating on discovering new investments that pass our stress tests and are offering attractive yields. This research highlights investment opportunities in corporate debt securities where current market pricing appears to offer exceptional value relative to historic default and recovery rates. The Fund is accumulating cash at this time and is waiting for markets to settle down at which time we will look to reinvest at attractive market price.

**Disclaimer.**

Supervised Investments Australia Limited ACN 125 580 305 AFSL 317155 (**SIAL**) is the investment manager of the Supervised High Yield Fund (ARSN 600 244 102) (**SHYF or Fund**).

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To Download a Product Disclosure Statement or Application Form visit: <http://oneinvestment.com.au/supervised/>

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