



# SUPERVISED GLOBAL INCOME FUND

December 2016

## Investment Policy

The Supervised Global Income Fund ARSN 600 244 102 (**SGIF** or **Fund**) is an Australian Dollar hedged international Debt Securities managed investment scheme.

The Investment Manager aims to provide returns through investing in a portfolio of debt securities and derivatives, using economic analysis and asset research which is combined with historic worst case stress testing to search out and discover the lowest risk/best reward investment opportunities in the global and domestic debt markets.

The Investment Manager will invest within the global and domestic debt markets. These investments may include but are not restricted to debt instruments such as government treasury bonds, corporate bonds, bank bills, commercial paper, bank loans, mortgage backed securities, asset backed securities, mortgages, secured corporate loans, discounted bills, repurchase agreements and debt/equity hybrid securities, forward foreign exchange agreements, interest rate futures, options and interest rate swaps. The Investment Manager does not intend to borrow or use leverage in the Fund.

## Unit Price and Performance Update

The Fund's net asset value (**NAV**) is calculated daily 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 NAV unit prices and reinvestment of distributions.

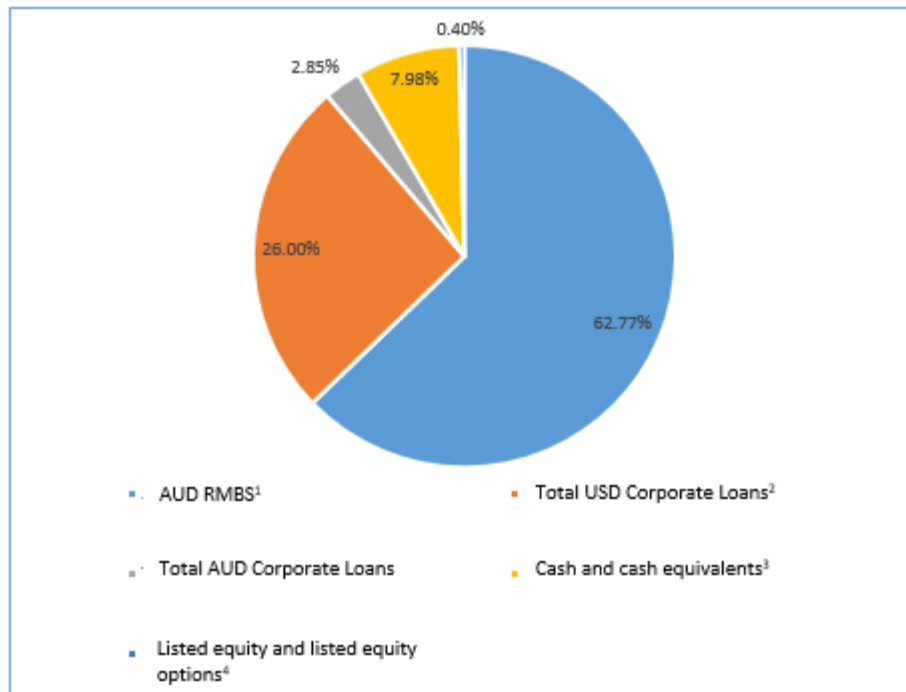
FUND INFORMATION AS AT 31 December 2016	\$ Value
Net asset value of fund (NAV)	\$17.928million
Pre distribution NAV unit price	\$12.6886
Distribution paid per unit	\$0.18
Entry exit prices	\$12.5273/12.4898
Buy / Sell Spread	+0.15%/-0.15%

Returns to 31 December 2016 <sup>^</sup>	Fund	Benchmark <sup>*</sup>	Relative Performance
1 Month	0.92%	0.36%	0.56%
6 Months	4.67%	2.20%	2.47%
1 Year	6.34%	4.12%	2.22%
3 Years p.a.	5.92%	3.95%	1.97%
5 Years p.a.	7.79%	4.14%	3.65%
Since commencement <sup>**</sup>	9.24%	4.54%	4.70%

<sup>^</sup>Returns are after fees and expenses; <sup>\*</sup>The Fund's current benchmark is the Bloomberg AusBond Bank Bill Index plus 2.5%. Since commencement to June 2013, the Fund's benchmark was the RBA bank rate plus 1.0% and in July 2013, the benchmark was changed to the RBA bank rate plus 1.5%. On 18 May 2016 the benchmark was changed to the Bloomberg AusBond Bank Bill Index plus 2.5%. <sup>\*\*</sup> Fund commenced on 1 April 2009.

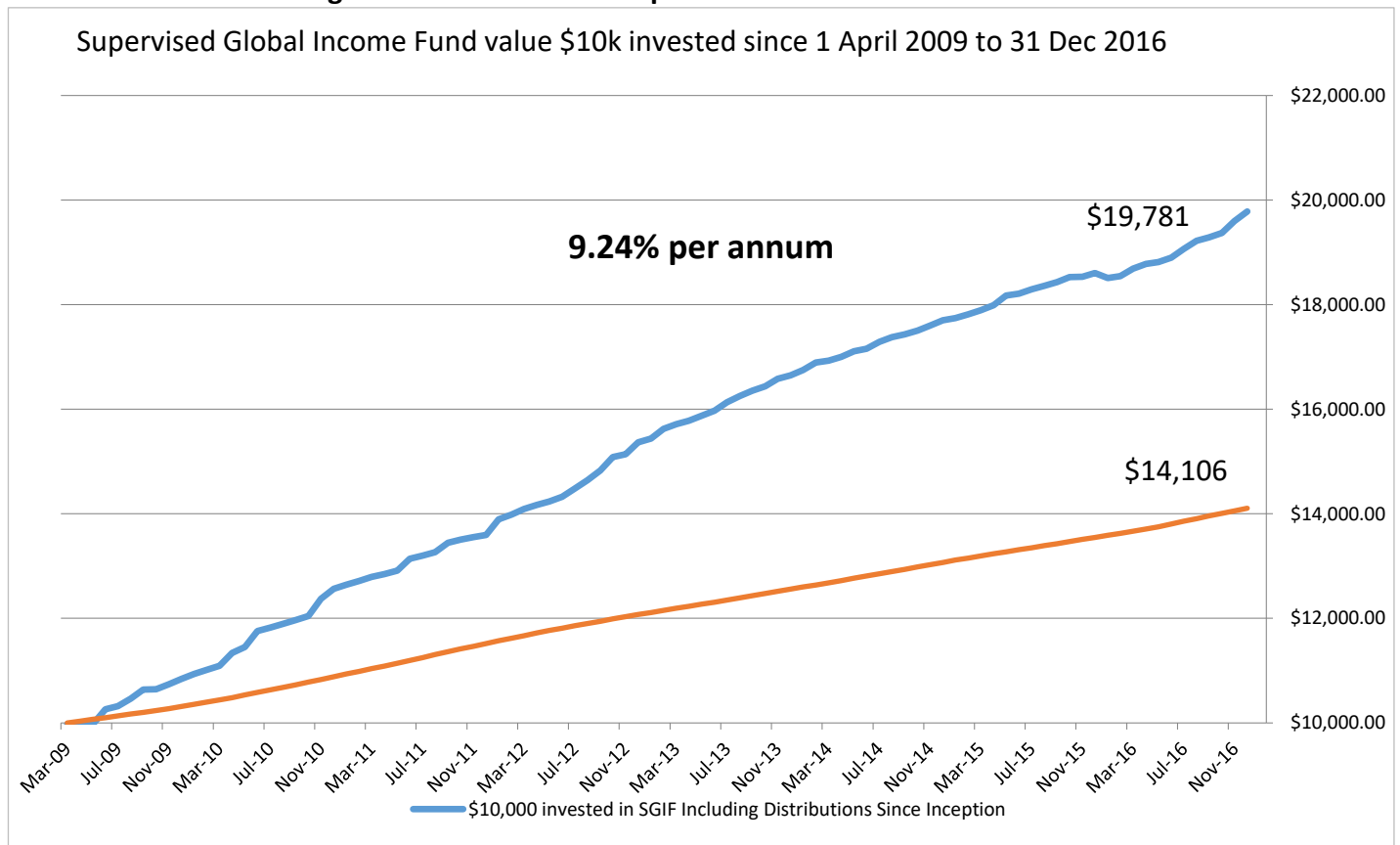
**Source:** Supervised Investments Australia Limited, the investment manager of the Fund. Past performance is no guarantee of future performance and no guarantee of future performance is implied.

## Portfolio Composition as a % of NAV as at 31 December 2016



<sup>1</sup>AUD Residential Mortgage Backed Securities; <sup>2</sup>USD Collateralised Secured Corporate Loan Obligations; <sup>3</sup>Includes cash at bank, cash held in margin accounts plus other receivables less payable; <sup>4</sup>Convertible Loans converted into equity and equity options. **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\*



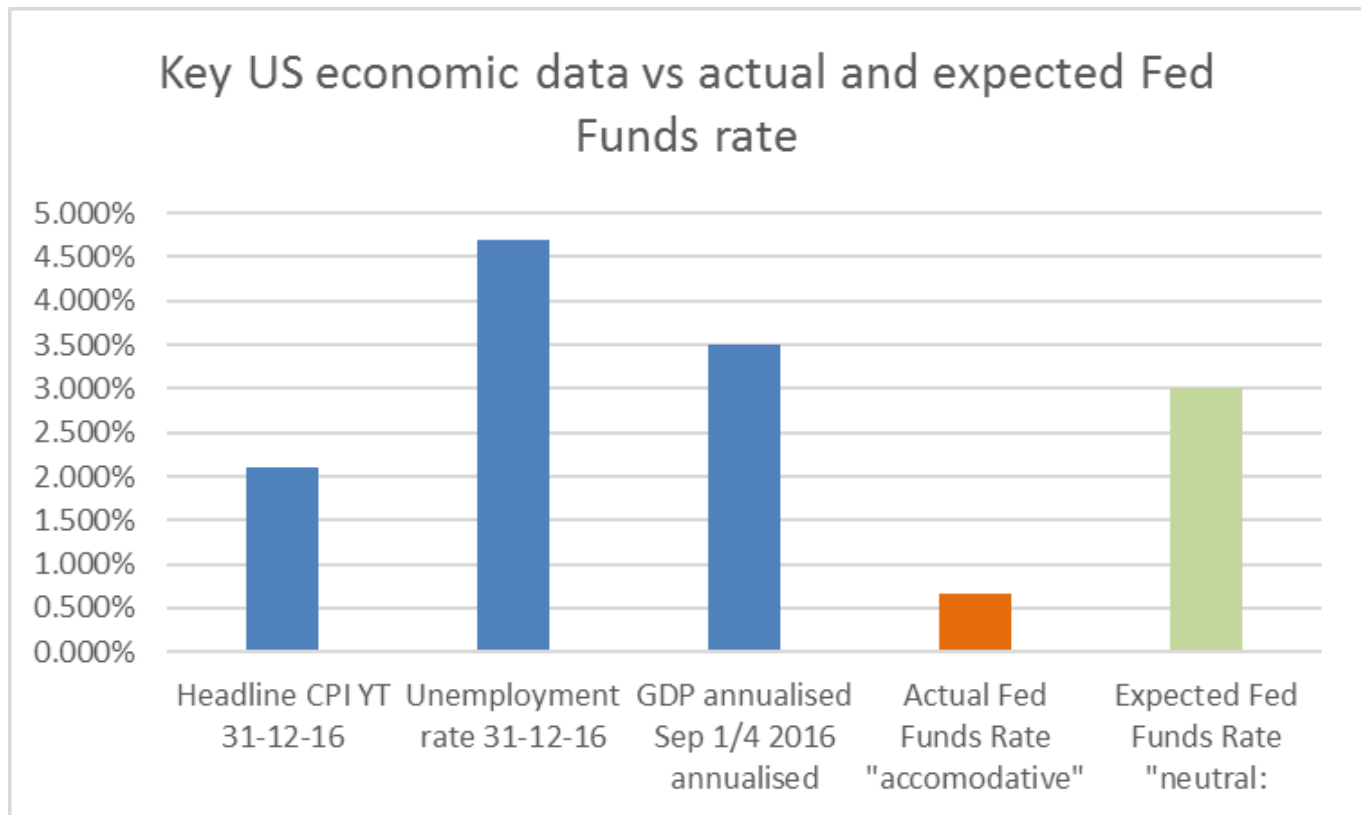
\* The Fund's current benchmark is the Bloomberg AusBond Bank Bill Index plus 2.5%. Since commencement to June 2013, the Fund's benchmark was the RBA bank rate plus 1% and in July 2013 the benchmark was changed to the RBA bank rate plus 1.5%. On 18 May 2016, the benchmark was changed to the Bloomberg Ausbond Bank Bill Index plus 2.5%.

## Manager's Comment

The Supervised Global Income Fund (SGIF) unit price in December 2016 increased by 0.92% (net of fees). This completes the first half of the 2017 Financial Year with a return of 4.67% over 6 months, July to December 2016 inclusive.

During December the SGIF's floating rate United States Dollar Collateralized Corporate Loan assets increased in value by 1.5%. These assets were purchased at a discount to par. Value is now moving back to par because high yielding Floating Rate assets have become popular with international investors who are seeking shelter from the collapse in Fixed Interest Treasury Bond prices caused by rising fixed interest rates. The popularity of high yield floating rate assets will likely increase as Fixed and Floating Interest rates continue to increase.

The headline inflation rate in the United States for the year to December 2016 is 2.1%, whilst the unemployment rate is 4.7% and United States GDP was growing at an annualized rate of 3.5% in the September Quarter of 2016. When this data is viewed in the context of the Federal Reserve Funds rate, currently trading in a range of 0.5% to 0.75% it makes the Fed Funds rate look far too low. The following chart illustrates this point graphically.



In light of this "accommodative" monetary policy stance currently deployed by the US Federal Reserve, we consider where the "Neutral" setting for the Federal Reserve Funds Rate may be. We believe a neutral setting would be one half to one percent above the inflation rate or 3%.

With this in mind we note the level of interest rates now in the United States is still far too low in the existing economic environment and therefore we expect to see a series of very aggressive rate hikes implemented in the United States over the next twelve months by the Federal Reserve. The rate hikes will need to be far more aggressive than the market currently expects. A Federal Reserve Funds Rate of 3% by years' end is not out of the question. This will be good for SGIF returns. The Fund will therefore continue to maintain an interest rate duration of one month and invest in high yield floating rate notes.



**Disclaimer**

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

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