



The Supervised Fund

APIR SIA0002AU

FACT SHEET DECEMBER 2016

The Fund at a glance

Fund Name	The Supervised Fund
Investment Manager	Supervised Investments Australia Limited (SIAL)
AFSL	317 155
Launch Date	1st December 2007
Legal Structure	Wholesale Unlisted Unit Trust
Investment Objective	Provide investors with an annual return which outperforms the Benchmark whilst trying to minimise the risk of permanent loss of capital.
Investment Universe	Predominately invests in equities and is also able to invest in debt securities, managed funds, derivatives and cash.
Fund Benchmark	5% p.a.
Minimum Investment	\$500,000. SIAL has the discretion to accept a lesser minimum initial investment provided the investor meets the definition of a "Wholesale Client".
Investment Management Fee	1.5% per annum (plus GST) of the Fund's net assets before performance fee accruals
Performance Fee	20% (plus GST) of any return above the Benchmark, payable annually with a "high water mark".
Unit Pricing Frequency	Monthly
Distribution Frequency	Yearly
APIR Code	SIA0002AU

Investment Strategy

We believe that equity markets are inefficient and therefore offer excellent investment opportunities over time. The inefficiencies arise due to excesses in investor emotion, short term investment horizons and disproportionate focus on one of the least important aspects of a company's financial health – a single year's profit and loss statement.

The investment team seeks to construct a portfolio which provides investors with an annual return that outperforms other assets with similar riskiness whilst minimising permanent loss of capital. The investment team will invest on a global basis but has a natural tendency to focus on the Australian market. Capital can be allocated to equities, option contracts, foreign exchange derivatives, debt securities and commodities. However, at least 85% of capital is allocated to listed equity investments and cash at any given time. The net assets of the Fund will not be geared, however the Fund may hold leveraged positions through commodities and foreign exchange contracts from time to time for hedging purposes.

Conventional thinking is that holding more stocks reduces stock specific risk. Research, however, shows that 93% of stock specific risk can be eliminated by holding 20 stocks; basically each stock added to a portfolio beyond 20 is likely to have a decreasing impact on risk reduction (Elton and Gruber 2002). This means, effective diversification can be achieved in concentrated portfolios.

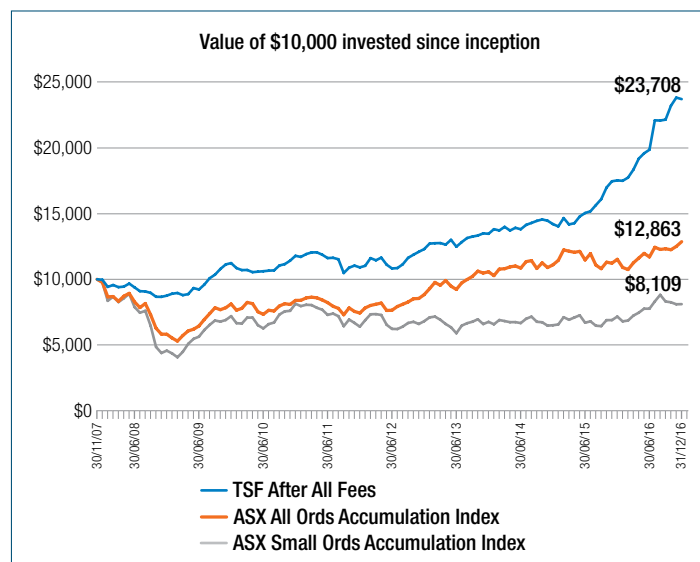
Adding investments to a portfolio requires rigorous risk identification analyses. A manager has a greater chance of finding 20 great investments than 100 great investments, and each additional investment brings in new risks. Focussing on fewer positions enables for a greater understanding of each thesis and allows for increased expected return on the portfolio. It is for these reasons we construct a concentrated portfolio with 15-25 core positions.

In selecting positions we apply the following six step process:

1. Fundamental valuation
2. Macroeconomic considerations
3. Catalyst identification
4. Downside stress testing
5. Investment edge
6. Portfolio fit

The Supervised Fund Unit Value since commencement including Distributions as at 31 December 2016

The following chart illustrates the value of \$10,000 invested in the Fund since inception versus equity indices.



SOURCE: Supervised Investments Australia Limited. Past performance is no guarantee of future performance and no guarantee of future return is implied.



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Relative Performance net of fees

PERFORMANCE ANALYSIS	TSF AFTER ALL FEES	BENCHMARK	ALL ORDS ACCUM
Month ending 31 December 2016	-0.49%	0.42%	4.17%
6 months	19.38%	2.50%	9.94%
1 year	35.29%	5.00%	11.65%
3 years p.a.	20.76%	5.00%	6.76%
Since inception p.a. (since 1 Dec 2007)	9.97%	5.00%	2.81%

SOURCE: Supervised Investments Australia Limited. Past performance is no guarantee of future performance and no guarantee of future return is implied.

Top Ten Holdings

Top 10 Positions	% of NAV
Kangaroo Island Plantation Timbers Ltd	32.0%
Cash	7.0%
HGL Limited	9.5%
Bell Financial Group Limited	6.1%
Gale Pacific Limited	5.9%
Samuel Terry Absolute Return Fund	4.5%
Po Valley Energy Limited	3.5%
Hillgrove Resources Limited	3.0%
Base Resources Limited	2.9%
Osprey Medical Inc – CDI	2.9%

Commentary

TSF returned 7.1% during the December 2016 quarter. It was an eventful three months for global financial markets. Sparked by the US election outcome, global stock markets rallied as market participants increased their expectations regarding US growth, corporate activity and regulatory reform. TSF does not have material exposure to large cap or high beta stocks and accordingly did not participate in this so called Trumponomics rally. Our return was driven by company specific circumstances. The largest positive contributors during the quarter were Kangaroo Island Plantation Timbers Limited (up 25%), HGL Limited (up 17%), Hillgrove Resources Limited (up 75%), and Po Valley Energy Limited (up 32%). These gains were offset by our gold allocation, which fell by 9% in line with the decline in the price of gold.

Towards the end of the year, Hunter Hall International Limited's CEO, founder and 'key-man' abruptly announced his departure from the business and sold 20% of the stock at a 67% discount to the market price. We sold the majority of our Hunter Hall shares over the December quarter and were not materially affected by the shock decision. Hunter Hall has been a successful investment for TSF. For the majority of our holding, we realised a return in excess of 80% in less than 2 years. At the day of writing, the stock has fallen 20% since the news. TSF has a 1% allocation, down from 4% several months ago. The recent events are a stark reminder of the key man risk sometimes present in small companies.

Our return for calendar year 2016 was 35.3% after fees. As always, past performance is not indicative of future performance.

The Fund is open to new investors and we welcome any queries on the portfolio, investment strategy and outlook. The Fund's Information Memorandum and monthly performance reports can be downloaded from our website www.supervisedinvestments.com/the-supervised-fund/

How to Invest

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