



# SUPERVISED GLOBAL INCOME FUND

December Quarter 2017

## Investment Policy

The Supervised Global Income Fund ARSN 600 244 102 (**SGIF** or **Fund**) is an Australian dollar global debt securities managed investment scheme.

The Investment Manager aims to provide returns by 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 for and discover the lowest risk/best reward investment opportunities in the international and domestic debt markets.

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, 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 unit is then calculated by dividing the Fund's NAV by the number of units on issue in the Fund.

Fund returns have been calculated using NAV unit prices and assume the reinvestment of distributions.

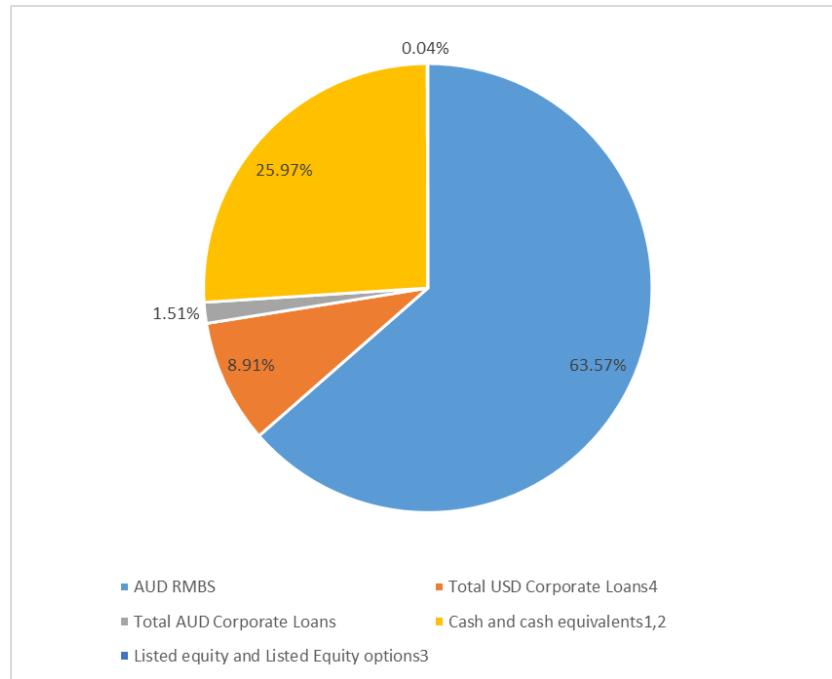
Fund Information as at 31 December 2017	\$ Value
Net asset value of fund (NAV)	\$25.331 million
Pre-distribution NAV unit price	\$12.4749
Distribution paid per unit	\$0.14
Entry/exit price	\$12.3349

Returns to 31 December 2017 <sup>^</sup>	Fund	Benchmark <sup>*</sup>	Relative Performance
1 Month	0.42%	0.36%	0.06%
3 Months	1.60%	1.06%	0.54%
6 Months	2.82%	2.13%	0.69%
1 Year	6.33%	4.32%	2.01%
3 Years p.a.	5.91%	4.04%	1.87%
5 Years p.a.	6.48%	4.04%	2.44%
Since commencement <sup>**</sup>	8.90%	4.51%	4.39%

<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% p.a. Since commencement to July 2013, the Fund's benchmark was the RBA cash rate plus 1.0% and in July 2013, the benchmark was changed to the RBA cash rate plus 1.5%. On 18 May 2016, the benchmark was changed to the Bloomberg AusBond Bank Bill Index plus 2.5% p.a. <sup>\*\*</sup> Fund commenced on 1 April 2009.

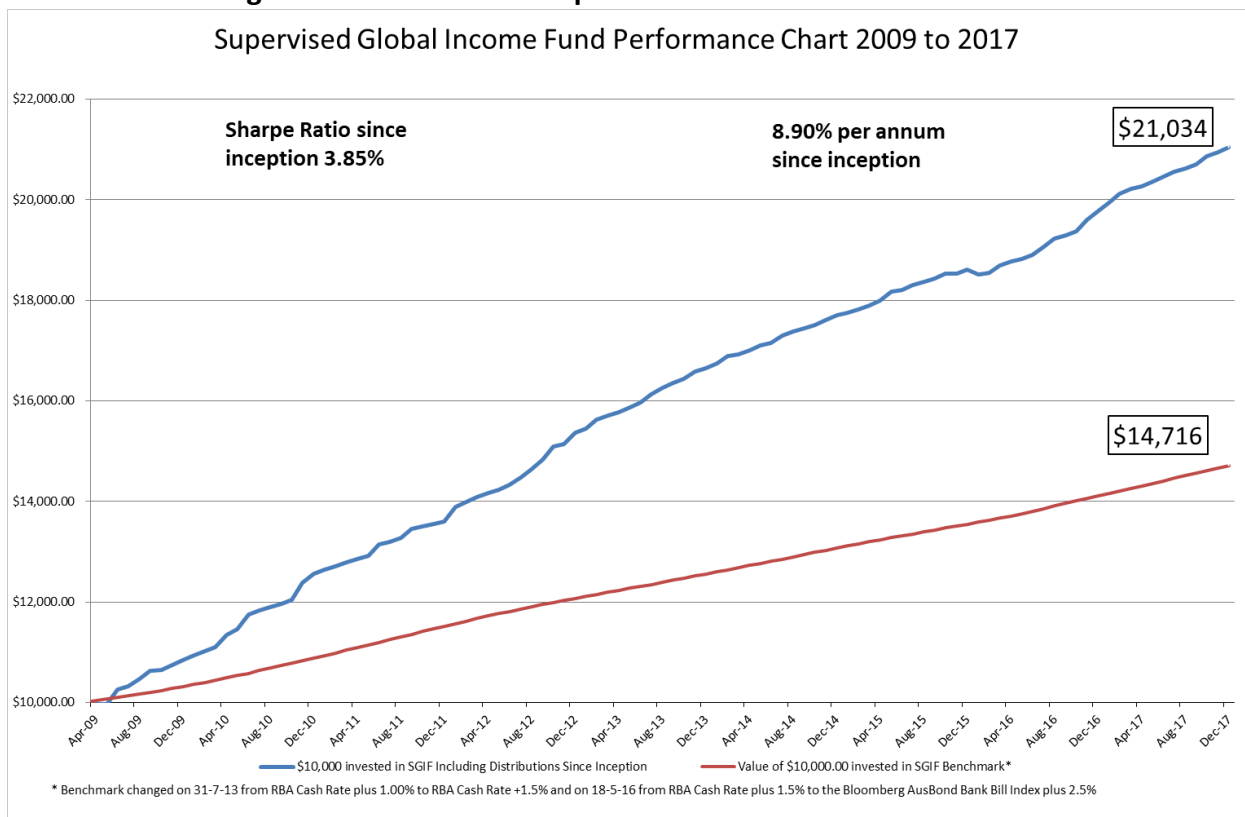
**Source:** Supervised Investments Australia Limited, the investment manager of the Fund. Past performance is no guarantee of future performance and no guarantee of future performance is implied.

## Portfolio Composition as a % of NAV as at 31 December 2017



<sup>1,2</sup>Includes the value of unencumbered at call cash deposits standing to credit in bank accounts and derivative margin accounts plus the net value of unrealised balance sheet current assets and liabilities. Also includes the market value of derivative contracts; <sup>3</sup> Equity options granted against Convertible Loans <sup>4</sup>Includes the value of AUD/USD currency hedge. *Source: Supervised Investments Australia Limited, the investment manager of the Fund.*

## Fund Unit Value including distributions since inception versus its Benchmark\*



\* Benchmark changed on 31-7-13 from RBA Cash Rate plus 1.00% to RBA Cash Rate +1.5% and on 18-5-16 from RBA Cash Rate plus 1.5% to the Bloomberg AusBond Bank Bill Index plus 2.5% p.a.

## Investment **Manager's** commentary

The Supervised Global Income Fund (SGIF or Fund) returned 0.42% net of fees in the month of December 2017, and 6.33% for the 2017 calendar year. A distribution of \$0.14 was paid to unitholders for the December quarter. This is the last distribution for the 2017 calendar year bringing the total distributions in 2017 to \$0.94 per unit, being a cash distribution of 7.54% for units held throughout 2017.

We achieved the 2017 result by avoiding investments in fixed income securities and focusing on long term floating rate notes. This strategy was adopted because we wanted to avoid the capital risk of fixed income securities in what has been a rising interest rate environment in 2017.

In addition to selecting floating rate securities we selected those floating rate securities issued against the security of 1st ranking corporate loans in the United States. Credit margins in the US corporate floating rate loan market have been well bid during 2017, thus supporting the capital value of those securities.

Additionally, we have been investing in Australian Residential Mortgage-Backed Securities (RMBS) floating rate notes. Credit spreads in the Australian RMBS market have not followed credit spreads in the US corporate loans market. The differential between Australian credit margins and US credit margins is now conspicuously in favour of the Australian RMBS market.

In 2018, we expect Australian RMBS credit margins to follow the change seen in 2017 in US corporate loan credit margins. If Australia credit margins follow the US, as has always been the case in the past, and given that SGIF holds 65% of its investments in Australian RMBS, the changes in the Australian credit margins will produce good returns for SGIF in the year ahead. In addition, we expect emergence of higher CPI readings in both Australia and the US in 2018 which will also support unit holder returns.

Best wishes for the new year.



#### **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**).

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the Supervised Global Income Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).

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