Supervised Global Income Fund

ARSN 600 244 102 APIR SIA0001AU

31 January 2019

Quantitative Rating

Qualitative Rating

The Fund at a glance

Fund name	Supervised Global Income Fund (Fund or SGIF)
Investment Manager	Supervised Investments Australia Limited
Launch date	1st April 2009
Responsible Entity	Equity Trustees Limited
Investment objective	The Fund is designed with the objective of minimising capital loss and delivering a positive return in excess of the Benchmark in both rising and falling markets.
Fund Benchmark	Bloomberg AusBond Bank Bill Index + 2.5% p.a. (net of fees)
Minimum initial investment	$10,000
Management & other fees	1% per annum capped fee
Buy/Sell Spread	+0% / -0%
Unit pricing Frequency	Daily
Distribution Frequency	Quarterly
APIR Code	SIA0001AU

Investment Philosophy

The investment philosophy of the Supervised Global Income Fund is one of “conservative opportunism”. This means it is designed to reduce the risk of capital loss and deliver attractive quarterly income returns. Our investment philosophy aims to protect unitholders’ capital by investing in securities that we have assessed are likely to repay 100% of principal and interest obligations in a worst case economic environment, such as the recent global financial crisis. Consistent with this investment philosophy, the Fund undertakes a qualitative and quantitative research process designed to discover the highest rated reward to risk debt investments available.

Our investment philosophy employs top down research on all major world economies. This is aimed at identifying the best growth economies worldwide. Then the best sectors and securities within the best growth economies are then identified. Subsequently, each security is subjected to individual research and scenario analysis to identify the highest rated reward to risk debt investments.

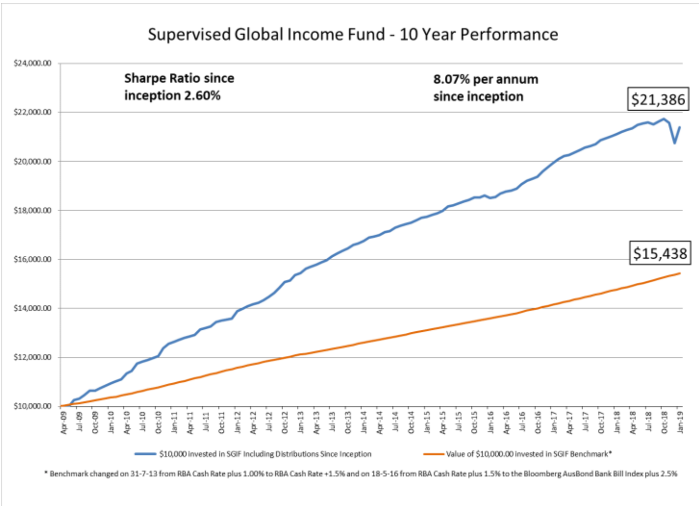
Investment Strategy

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 strategy will concentrate the portfolio holdings to asset sectors and risk characteristics that deliver the lowest risk/highest reward ratio. Debt securities must be tested against historical worst case stress testing before they can qualify for investments. Only securities that meet our stringent risk stress parameters can be allocated for investment.

Supervised Global Income Fund performance since inception to 31 January 2019

The following chart illustrates the value of $10,000 invested in the Fund since inception versus its benchmark.*



*The Fund’s current benchmark is the Bloomberg AusBond Bank Bill Index plus 2.5% p.a. Since commencement to June 2013, the Fund’s benchmark was the RBA Cash Rate plus 1.0% p.a. and in July 2013, the benchmark was changed to the RBA Cash Rate plus 1.5% p.a. On 18 May 2016, the benchmark was changed to the Bloomberg AusBond Bank Bill Index plus 2.5% p.a.

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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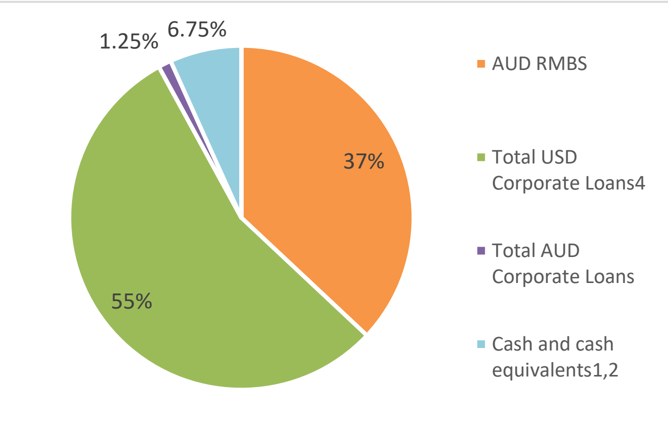
Relative Performance

RETURNS TO 31 January 2019	SGIF net of fees	BLOOMBERG AUSBOND BANK BILL INDEX	RELATIVE PERFORMANCE
1 Month	3.11%	0.18%	2.93%
3 Months	-1.61%	0.49%	-2.10%
1 Year	1.28%	1.95%	-0.67%
3 Years p.a.	4.94%	1.91%	3.03%
5 Years p.a.	5.01%	2.19%	2.82%
Since inception 01.04.09	8.07%	3.12%	4.95%

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 January 2019



[1] Includes the value of unencumbered at call cash deposits standing to credit in bank accounts and derivative margin accounts plus the net value of unrealized balance sheet current assets and liabilities. [2] Includes the market value of derivative contracts. [3] Includes the value of AUD/USD currency hedge. 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.*

Distributions

The Fund generally pays distributions quarterly, however we do not guarantee any particular level of distribution and there may be periods in which no distributions are made.

Distributions are generally calculated based on the Fund's net income at the end of the distribution period divided by the number of units on issue.

FOR PERIOD ENDING:	CASH PER UNIT
30/06/2015	23.9c
30/09/2015	10.5c
31/12/2015	9.5c
31/03/2016	9.2c
30/06/2016	28.7c
30/09/2016	12.5c
31/12/2016	18.0c
31/03/2017	23.0c
30/06/2017	34.3c
30/09/2017	23.0c
31/12/2017	14.0c
31/03/2018	12.0c
30/06/2018	18.5c
30/09/2018	10.0c
31/12/2018	10.0c

Platform Availability

HUB24
Powerwrap (Private Wealth Badge)
Netwealth (IDPS)
Macquarie Wrap (IDPS)
managedaccounts.com.au
uXchange
Praemium
OneVue
WealthPortal

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Managers Report 31st January 2019

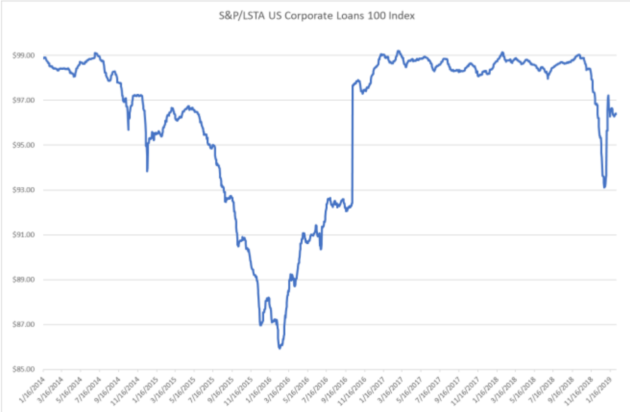
Since inception the Supervised Global Income Fund (SGIF) has deployed a disciplined investment management theory relying upon the following framework:

1. Stress testing all SGIF investments to ensure every debt security in the portfolio will repay 100% of its principal and interest obligations by surviving a worst-case economic event; such as the Global Financial Crisis of 2007- 2009.
2. Investing in the highest yielding traded debt securities qualified by those that survive the stress test outlined in point 1. above.
3. Accepting the volatility inherent in applying market price valuations when valuing SGIF debt security assets.
4. A recommended investment time frame of 2-5 years.

During November 2018, December 2018 and January 2019 market prices for SGIF's assets, and consequently its unit price, were highly volatile, with market prices moving down in November and December and then moving up in January. This volatility was caused by investors in US High Yield Corporate Debt Funds redeeming investments during November and December 2018. In fact, redemptions from High Yield Fixed Rate Corporate Bond Funds totalled USD21.9 Billion in December 2018 alone; whilst redemptions from Floating Rate US Corporate Loan Funds totalled USD15.3 Billion in December 2018. For Floating Rate Corporate Loan Funds this is the largest exodus from the US Corporate loan market on record!

Consequently, in November and December 2018 US Fund Managers raised liquidity to service redemptions by selling fund assets in the market. Fund redemptions and other forces in the market will, from time to time cause selling of bonds in the market that will outweigh buyer demand. The excess of supply over demand will push prices lower. This is particularly the case when funds are forced by investor redemptions; or major institutions are forced by regulatory change, to liquidate investments for reasons that do not relate to the investments fundamental value. November and December 2018 are an example of what can happen when investors force Fund Managers to sell; and January of 2016, when US Banks sold down Corporate High Yield debt assets in response to the Dodd-Frank financial reform legislation's Volker rule is another example of selling forced by regulatory change! During these events as prices drop for reasons not correlated with fundamental value, the credit risk on these investments was unchanged, yet the return for the risk increased as bonds became cheaper. Thus, in this way falling prices become an opportunity to make new investments at lower prices and higher returns whilst risk remains constant.

In the US Corporate loans market this has been the case over the past where the events of November and December 2018 and the subsequent recovery in January 2019, explained above, are exemplified by the following chart showing the S&P/LSTA US Corporate Loans 100 Index sourced from Bloomberg.



This is relevant to your investment in SGIF because currently SGIF invests about 55% of its assets in US Corporate Loans.

The reasoning underlying the investor exodus from the Corporate Loan sector in the US during the final quarter of 2018 can be explained by several economic forces combining over that period to create an environment of uncertainty. These forces were;

- The 9th upward adjustment to the US FED Funds rate in three years.
- Donald Trump's trade war with China.
- The US government funding shutdown caused by conflict over the boarder wall.
- Failure of the UK to negotiate its exit from the EEC.
- The reality of slower global growth.

During November and December 2018, in response to this uncertainty, investors reallocated funds from "risky assets" into "haven assets".

The "market price" effect of the movement of funds to "haven assets" is illustrated in the preceding chart showing the S&P/LSTA US Corporate Loans 100 Index over the past four years.

Since December 2018 many of the factors causing uncertainty in the market have changed;

- In January the US Federal Reserve pivoted its monetary policy stance from "Hawkish" to "Dovish". Jerome Powell FED Chairman indicated the FED won't raise interest rates again until wage growth and inflation rise, and stated that FED's reversal of Quantitative Easing, balance sheet contraction could become more flexible in future. This is a major change from where the market was in December. Pointing to fewer interest rate rises in the future.
- Trade negotiations between China and the US have progressed in a positive direction over the past week. The Chinese have placed large orders over the past week for US agricultural produce in an effort to move toward a negotiated solution to the trade war.

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- The US Government Shutdown has been suspended.
- Fundamentals of US growth and the strength of the current growth cycle in the US was reinforced on February 2nd when the US employment data was announced showing non-farm payrolls rising by 304,000 new jobs against market economist surveys showing expectations of 165,000 new jobs.

With these changes in mind! we expect market prices to recover in the period ahead, as the market responds to recent good news and the probability of a move back to "risk on" investments. We remind our clients that the recommended investment time frame for SGIF investors is 2-5 years!

For investors in SGIF it is important to understand that changes in market value of the SGIF's portfolio assets are only crystallised when those assets are sold.

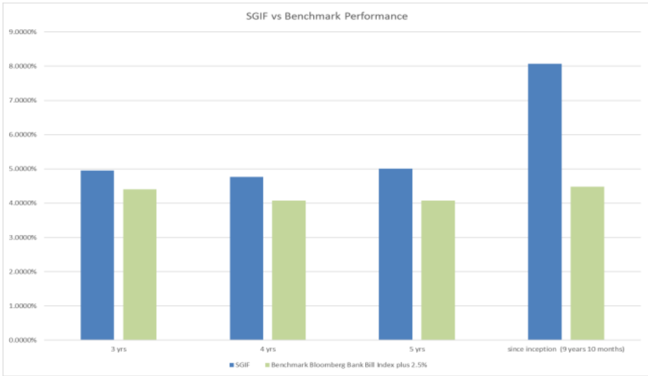
Market price changes in SGIF assets that occurred in November and December 2018 have recovered strongly in the month of January, with the January unit price increasing 3.1% after falling an aggregate 4.6% in November and December 2018.

As the Portfolio Manager of the Fund I expect in future, SGIF's assets will be realised through sale or maturity at full value rather than current market value. This is because the credit quality of the SGIF investments are unchanged by recent market turmoil. All of SGIF's investments have been reviewed this month as they are every month. The result of these reviews supports our decision to remain invested rather than to sell investments at depressed market prices.

In the year ahead and beyond I expect SGIF's quarterly distributions will remain in line with the Fund's interest income, because the Fund's cash flow has in no way been affected by market price valuations. In fact, with market prices now lower and interest income remaining unchanged the percentage of interest income to market value increases!

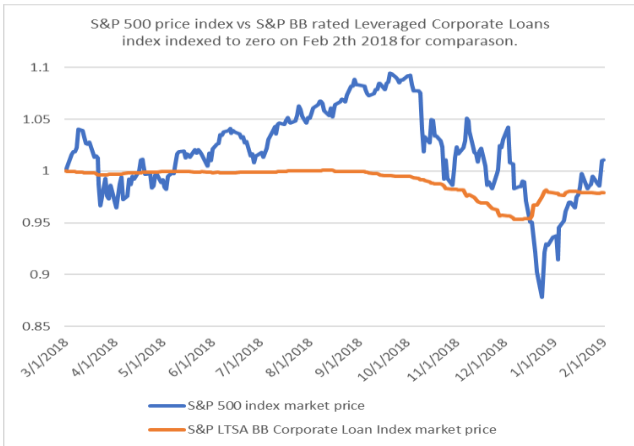
Further to this fact, lower market prices at present offer a good opportunity to invest further funds into SGIF enabling the manager to purchase new favourably priced investments in the current market at lower prices.

Backing up this recommendation the following chart illustrates SGIF's performance relative to its benchmark* over the past 3, 4, 5 and 10 years.



** Past performance is no guarantee of future performance and no guarantee of future return is implied*

Elsewhere, in equity markets, the higher volatility relative to high yield corporate debt securities over the past few months is illustrated in the following chart that compares the S&P 500 to S&P/LTSA BB rated corporate loan index, indexed to a value of 1 on January 5th 2018.



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