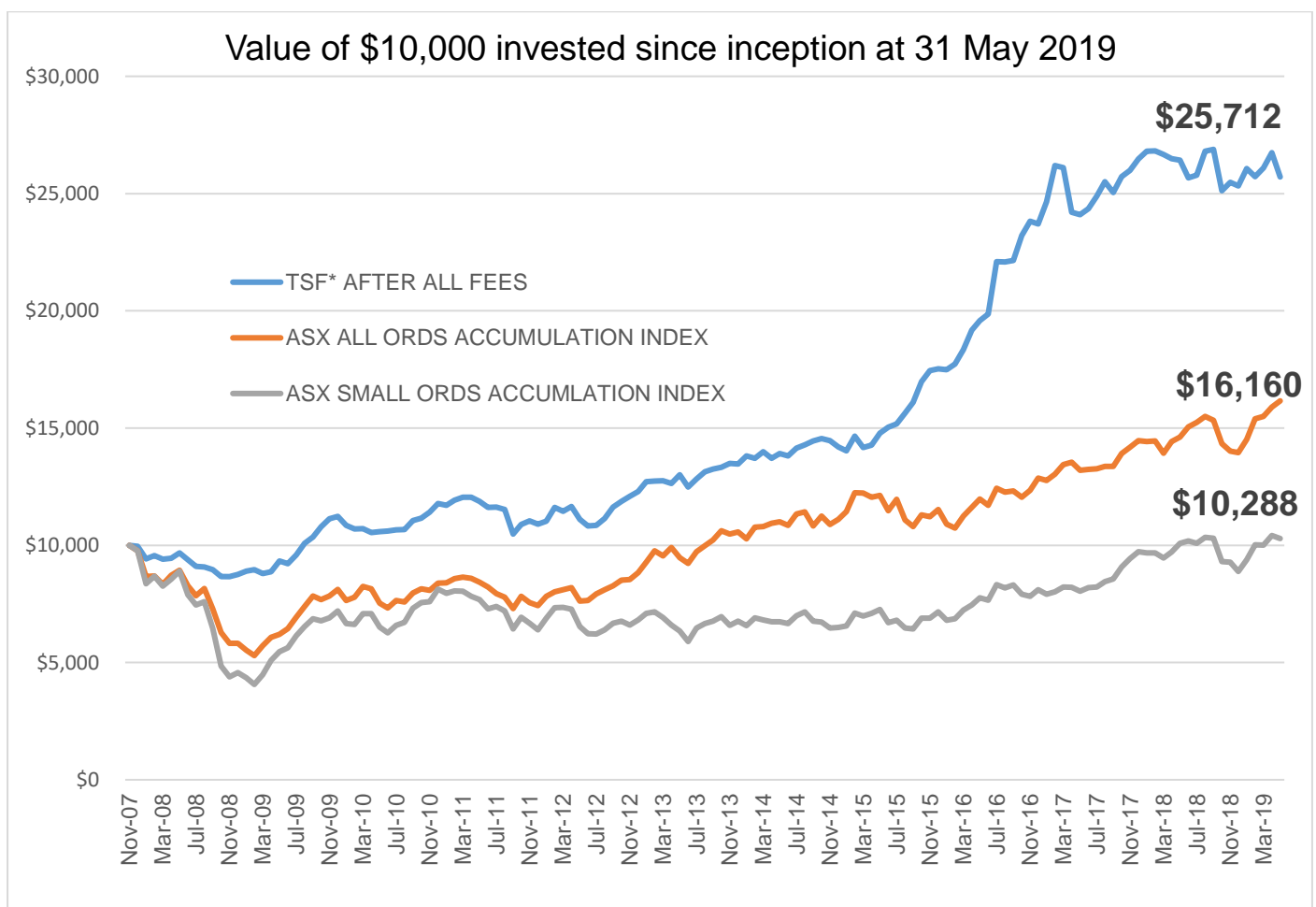


## The Supervised Fund (TSF) Monthly Report – May 2019

Performance Analysis (as at 31 May 2019)	TSF after all fees	All Ords Accumulation	Small Ords Accumulation	Benchmark
1 month	-3.9%	1.7%	-1.3%	0.4%
1 quarter	0.0%	5.0%	2.7%	1.2%
Last twelve months	-2.7%	10.5%	2.1%	5.0%
2 years p.a.	3.3%	10.7%	13.1%	5.0%
3 years p.a.	9.5%	10.5%	9.8%	5.0%
5 years p.a.	13.1%	8.0%	8.8%	5.0%
7 years p.a.	12.7%	11.3%	6.7%	5.0%
10 years p.a.	10.7%	10.1%	6.5%	5.0%
Since inception p.a. (Dec. 2007)	9.5%	4.7%	0.3%	5.0%

Past performance is no indication of future performance



## Portfolio at 31 May 2019

Top 10 Positions	% of NAV
Kangaroo Island Plantation Timbers Limited	21%
HGL Limited	13%
Po Valley Energy Limited (equity and convertible notes)	12%
Cash	9%
Hillgrove Resources Limited	8%
Engenco Limited	8%
Bisalloy Steel Group Limited	6%
Physical Gold ETF	6%
Mesoblast Limited	3%
Acrux Limited	2%

- 8% of capital is invested in non-ASX listed investments (excluding cash).
- 21% of capital is invested in oil, gas and resources companies (excluding gold).
- 7% of capital is invested in physical gold and gold mining companies.
- 76% of capital is invested in companies with market capitalisations of less than \$150m.

## Commentary

Winners in May 2019	Contribution to fund return	Gross return	Losers in May 2019	Contribution to fund return	Gross return
Kangaroo Island Plantation Timbers	0.9%	4.9%	Po Valley Energy Limited	-1.1%	-18.2%
Hillgrove Resources Limited	0.2%	2.3%	Bisalloy Steel Group Limited	-1.0%	-14.4%
Readcloud Limited (Options)	0.2%	51.2%	Engenco Limited	-0.8%	-9.6%

The Fund's May return was driven by decreases in the share prices of Po Valley, Bisalloy and Engenco, partially offset by an increase in the price of Kangaroo Island. The former three companies fell on no news and have attractive valuations at current prices.

Kangaroo Island appreciated on no news as a decision on port approval nears. The public and agency consultation period ended on 28 May. The company will now address the submissions it received and compile a formal Response Document. Together with the original EIS, this will be delivered to the South Australian Minister for Planning, whose department will then write an assessment report. A final decision will be made by the South Australian Government.

We recently invested 3% of unitholder capital in Mesoblast, a biotechnology company that focuses on allogeneic cellular therapies. "Allogeneic" means cures involving the receipt of a transplant of stem cells collected from a matching donor, as opposed to "autologous", which uses the stem cells from a patient's own body. Mesoblast's proprietary process involves selecting stem cells from the bone marrow of healthy adults and creating master cell banks, which can be industrially expanded to produce thousands of doses. This can be done because the type of cells MSB uses (mesenchymal lineage cells) do not initiate an immune response when administered to unrelated patients.

Allogeneic cellular therapy is still a nascent treatment and Mesoblast is a global leader. The company's treatment for acute graft versus host disease (aGVHD) became Japan's first allogeneic cell-based therapy in

2015 when licensed by Tokyo-listed JCR Pharmaceutical. If this treatment is commercially approved by the FDA, which should deliver its decision in early 2020 based on Mesoblast's successful Phase 3 clinical trials, it would become the first industrially manufactured allogeneic cell-based therapy in the US. In addition to aGVHD, Mesoblast is applying its technology to treat chronic congestive heart failure, chronic low back pain and Crohn's disease. The former two are undergoing Phase 3 trials with the FDA, while the latter was approved for sale in Europe in March 2018 and is being commercialised under a license agreement by Tokyo-listed pharmaceutical company Takeda.

Given Mesoblast's proprietary, leading technology and considerable portfolio of treatments in multi-billion-dollar markets, there is considerable value. The company's enterprise value is \$736m, having fallen from a high of \$2.3bn in 2011. Nonetheless, Mesoblast's technology remains the same and it has significantly advanced its therapies through clinical trials. The company's largest shareholder, at 14%, is the founder and CEO, Dr Silviu Itescu, a physician scientist who has had a long career in stem cell biology. It is rare to see such "skin in the game" in large listed biotechnology companies. We will update unitholders as the company progresses its therapies.

David Constable

12 June 2019

### The Supervised Fund's Historical Performance

	<b>TSF after all fees</b>	<b>All Ords Accumulation</b>	<b>Small Ords Accumulation</b>
Since inception p.a. (Dec 2007)	<b>9.5%</b>	4.7%	0.3%
Financial year to date	<b>0.1%</b>	7.4%	1.0%
Calendar year to date	<b>1.5%</b>	15.8%	15.8%
FY18	<b>5.4%</b>	13.7%	24.2%
FY17	<b>22.6%</b>	13.1%	7.0%
FY16	<b>32.0%</b>	2.0%	14.4%
FY15	<b>9.0%</b>	5.7%	0.4%
FY14	<b>10.6%</b>	17.6%	13.1%
FY13	<b>15.3%</b>	20.7%	-5.3%
FY12	<b>-6.8%</b>	-7.0%	-14.6%
FY11	<b>9.4%</b>	12.2%	16.4%
FY10	<b>15.1%</b>	13.8%	11.2%
FY09	<b>-1.7%</b>	-22.1%	-28.6%

The Fund's benchmark is 5% per annum. Small Ords Accumulation and All Ords Accumulation are included for the sake of comparison to the predominant Australian equity indices.

## **DISCLAIMER**

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