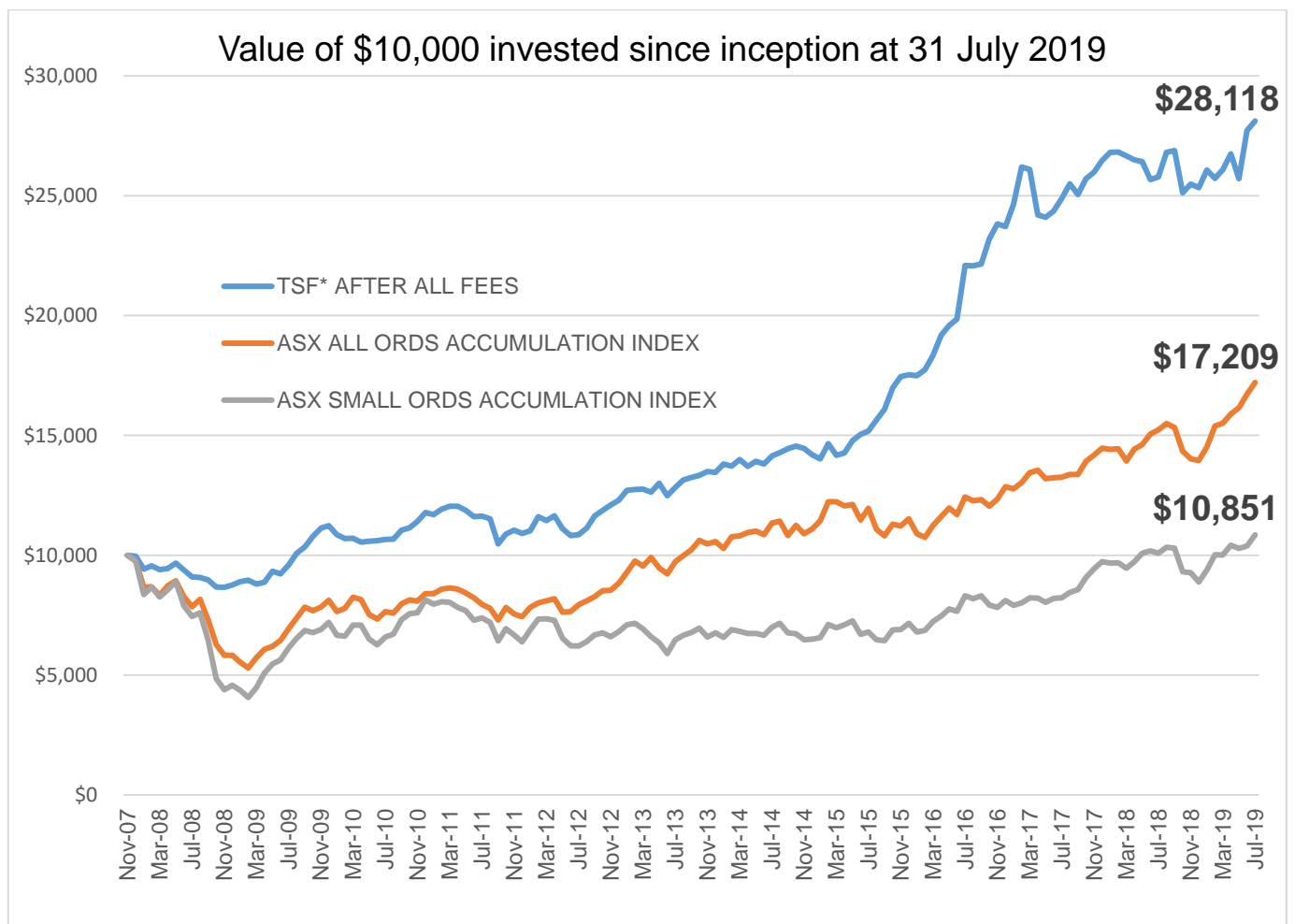


The Supervised Fund (TSF) Monthly Report – July 2019

Performance Analysis (as at 31 July 2019)	TSF after all fees	All Ords Accumulation	Small Ords Accumulation	Benchmark
1 month	1.4%	3.0%	4.5%	0.4%
1 quarter	5.1%	8.3%	4.1%	1.2%
Last twelve months	9.0%	12.9%	7.6%	5.0%
2 years p.a.	6.3%	13.9%	14.8%	5.0%
3 years p.a.	8.4%	11.4%	9.3%	5.0%
5 years p.a.	14.7%	8.7%	9.2%	5.0%
7 years p.a.	14.6%	11.7%	8.3%	5.0%
10 years p.a.	11.4%	9.5%	5.9%	5.0%
Since inception p.a. (Dec. 2007)	10.4%	5.3%	0.8%	5.0%

Past performance is no indication of future performance



*Please note TSF return assumes reinvestment of all distributions (as do the indices).

Portfolio at 31 July 2019

Top 10 Positions	% of NAV at current value	% of NAV at cost	
Kangaroo Island Plantation Timbers Limited	21%	6%	<ul style="list-style-type: none"> • 8% of capital is invested in non-ASX listed investments (excluding cash). • 27% of capital is invested in oil, gas and resources companies (excluding gold). • 5% of capital is invested in physical gold and gold mining companies. • 82% of capital is invested in companies with market capitalisations of less than \$150m.
Po Valley Energy Limited (equity and convertible notes)	19%	7%	
HGL Limited	12%	18%	
Engenco Limited	9%	6%	
Hillgrove Resources Limited	7%	3%	
Bisalloy Steel Group Limited	7%	3%	
Physical Gold ETF and Gold Call & Put Options	5%	4%	
Cash	5%	n/a	
Mesoblast Limited	4%	4%	
Readcloud Limited	2%	2%	

Commentary

Winners in July 2019	Contribution to fund return	Gross return	Losers in July 2019	Contribution to fund return	Gross return
Po Valley Energy Limited (equity and convertible notes)	1.3%	7%	HGL Limited	-1.5%	-11%
Engenco Limited	1.2%	15%	Kangaroo Island Plantation Timbers	-0.6%	-3%
Readcloud Limited (equity and call options)	0.4%	25%	Hillgrove Resources	-0.1%	-1%

The Fund's July return was driven by an increase in the share prices of Po Valley, Engenco and Readcloud, partially offset by decreases in HGL, Kangaroo Island and Hillgrove.

Po Valley shares increased in price on no material news, while Engenco's appreciated after the company released a positive market update outlining its recent expansion strategies, which have begun to bear fruit. Engenco has invested significantly in its rail maintenance capabilities, improving its Western Australian facility, opening a new workshop in Central Queensland, and expanding its services in Victoria and New South Wales. We appreciate the company's multi-year vision and conservative approach to growth.

Readcloud's shares increased after the company released a positive operational update. Since Readcloud is one of the fund's more recent additions and may be new to unitholders, we expand on it below.

HGL's share price declined as the company announced it had terminated an earlier proposal to acquire a drone company. At the end of the month, Helen Coonan, Chair of Supervised Investments Australia Limited (the investment manager of the Fund), was appointed Chair of HGL. Given Helen's experience on the board of numerous public companies, we believe this is a positive step towards improving the company's fortunes.

The share prices of Kangaroo Island and Hillgrove fell slightly on no material news. Towards the end of July, Kangaroo Island announced it had received government and agency submissions concerning its environmental impact statement. The company said there were no material concerns raised and it remains confident it will receive development consent. It is currently undertaking follow up studies for a Response Document and, following its submission, hopes for a government decision by the end of the calendar year.

The fund has invested 4%¹ of unitholder capital in Readcloud, an Australian provider of e-learning software with a market capitalisation of \$38m. We first bought shares in September 2018 and have gradually built our position as the stock fell to attractive prices and the company reached noteworthy milestones. In late July 2019, we doubled our holding by participating in a placement.

Readcloud's immediate strategy is to sell its e-learning software to Australian secondary schools. Its eBook reader allows students and teachers to access school books through a computer, tablet or phone. Teachers can also upload other learning materials to the platform, such as supplementary notes. This electronic format means students do not need to carry heavy books to and from school. It also allows for enhanced functionality, such as the ability of students to highlight and annotate their eBooks and ask their teachers questions privately or within the confines of a 'virtual' classroom. The company's eBook platform is currently used by 80,000 students across 117 Australian secondary schools.

In November 2018, the company acquired 100% of the Australian Institute of Education and Training (AIET), a provider of Vocational Educational and Training courses to secondary schools. These courses, traditionally taught using printed materials, have been transitioned to Readcloud's digital platform. As a result of this digitisation, the number of Australian secondary schools using AIET's courses in 2019 has increased by 54% year-on-year, to 140. Not only is AIET a profit-making business, contributing over \$500k p.a. in EBIT, Readcloud can leverage its relationship with 140 schools to cross-sell its eBook platform.

In the medium term, Readcloud's technology has the potential to be applied more broadly – including to tertiary and vocational education providers, and primary schools. Doing so would not require major technical upgrades. A significant step was taken in April 2019, when Readcloud announced a distribution agreement with Australian Training Products (ATP), a provider of course content and learning resources for vocational learning. ATP has a customer base of over 1,000 RTOs, supporting the Australian Government, Navy, hospitality sector, business and management schools, universities and TAFE. As ATP shifts its courses from using physical material to eLearning, it has committed to employing Readcloud's digital encryption and eReading platform exclusively for 3 years.

Readcloud currently has 5% of its target secondary school market. Assuming moderate growth from its acquired AIET business and minimal contribution from the ATP agreement, if the company can reach 20% of the high school market, it would be on a p/e ratio of 7x. We believe this would be cheap for a company with market leading software and numerous expansion possibilities. In addition to its attractive valuation, we are impressed by management, who take a long-term view. This is unsurprising, given the managing director is a co-founder who owns 10% of the shares and the chief information officer (and executive director) is another co-founder who owns 8%.

We look forward to keeping unitholders updated on Readcloud's progress.

David Constable, 6 August 2019

¹ This figure differs to our "Top 10 Positions" on page 2 of this report because we invested a further 2% of unitholder capital into Readcloud in a placement in late July which only settled in early August.

The Supervised Fund's Historical Performance

	TSF after all fees	All Ords Accumulation	Small Ords Accumulation
Since inception p.a. (Dec 2007)	10.4%	5.3%	0.8%
Calendar year to date	1.4%	3.0%	4.5%
FY19	11.0%	23.3%	22.1%
FY18	1.4%	11.0%	1.9%
FY17	5.4%	13.7%	24.2%
FY16	22.6%	13.1%	7.0%
FY15	32.0%	2.0%	14.4%
FY14	9.0%	5.7%	0.4%
FY13	10.6%	17.6%	13.1%
FY12	15.3%	20.7%	-5.3%
FY11	-6.8%	-7.0%	-14.6%
FY10	9.4%	12.2%	16.4%
FY09	15.1%	13.8%	11.2%

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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