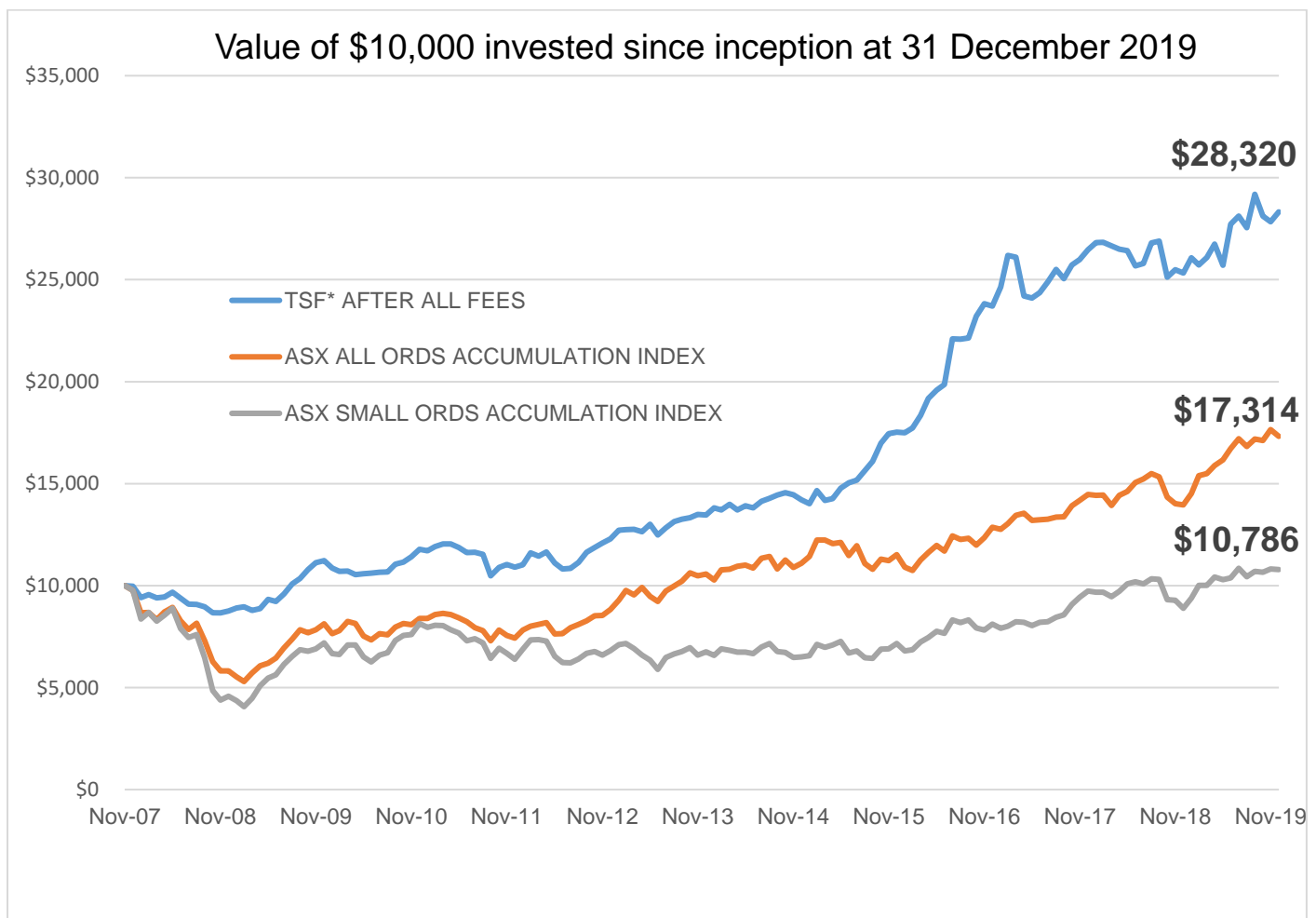


The Supervised Fund (TSF)

Quarterly Report – December 2019

Performance Analysis (as at 31 December 2019)	TSF after all fees	All Ords Accumulation	Small Ords Accumulation	Benchmark
1 month	1.7%	-1.9%	-0.3%	0.4%
1 quarter	-3.0%	0.7%	0.8%	1.2%
Last twelve months	11.8%	24.1%	21.4%	5.0%
2 years p.a.	3.4%	9.4%	5.3%	5.0%
3 years p.a.	6.1%	10.4%	10.0%	5.0%
5 years p.a.	14.8%	9.3%	10.6%	5.0%
7 years p.a.	12.7%	10.1%	6.8%	5.0%
10 years p.a.	9.7%	7.9%	4.1%	5.0%
Since inception p.a. (Dec. 2007)	11.0%	5.6%	0.8%	11.0%

Past performance is no indication of future performance



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

Portfolio at 31 December 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). • 24% of capital is invested in oil, gas and resources companies (excluding gold). • 4% of capital is invested in international stocks. • 80% of capital is invested in companies with market capitalisations of less than \$150m.
Po Valley Energy Limited (equity and convertible notes)	16%	7%	
HGL Limited	12%	17%	
Cash	12%	n/a	
Engenco Limited	6%	3%	
Bisalloy Steel Group Limited	6%	2%	
Hillgrove Resources Limited	6%	4%	
Readcloud Limited	3%	4%	
Southern Cross Electrical Limited	3%	3%	
Hostelworld Group plc	2%	2%	

Commentary

Winners in December 2019 Quarter	Contribution to fund return	Gross return	Losers in December 2019 Quarter	Contribution to fund return	Gross return
HGL Limited	1.6%	16%	Kangaroo Island Plantation Timbers Limited	-2.6%	-11%
Mesoblast Limited	1%	18%	Po Valley Energy Limited (equity and convertible notes)	-1.3%	-8%
Bisalloy Steel Group Limited	0.6%	10%	Readcloud Limited	-0.7%	-16%

The Fund's December return was driven by decreases in the share prices of Kangaroo Island Plantation Timbers (KPT), Po Valley and Readcloud, partially offset by increases in HGL, Mesoblast and Bisalloy.

KPT shares depreciated by 11% largely due to a series of bushfires on Kangaroo Island, which began in December. These have continued into the new year and as at the company's last update (released to the ASX on 8 January) 90% of the island's plantations have been fire-affected. The company is currently assessing the extent of the damage and in the meantime has voluntarily suspended trading in its shares. KPT has stated it intends to prioritise the sale of fire-damaged timber, either by immediate barging or via the proposed seaport, which awaits government approval. The company's entire treecrop is insured against fire for up to \$115m, with a single loss claim of \$68m (gross of \$5m excess). It has not been publicly disclosed whether the various bushfires affecting KPT count as a single loss. In a worst case scenario, in which none of the timber is salvageable and the damage counts as one loss, the company would receive \$63m in insurance. It could then sell its land and pontoon (valued at a combined \$62m). After debt repayments of \$30m, this would leave \$95m in cash for shareholders, equivalent to about \$1.70 per share. Considering KPT's shares last traded at \$1.96, the downside appears limited. In addition, there is still considerable upside if the company is able to continue with its plans to construct a seaport (post-governmental approval) and begin sustainable forestry operations. The situation is subject to change as more information arises regarding the impact of the bushfires and we will keep unitholders updated.

The share prices of Po Valley and Readcloud declined on no material news.

HGL's share price increased with the company announcing its 50%-owned school uniform distributor Mountcastle acquired a competitor, L.W. Reid. This should double Mountcastle's revenue and make it one of the larger players in the school uniform industry. In addition, HGL announced the appointment of a new CEO, Greg Timar. This is another positive step forward for the company along with the appointment of Helen Coonan as chairman last July.

Bisalloy's share price increased by 10% after the board announced EBITDA guidance of \$12-13m for FY20, an increase of 30-41% on FY19. This puts the company on a forward EV/EBITDA of 5-5.5x, which appears cheap considering Bisalloy will have increased its EBITDA by around 30% p.a. for the last three years.

Mesoblast's share price increased after the company raised \$75m from institutions and announced its chronic heart failure trial had passed its final review by an independent data monitoring committee. At the end of December, we decided to sell all of our Mesoblast shares, crystallising a 33% return on capital since investing in April 2019.

New investment: Hostelworld

During the quarter, we invested 2% of unitholder capital into Hostelworld Group. The company runs the website www.hostelworld.com, which is the world's leading online travel agent (OTA) solely focused on hostels. Their site allows hostels to upload vacancies and travellers to find and book available rooms. Hostelworld represents 17,400 hostels and processes about 7m bookings a year, totalling gross transaction volume of £500m.

The company's share price has fallen by 70% over the last eighteen months as the website has lost market share to larger non-hostel specific OTAs such as Booking.com and Expedia.com. These multi-billion dollar companies have outmuscled Hostelworld in advertising spend. Meanwhile, the latter underinvested in technology, meaning its interface for hostel-managers and travellers fell behind competitors. Consequently, Hostelworld's proportion of the OTA hostel market has fallen from 37% in 2014 to 19% presently.

As a result, investors are assuming further decline in the company's market share. At a current enterprise value of £108m, the company trades on a trailing twelve-month EV/EBITDA of 6x and dividend yield of 8.4%. This is despite Hostelworld being a cash generative business with no working capital requirements, no debt, and still holding a strong market position in a growing industry. The OTA market for hostels has grown by 11% p.a. for the last five years and is projected to continue at a similar rate. In June 2018, the CEO of 16 years stepped down and was replaced by Gary Morrison, who was formerly global head of retail at Hostelworld's competitor, Expedia.com. Gary has gradually built up a strong executive team and is investing in optimising the company's website and offering to hostel-managers and travellers. The new CEO also intends to utilise Hostelworld's vast and unique bank of data from the millions of hostel bookings it has processed.

Given the large fall in the share price, there is considerable margin of safety at Hostelworld's current valuation. If the company is simply able to hold its present level of bookings until 2030 (which would mean a fall in market share from 19% to 13% given the expected industry growth), the company should generate sufficient cash to justify a value of £2.19 per share (60% upside on the current price). If it can hold onto 19% of the market, it should be worth £3.47 (155% upside), and if it can return to 37%, £7.13 (424% upside).

David Constable, 13 January 2020

The Supervised Fund's Historical Performance

	TSF after all fees	All Ords Accumulation	Small Ords Accumulation
Since inception p.a. (Dec 2007)	11.0%	5.0%	5.0%
Financial year to date	2.1%	3.6%	3.9%
Calendar year to date	11.8%	24.1%	21.4%
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

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Trustee for The Supervised 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).

This monthly performance report has been prepared by Supervised Investments Australia Limited ACN 125 580 305 AFSL 317155 (SIAL) to provide you with general information only. In preparing this report, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither SIAL, Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product.