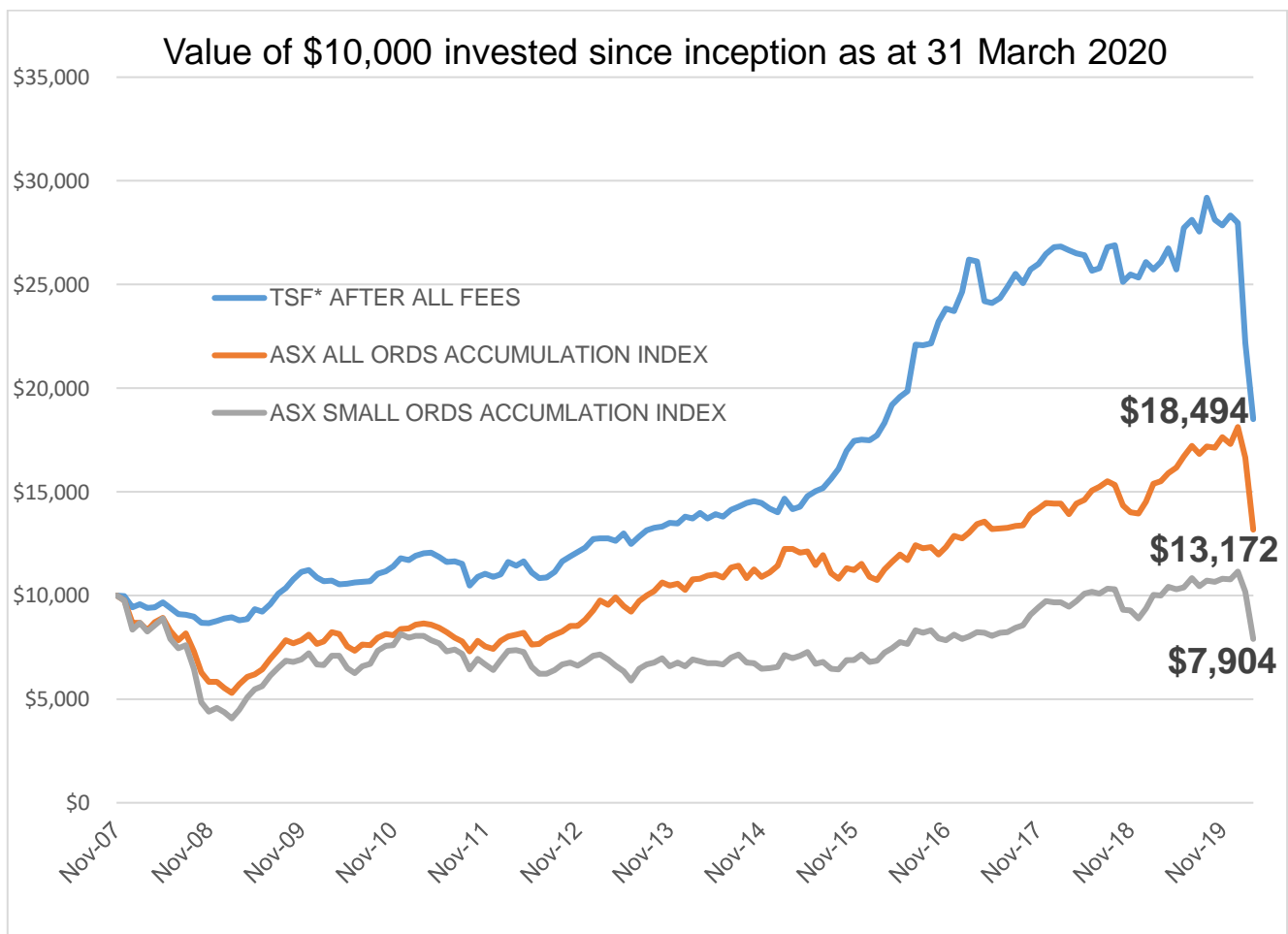


The Supervised Fund (TSF)

Quarterly Report – March 2020

Performance Analysis (as at 31 March 2020)	TSF after all fees	All Ords Accumulation	Small Ords Accumulation	Benchmark
1 month	-16.6%	-20.9%	-22.4%	0.4%
1 quarter	-34.7%	-23.9%	-26.7%	1.2%
Last twelve months	-29.1%	-15.0%	-21.0%	5.0%
2 years p.a.	-16.7%	-2.8%	-8.6%	5.0%
3 years p.a.	-10.9%	-0.7%	-1.3%	5.0%
5 years p.a.	5.5%	1.5%	2.5%	5.0%
7 years p.a.	5.5%	4.7%	1.9%	5.0%
10 years p.a.	5.6%	4.8%	1.1%	5.0%
Since inception p.a. (Dec. 2007)	5.1%	2.3%	-1.9%	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 March 2020

Top 10 Positions	% of NAV at current value	% of NAV at cost	
Po Valley Energy Limited (equity and convertible notes)	21%	11%	<ul style="list-style-type: none"> • 14% of capital is invested in non-ASX listed investments (excluding cash). • 21% of capital is invested in oil, gas and resources companies (excluding gold). • 4% of capital is invested in international stocks. • 93% of capital is invested in companies with market capitalisations of less than \$150m.
HGL Limited (equity and shareholder)	14%	30%	
Kangaroo Island Plantation Timbers Limited	13%	9%	
Cash	9%	n/a	
Hillgrove Resources Limited	6%	6%	
Bisalloy Steel Group Limited	6%	4%	
Engenco Limited	5%	4%	
Southern Cross Electrical Limited	5%	6%	
Readcloud Limited	4%	6%	
LoopUp Group plc	2%	3%	

Commentary

Winners in March 2020 Quarter	Contribution to fund return	Gross return	Losers in March 2020 Quarter	Contribution to fund return	Gross return
De Grey Mining Limited	2.2%	141%	Kangaroo Island Plantation Timbers Limited	-19.6%	-59%
Gold call options	0.9%	149%	HGL Limited	-9.9%	-51%
			Hillgrove Resources Limited	-3.3%	-37%

The Fund's March quarterly return was driven by substantial decreases in the share prices of Kangaroo Island Plantation Timbers (KPT), HGL and Hillgrove, partially offset by increases in De Grey and gold call options.

The fund suffered its worst quarterly performance in the face of two catastrophic events: bushfires and coronavirus. In our December 2019 quarterly report, we outlined the impact of the Kangaroo Island bushfires on KPT. The company's shares were suspended from trading on the ASX while the board assessed the extent of the damage, coordinated with its insurer and revised its business plan. On 30 March, the shares resumed trading and the company updated the market. 95% of its trees suffered from fire damage. The vast majority of these trees, totalling 3.5m tonnes, will die but have economic value if exported in the short term, albeit at a lower price per tonne. A market has not yet been established for such timber. Regarding insurance, the company has stated it is certain to receive \$60m, with \$10m already collected. An additional \$18m may be recoverable for other claims. Finally, the company intends to continue with its long-standing strategy to construct a seaport and become a sustainable timber company. In the short term, it would construct a seaport and export the fire-affected timber. This would help cover the costs of clearing the land and planting new trees.

A decision on the seaport approval is imminent, with the company having submitted all documents. The next stage is an assessment report from the Department of Planning, Transport and Infrastructure, followed by a

decision by the relevant Minister. The company currently has net tangible assets of \$1.86 per share (post-fire damage), mainly comprising cash, insurance receivable and land. Nevertheless, upon the resumption of trading, KPT's shares fell to \$0.91 and have remained around that price. This was a substantial fall from the last traded price of \$1.96 and represents a 50% discount to tangible asset-backing. We are cautiously optimistic that in time the shares will trade at a price nearer to the company's assets of \$1.86, with further upside if the seaport is approved.

The share prices of HGL and Hillgrove declined in line with the economic disruption associated with coronavirus. During the quarter, the Fund extended 4% of unitholder capital to HGL as a shareholder loan. This is in line with our desire to support the company, especially given the meaningful board and management changes over the past year. We expect the shareholder loan to be converted into equity by way of a rights issue in the coming month.

De Grey's share price increased substantially over the quarter as the company made significant gold discoveries. In addition, the gold price rose in the context of global economic uncertainty and potential inflation from government spending due to coronavirus. This resulted in our gold call options soaring.

Outlook

Markets have begun to make a cautious rebound following the S&P's 35% drop in just four weeks. However, the macroeconomic environment remains uncertain as the duration and true financial impact of coronavirus is unknown. We continue to hold a considerable cash weighting (9%) so we can take advantage of emerging opportunities. In addition, we are comforted that most of our holdings have limited debt, with shareholders generally having a claim over at least 50% of tangible assets. This means the majority of our companies should be able to withstand a recession, despite hits to profit.

We also have some exposure to the movement towards an online society that has resulted from the pandemic. Readcloud, which we discussed in depth in the [July 2019 performance report](#), provides e-learning software to secondary school students. In addition to the long-term trend in education towards online learning, this technology is crucial in the current environment, where students are encouraged to learn from home. Consequently, the company's shares have withstood the general market's downtrend. We are happy with our 4% weighting in the stock and believe there is further upside.

In addition, in February 2020 we invested 3% of unitholder capital in LoopUp Group, a London-based and AIM-listed provider of teleconferencing software. LoopUp's product is focused on professional services such as law firms and investment banks and allows organisations to host and dial-in through both internet (VOIP) and telephone networks. This differs to other platforms such as Zoom and Skype that only use internet, which is less secure and dependent on good internet connection. Security and reliability are crucial for professional service firms, making LoopUp an important alternative. Consequently, LoopUp's clients include 20 of the world's largest law firms and 24 of the largest investment banks. The stock's valuation is not particularly demanding, with an EV/EBITDA of 7x, compared to Zoom's 257x. Despite an initial decline in LoopUp's share price when the general began to market fall in late February, the stock has increased by 34% over the last month.

David Constable, 9 April 2020

The Supervised Fund's Historical Performance

	TSF after all fees	All Ords Accumulation	Small Ords Accumulation
Since inception p.a. (Dec 2007)	5.1%	2.3%	-1.9%
Financial year to date	-36.6%	-23.4%	-26.2%
Calendar year to date	-34.7%	-23.9%	-26.7%
FY19	8.0%	11.0%	1.9%
FY18	5.4%	13.7%	24.2%
FY17	22.6%	13.1%	7.0%
FY16	32.0%	2.0%	14.4%
FY15	9.0%	5.7%	0.4%
FY14	10.6%	17.6%	13.1%
FY13	15.3%	20.7%	-5.3%
FY12	-6.8%	-7.0%	-14.6%
FY11	9.4%	12.2%	16.4%
FY10	15.1%	13.8%	11.2%
FY09	-1.7%	-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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