AFM Fund Review
Supervised High Yield Fund

March 2014	+0.21%
Last 12 months	+7.73%

Key Points: The Supervised High Yield Fund

- *Supervised Investments Australia, a boutique Sydney based fund management group established in 2007 managing the Supervised Fund (Global Long/Short Equities) and the Supervised High Yield Fund (Debt Securities) with total FUM of A$34m.*
- *The Investment strategy aims to deliver returns with zero correlation to equity markets by investing in debt securities with minimal default probability and offering a premium return above the risk free rate.*
- *The Fund targets a risk level as opposed to annual return amount while focussing on capital protection and providing quarterly income.*
- *The Fund has out-performed it's benchmark of a margin above the RBA Cash Rate since inception, with over 98% of positive monthly performances, and the only losing month to date recording -0.12%.*

Management Company Overview

Supervised Investments was established by David Constable AM, whose career spans over 40 years in financial markets, including as a member of the Australian Stock Exchange from 1961 to 1998, and as CEO and senior partner of two stockbroking firms. He moved to London in 1996 and in 1999, while in London, he established a broadly based, global equities investment fund, Supervised Investments Ltd. On his return to Australia in 2005 he established Supervised Investments Australia Ltd (SIAL).

Other directors of SIAL are John Harvey AM, who was previously a board member of IBM Super Life Australia; David Young, who is also the firm's COO, and whose experience includes 10 years with Warner Music worldwide and Damien Cooper, the Managing Director of Financial Decisions Pty Limited, a Sydney based financial advisory firm which purchased a holding in SIAL in 2012 and currently owns 10% of the management company.

In February 2009 SIAL established the Supervised High Yield Fund (SHYF) to invest in debt and credit markets, and to provide investors with the opportunity of diversifying their exposure away from volatile equity markets.

The Investment Manager

The Supervised High Yield Fund is managed by Philip Carden whose experience in debt and capital markets spans 32 years, including time with JB Were's Capel Court Securities and Macquarie Bank, where he was the Executive Director responsible for the Debt Markets Division. Carden has managed the Fund since its inception and owns 7.0% of SIAL in addition to being an investor himself, providing a strong alignment of interests.

Carden has extensive experience in the non-bank mortgage origination and securitisation markets. His previous career includes establishing Carden Treasury Corporate Pty Ltd, which among other roles was involved in the 1994 restructuring of Victorian State Government debt, and in 1995 he was appointed as the investment manager of a $500 million AMP debt portfolio.

Investment Strategy and Process

The Supervised High Yield Fund is an Alternative Income fund which invests in Global and Australian debt markets, with all foreign currency receivables hedged back to Australian dollars.

The Fund can invest in a wide range of debt instruments such as government and corporate bonds, mortgage and asset-backed securities, Treasury & bank bills, commercial paper, interest-rate markets and debt/equity hybrid securities listed on the ASX.

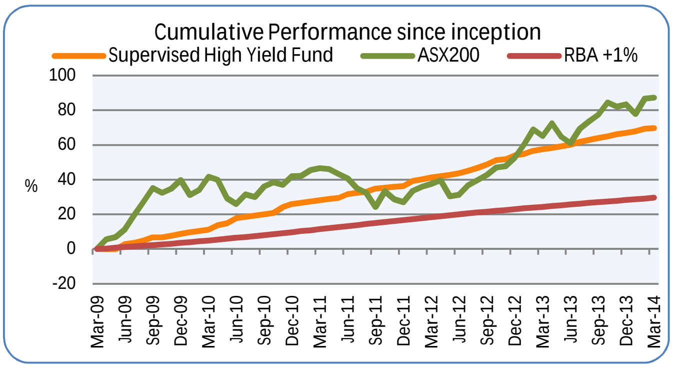
The Fund utilises a top down analysis of the economic environment and market to screen and identify debt market opportunities which it believes offer low risk with high yield.

SUPERVISED INVESTMENTS

Key Statistics (%)	Supervised High Yield	ASX200 Acc
Mar-14	0.21	0.29
Annualised Return	11.16	13.37
Latest 3 Months	1.69	2.09
Latest 6 Months	3.49	5.58
Latest 12 Months	7.73	13.46
Latest 24 Months p.a.	9.60	16.64
Latest 36 Months p.a.	9.80	8.52
Latest 60 Months p.a.	N/A	13.37
% Positive Months	98.33	65.00
Best Month	2.93	7.31
Worst Month	-0.12	-7.51
Largest Drawdown	-0.12	-15.13
Average +ve Return	0.90	3.33
Average -ve Return	-0.12	-3.00
Annualised Standard Deviation	2.22	12.57
Downside Deviation (Since Inception)	0.20	7.98
Sharpe Ratio (Since Inception)	3.19	0.77
Sortino Ratio	34.31	1.13

*Statistics above for the ASX are adjusted to the fund's start date

Chart 1: Cumulative returns



Performance - Net of Fees (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	0.60	0.87	0.21	-	-	-	-	-	-	-	-	-	1.69%
2013	0.47	1.22	0.55	0.42	0.62	0.61	0.98	0.75	0.65	0.51	0.87	0.39	8.33%
2012	2.20	0.66	0.77	0.55	0.48	0.61	1.09	1.12	1.27	1.76	0.36	1.48	13.04%
2011	0.61	0.56	0.61	0.46	0.51	1.75	0.45	0.50	1.35	0.43	0.37	0.31	8.19%
2010	0.90	0.74	0.70	2.21	1.01	2.64	0.59	0.57	0.63	0.66	2.72	1.55	15.92%
2009	-	-	-	-0.12	0.08	2.93	0.61	1.37	1.64	0.06	0.94	0.91	8.69%

Investment Strategy and Process (continued)

The investment strategy consists of a structured approach comprising a documented nine-step process which commences with a definition of the current risk parameters, followed by research into the overall macroeconomic environment. A view is then formed on interest rates, credit outcomes and asset classes for the major economies, and in particular their likely impact on Australia.

The next stage is the development of a risk matrix and investment strategy, following which detailed research is undertaken on specific investment opportunities which meet the pre-defined criteria established in the investment strategy.

Prior to approving an investment for the Fund each potential investment is subject to two stress tests. The first of these is for credit and default risk, in which the investment is stress-tested to ensure that in a worst case economic environment it can repay 100% of its principal and interest obligations. The stress-testing takes these worst case outcomes from serious market dislocations in the asset class, including the 1929 Depression, and the GFC in 2008 amongst others, and this data is used to model individual investment outcomes. For example, in the case of Residential Backed Mortgage Securities (RMBS) this models a fall of 50% in housing prices as well as a 14% default rate for prime rated securities.

The second test examines market risk. In this case Carden looks at the worst case scenario for the asset by examining the highest margin over the risk rate that the investment has previously experienced in a crisis situation. Any decline in value under the stress test that exceeds 10% of the Fund's value is avoided.

Only after the risk analysis is completed is the expected return of the investment calculated, and if acceptable a recommendation is submitted to the Board's Investment Committee. Written approval is required from the David Constable and at least one other member of the Investment Committee prior to implementation.

The complete portfolio is reviewed each month, with Carden producing a written report to the board identifying investments that may require further analysis prior to their potential sale.

Since inception in April 2009 the Fund has used this process to identify a variety of opportunities, to date largely in the RMBS securitisation market in Australia, an area in which Philip Carden has significant experience. These opportunities were created by the drying up of credit availability and liquidity in the RMBS markets following the GFC which allowed the manager to target and achieve returns of over 12% p.a.

The Manager expects that these situations will diminish as markets normalise, and is replacing RMBS with corporate debt opportunities, both domestically and overseas. These opportunities arise as listed companies with sound cash flow are required to roll over or replace debt facilities and will be issuing corporate paper at attractive yields. As at April 2014 the Fund has a 30% exposure to US Corporate Debt (also called collateralised debt obligations or CLO's). All foreign currency exposure is fully hedged.

Going forward the Manager will continue to survey investments in all major economic jurisdictions and debt sectors including asset backed and corporate debt, infrastructure, and sovereign debt. As such, provided new opportunities are able to satisfy the Manager's stress testing, they will be considered for investment in the Fund. It will not adjust its risk tolerance to enhance yield even in low yield environments.

Supervised High Yield Fund Key Facts	
Strategy	Fixed Income
Domicile	Australia
Investor Type	Wholesale only
Min. Investment	A$100,000
Additional Investment	A$100,000
Management Fee	1.25% pa
Performance Fee	20% p.a with highwater mark
Performance Fee Hurdle	RBA Cash plus 1.5%
Min. Term	1 month
Redemption	Monthly
Inception Date	Apr-09
Fund Size	A$22m
Manager's Total FUM	A$34m

Chart 2: Monthly returns

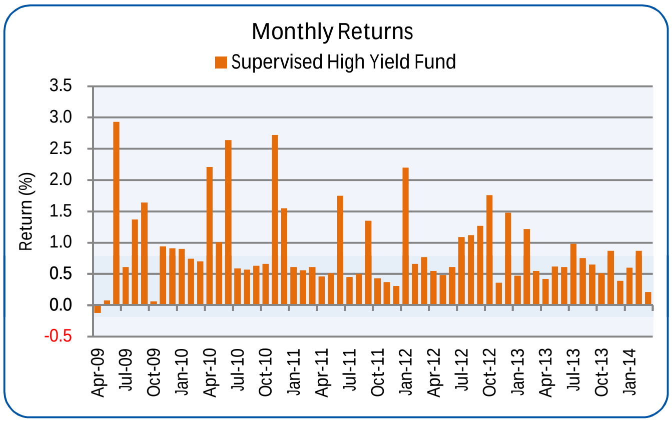


Chart 3: Distribution of Monthly Returns

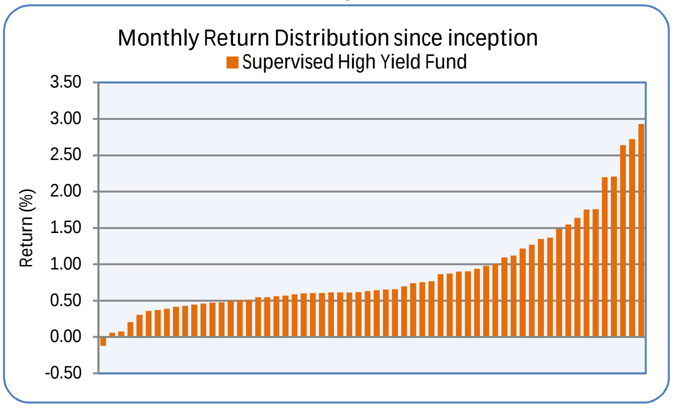
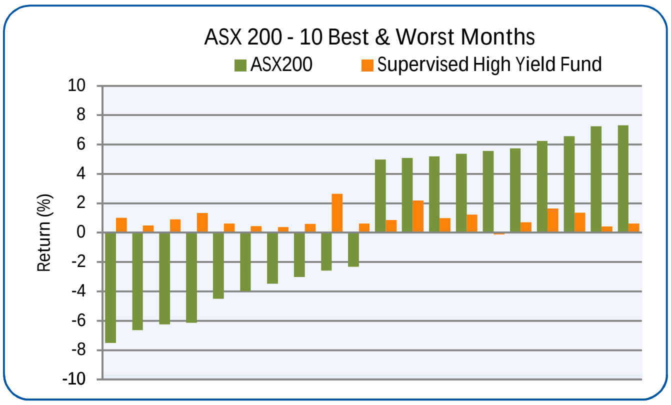


Chart 4: Correlation to ASX200's best and worst months



Performance Review

The debt securities in which the Supervised High Yield Fund invests offer a significantly different risk profile to equities, and as a result the Fund has a very low correlation to the ASX 200 as indicated in Chart 4 on page 2.

The investment process places a strong emphasis on the protection of investors' capital. Reflecting this the Fund has delivered stable positive monthly returns at very low levels of volatility, with an annualised return of 11.16% and standard deviation of 2.22% since inception. However the focus on protecting investors' capital and the nature of the asset class itself can lead to under-performance compared with equities in strong or bull markets.

However, in periods of significant volatility experienced during and since 2009, the Fund's 'conservative opportunism' has outperformed equities as a result of the minimal drawdowns it has experienced. The Fund's historical performance includes a single negative month, -0.12% in April 2009, corresponding to 98% positive monthly performance since inception.

Whilst past performance cannot be guaranteed to be repeated, the Fund's strategy & investment process, as well as Carden's expertise are undoubtedly responsible for the Fund's impressive risk record .

Risk Management & Analysis

Concentration risk in assets such as RMBS or debt securities is calculated against the underlying secured asset base, with each investment limited to 10% of the overall portfolio.

The Fund does not employ stop losses as these might be triggered by liquidity events rather than the underlying value of the investments. Carden's view is that by focusing on the risk analysis during the research phase of the investment process, and the monthly re-evaluation of each asset, the need for stop loss limits is unnecessary.

The most significant risk for investors in the Fund is the liquidity of the underlying assets. These can be liquidated in a reasonable time frame but are not traded on-market. An investment in the Fund should therefore not be seen as a high yield alternative to a low yielding bank deposit over the shorter term without this understanding.

Operational Risk

As Supervised Investments utilises an experienced, well respected investment manager and directors, the principal concern relates to Key Person Risk resulting from the incapacity or absence of Phil Carden. This risk relates more to ongoing management of the portfolio than the ability of the Board to effect an orderly wind down in the event the Fund needs to be liquidated in his absence.

The Investment Committee reviews each investment decision, with David Constable & one other the Investment Committee approving each investment. Stress testing levels and investment criteria for worst case scenarios are also subject to this approval process, following which the day-to-day portfolio and risk management is the responsibility of Phil Carden.

The Fund is considered more appropriate for high net worth individuals, SMSF's or Family Offices than institutional investors as the operational infrastructure, while adequate is less developed than might be expected by an institutional investor.

IT and Technical services are outsourced, and disaster recovery processes include off-site storage & remote access.

Fees, Terms and Conditions

The Fund charges an annual management fee of 1.25% plus a 20% performance fee, which although at the high end is not unusual for a boutique management company of its type. The benchmark for the performance fee is 1.5% above the RBA Cash Rate. There is a High Water Mark preventing performance being paid in the event of a drawdown.

Distributions are made quarterly.

Redemption requests must be made at least one month and two calendar days prior to the first business day of each month. Proceeds are expected to be available within 10 business days of redemption being processed. Cash is held on account by JPMorgan Worldwide Securities Services who acts as Custodian to the Supervised Fund.

The Investment Manager & Directors' investments currently account for 50% of the Funds under Management leading to a strong alignment of interest between Directors, Manager & external interests.

Structure and Compliance

Supervised Investments Australia Limited (ACN 125 580 305) holds Australian Financial Services License 317155 issued on 2nd October 2007 and is licensed for investment by wholesale investors only. Philip Carden is the Responsible Manager of the Licensee.

Service Providers and Counterparties

Custodian:	JPMorgan Australia Limited
Administrator:	TMF Group
Auditor:	Ernst & Young
Legal:	Henry Davis York

Please see overleaf Page 4 for explanation of terms and disclaimer.

Commentary and performance data in this Fund Review is updated monthly by Australian Fund Monitors Pty Ltd.

Australian Fund Monitors
Targeting Absolute Returns

Explanation of Ratios & Terms:

(see www.fundmonitors.com for a full glossary of terms)

Sharpe Ratio:

A measure of a fund's "risk-adjusted return", or the return per unit of risk. The higher the ratio, the higher the return the investment strategy has generated for each unit of risk taken. The ratio provides an indication of whether the returns were generated from manager skill or risk taking. In general a Sharpe Ratio of 1 or higher is considered as showing that an investment strategy is rewarding the investor for the risk taken.

It is calculated as follows: Excess Return / Risk where Excess Return is the annualised return since the fund's inception minus the risk free rate of return (i.e. the RBA cash rate) and Risk is the fund's annualised standard deviation (volatility) since inception.

Sortino Ratio:

The Sortino ratio is a variation of the Sharpe ratio and only takes into account downward risk on the basis that the fund should not be penalised for upside volatility. The higher the Sortino ratio, the less downside risk the investment strategy has generated.

It is calculated as follows: Excess Return / Downside Risk where Downside Risk is the fund's Annualised Downside Deviation (volatility of negative returns) since inception.

About Australian Fund Monitors

Australian Fund Monitors (AFM) is a specialist research and information provider, focusing on the Absolute Return and Hedge Fund sector. AFM holds AFS License 324476 to provide general advice to wholesale investors only.

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