

**Oct-15 +0.54 %**  
**Latest 12 Months +5.83 %**

### Key Points:

Supervised Investments Australia is a boutique Sydney based fund manager established in 2007 managing the Supervised Fund (Global Long/Short Equities) and the Supervised High Yield Fund (SHYF) with total FUM of A\$32m.

The SHYF Investment strategy aims to deliver returns with zero correlation to equity markets by investing in debt securities with minimal default probability. The Fund aims to record returns above the risk free rate.

The Manager targets a risk level as opposed to annual returns while focusing on capital protection and providing quarterly distributions.

The Fund has out-performed its benchmark of 1.5% above the RBA Cash Rate since inception, with over 98% of positive monthly performances, and the only losing month recording -0.12%.

### Management Company Overview:

Supervised Investments was established by David Constable AM, whose career in Financial Markets spans over 40 years, 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 Supervised Investments Ltd, a broadly based fund investing in global equities. On his return to Australia in 2005 he established Supervised Investments Australia Ltd (SIAL).

The other directors of SIAL are John Harvey and Damien Cooper. Harvey was previously a board member of IBM Super Life Australia. Cooper is the Managing Director of OYA 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 2015, Ouafaa Karim, whose career in the Financial Services spans over 25 years, was appointed as Supervised's COO and CFO. Karim hold a Masters in Commercial Law and has previously held the position of CEO at Hunter Hall International (UK) and was Group Company Secretary and Head of Compliance and Risk Management of Hunter Hall International Limited.

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 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, during which time he has successfully traded wide range of bonds in international markets including corporate, asset

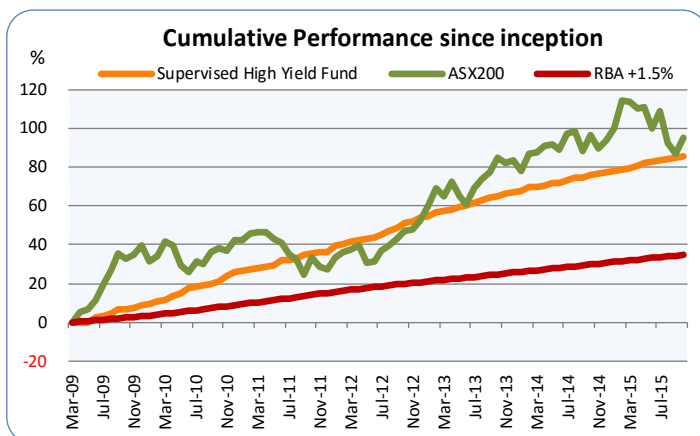


Key Performance Statistics	Supervised	Index*
Oct-15	0.54	0.17
Annualised Return	9.87	3.36
Latest 3 Months	1.27	0.50
Latest 6 Months	3.01	1.00
Latest 12 Months	5.83	2.19
Latest 24 Months p.a.	6.16	2.34
Latest 36 Months p.a.	7.09	2.51
Latest 60 Months p.a.	8.99	3.23
% Positive Months	98.73	100.00
Best Month	2.93	0.39
Worst Month	-0.12	0.17
Largest Drawdown	-0.12	0.00
Average +ve Return	0.80	0.28
Average -ve Return	-0.12	0.00
Annualised Standard Deviation	2.06	0.26
Downside Deviation (Since Inception)	0.18	0.00
Sharpe Ratio (Since Inception)	3.09	0.00
Sortino Ratio	34.54	0.00

\*Index is RBA Cash Rate Index adjusted since Fund's Inception

backed, sovereign, derivative, and hybrid debt securities.

Carden was an Executive Director at Macquarie Bank and responsible for the formation and management of Macquarie Bank's Debt Markets Division in both Australia and London. The division was developed new and innovative derivative product across a wide range of fixed income securities. Carden has extensive experience in the non-bank mortgage origination and



Performance - Net of Fees (%)														Supervised High Yield Fund													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	0.23	0.38	0.45	0.52	1.04	0.21	0.47	0.36	0.36	0.54	-	-	4.65%	2015	0.23	0.38	0.45	0.52	1.04	0.21	0.47	0.36	0.36	0.54	-	-	4.65%
2014	0.60	0.87	0.21	0.44	0.61	0.28	0.78	0.54	0.31	0.41	0.54	0.58	6.35%	2014	0.60	0.87	0.21	0.44	0.61	0.28	0.78	0.54	0.31	0.41	0.54	0.58	6.35%
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%	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%	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%	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%	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%	2009	-	-	-	-0.12	0.08	2.93	0.61	1.37	1.64	0.06	0.94	0.91	8.69%

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 \$7 billion debt portfolio, and in 1995 he was appointed as the investment manager of a \$500 million AMP debt portfolio.

Carden has managed the Fund since its inception and owns 7.0% of SIAL in addition to being an investor in the Fund, providing a strong alignment of interests. Carden uses his expertise in debt securities to strive for steady returns amid volatile markets.

### Investment Strategy

The Supervised High Yield Fund is an alternative income fund which invests in Global and Australian debt markets, with any foreign receivables hedged back into 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.

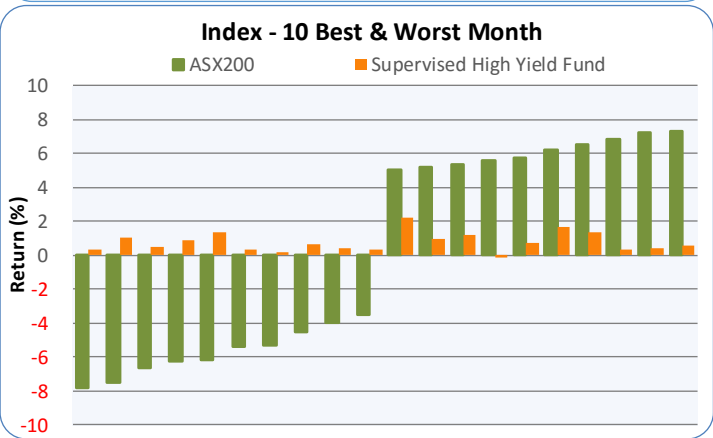
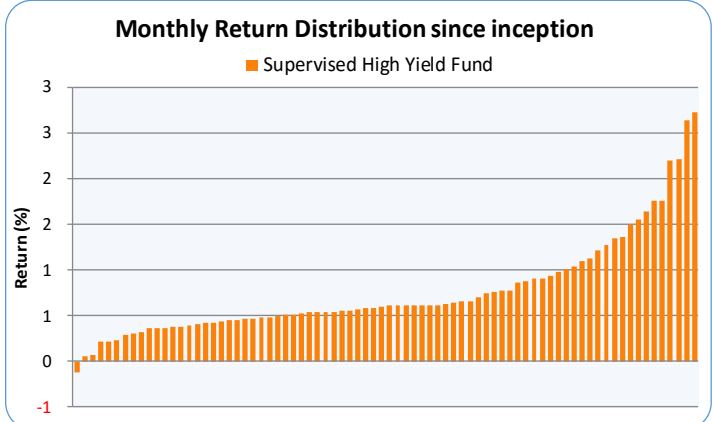
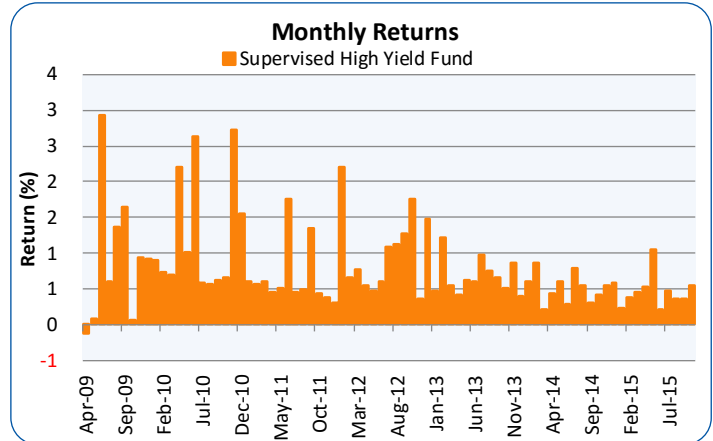
The Fund utilises a top down analysis of the economic environment and market to screen and identify debt market opportunities which it believes offer low risk with high yield.

The investment strategy consists of a structured approach comprising a documented nine-step process which commences with a definition of 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



**Performance Review**

- The Fund has delivered positive monthly returns at very low levels of volatility, with an annualised return of 9.87% and standard deviation of 2.06% 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 rising markets.
- In periods of increased volatility experienced during and since 2009, the Fund has experienced minimal drawdowns. The Fund's historical performance includes a single negative month, -0.12% in April 2009, corresponding to 98.73% positive months performance since inception.
- The Fund has a very low correlation to the ASX 200 as indicated in Fund & Index - 10 Best & Worst Chart.
- Whilst past performance cannot be guaranteed to be repeated, the Fund's strategy & investment process, and Carden's experience have each contributed to the Fund's performance and risk record.

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. in some years post 2009.

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). Any foreign currency exposure is fully hedged.

The Manager will continue to survey investments in all major economic jurisdictions & 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 as Carden does not intend to adjust the Fund's risk tolerance to enhance yield, even in low yield environments.

### Risk Management and 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 the Manager believes 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.

A significant risk for investors in the Fund is the liquidity of the underlying assets. These can normally 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 but highly liquid short term bank deposit without this understanding.

### Operational, Business Risk and Compliance

As Supervised Investments utilises an experienced investment manager, and has experienced directors, the principal operational concern relates to Key Person Risk resulting from the incapacity or absence of Phil Carden. This risk relates more to the 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 and one other the Investment Committee member 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 individuals, SMSF's or Family Offices than institutional investors as the Fund's FUM and operational infrastructure, while adequate, is less developed than might be expected by larger institutional investors.

### IT and Technical Services

IT and Technical services are outsourced, and disaster recovery processes include off-site storage & remote access by the investment and operational management.

### Terms & Conditions and Fees

Supervised High Yield Fund	
Strategy	Fixed Income
Domicile	Australia
Investor Type	Wholesale and Retail
Min. Investment	A\$10,000
Additional Investment	A\$25,000
Management Fee	1.375% pa
Performance Fee	22% p.a on RBA Cash Rate + 1.5%
Performance Fee Hurdle	RBA Cash plus 1.5%
Min. Term	1 month
Redemption	Monthly
Inception Date	Apr-09
Fund Size	A\$19m
Manager's Total FUM	A\$32m
Distributions:	Quarterly

The Fund charges an annual management fee of 1.375% plus a 22% 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 before 2.00pm AEST on the 10th day of each month. Proceeds are expected to be available at the close of business on the last Business Day of that month. 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 providing a strong alignment of interest between Directors, the Investment Manager & external investors. One Managed Investment Funds Limited is the Independent Responsible Entity.

Supervised Investments Australia Limited (ACN 125 580 305) holds Australian Financial Services License 317155 issued on 2nd October 2007. The Fund is now available to retail investors via

the Macquarie Investment Management IDPS platform. Philip Carden is the Responsible Manager of the Licensee.

### Service Providers

<b>Custodian:</b>	JPMorgan Australia Limited
<b>Administrator:</b>	TMF Group
<b>Auditors:</b>	Ernst & Young
<b>Legal</b>	Henry Davis York



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#### **AFM Fund Reviews are clearly and concisely written:**

This enables investors or their advisors to understand the objective and processes behind each fund's strategy, and structure and operations of the management company. When used in conjunction with the quantitative comparison of the fund's key performance and risk indicators (KPI's) included in each Fund Review, the reader is in a better position to make an informed decision regarding the suitability of the fund for individual investor's requirements.

#### **AFM Fund Reviews are updated every month:**

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