



SUPERVISED HIGH YIELD FUND

Supervised High Yield
Fund
Annual Report
30 June 2011

Key Facts

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Fund Commencement	31 st March 2009
Legal Structure	Wholesale Managed Investment Trust
Base Currency	Australian Dollar
Investment Horizon	Recommended 3 – 5 years plus.
Benchmark	RBA Cash Rate + 1.00%.
Hedging	Currency Hedged
Distribution Policy	Annual; interest and capital gain receipts
Dealing Day for Fund Redemptions	Last business day of every month
Entry Fee	Nil
Exit Fee	Nil
Management Fee	1.25%pa
Performance Fee	20% (plus GST) of any return above the Benchmark subject to annual high watermark
Minimum Investment	AUD100,000.00
Additional Investment	AUD100,000.00

Objectives of the Fund

The objective of the Supervised High Yield Fund (SHYF) is to deliver high yield returns from liquid marketable investments whilst avoiding the risk of losing invested capital.

Investment Management

The SHYF management process is founded on the philosophy of “conservative opportunism.” The management of the SHYF is headed by Philip Carden who since 1980 has specialised in managing and trading all forms of risk in the global debt securities market. All investment decisions for the fund are reviewed and approved by the board of Supervised Investments Australia Limited.

Investment Policy

SHYF is managed using the Supervised Theory of Absolute Returns (STAR). This process uses economic analysis and asset research combined with historic worst case stress testing to search out and discover the best risk reward investment opportunities in the debt market.

Fundamental to STAR is a tenet that no debt security will qualify for investment unless it can repay 100% of it's principal and interest obligations in a worst case economic environment.

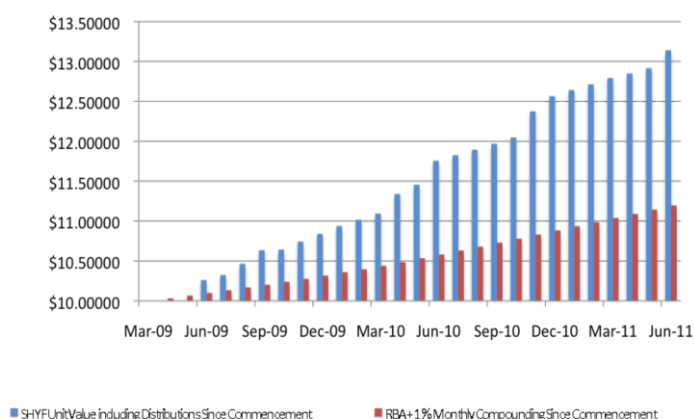
Performance at 30 June 2011

NAV: AUD12.5554 per unit	June 2011	Past 3 months	Past 6 months	Past 1 year	Past 2 years	Past 3 years	Since Commencement
SHYF (%)	1.75	2.75	4.59	11.79	27.31	-	31.78
RBA + 1 (%) Benchmark	0.47	1.44	2.89	5.81	10.86	-	11.96
Relative Returns (%)	1.28	1.31	1.7	5.98	16.45	-	19.82
Standard Deviation (%)	-	-	-	-	-	-	2.76
Sharpe Ratio	-	-	-	-	-	-	3.00

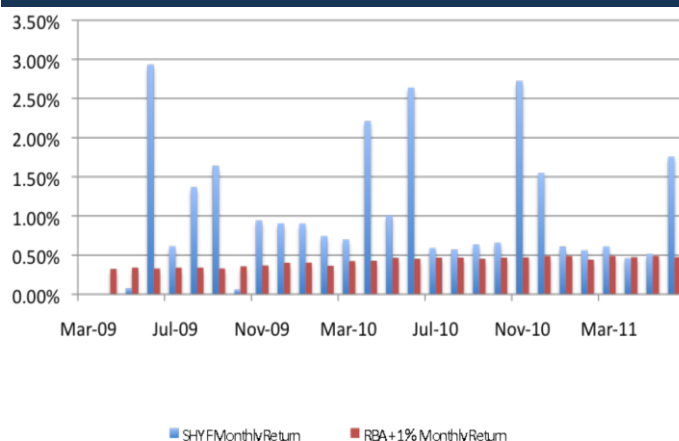
Calendar year results	2011 YTD	2010	2009 (April to Dec)
SHYF (%)	4.59	15.92	8.39
RBA + 1 (%) Benchmark	2.89	5.48	3.17
Relative Returns (%)	1.70	10.44	5.22

Past Performance is no guarantee of future performance and no guarantee of future performance is implied.

SHYF Since Commencement



Monthly Returns vs Benchmark



This chart illustrates the value of \$10.00 invested in the SHYF since its commencement date of 31st March 2009, compared with the value of \$10.00 invested in the SHYF's Benchmark, the Reserve Bank of Australia Cash Rate plus 1.00%. All distributions have been reinvested in new units in the SHYF at the prices available on the date the distributions were paid.

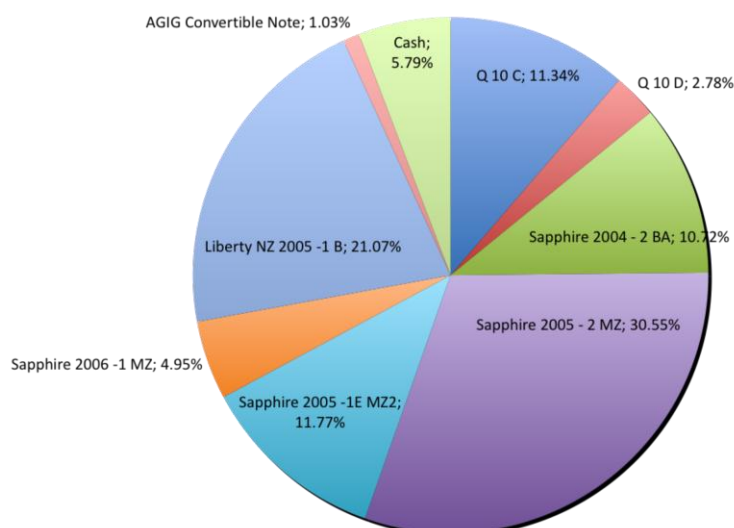
This chart illustrates the monthly performance of the SHYF since its commencement date of 31st March 2009, compared with the monthly performance of the SHYF's Benchmark, the Reserve Bank of Australia Cash Rate plus 1.00%. All distributions have been reinvested in new units in the SHYF at the prices available on the date the distributions were paid.

Portfolio Holdings

Security Description	Last Month's Value (\$)	This Month's Value (\$)	% Change	Market Value End of Month (\$)	% Of Portfolio
Q 10 C	97.86	97.84	-0.01	1,305,313	11.34
Q 10 D	95.85	95.83	-0.02	319,565	2.78
Sapphire 2004-2 BA	92.39	94.88	2.62	1,233,406	10.72
Sapphire 2005-2 MZ	89.89	89.33	-0.63	3,516,130	30.55
Sapphire 2005-1 MZ2	88.90	89.07	0.19	1,354,781	11.77
Sapphire 2006-1 MZ	87.29	87.51	0.24	569,135	4.95
Liberty NZ 2005 - 1 B	88.46	94.54	6.43	2,424,572	21.07
AGIG Convertible Note	1.30	1.25	-4.42	118,983	1.03
Cash	-	-	-	666,278	5.79

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Asset Concentration



Investment Manager Comment

30th June 2011 marked the end of the Fund's third financial year. This is an opportunity to reflect upon the goals we set at commencement of operations back in April 2009 and to measure how we have performed against those goals.

In 2009 we said "the Fund will target returns of 12% per annum - this will be 8% over the rate investors can expect to receive from a typical bank term deposit - 12% is an achievable goal without putting unit holders at risk of capital loss!"

This has been achieved and I am pleased to report the following results for the past three financial years.

June 2009 (part year annualised)	11.54%
June 2010 (full year)	14.58%
June 2011 (full year)	11.79%

Our target return of 12% per annum is the result of detailed research into global economies, debt securities and the application of our proprietary risk/reward algorithm. This research was and is conducted using our disciplined investment management process, STAR (the Supervised Theory of Absolute Returns).

Employing STAR we are able to stress test the Fund's investments to ensure they will repay 100% of principal and interest even in worst case economic environment's such as 1929 and 2008.

The Fund is not targeting returns of 20% or 30% per annum; this level of return involves heightened risk and volatility! Rather we think 8% per annum over the term deposit rate with controlled capital risk and zero negative volatility is a much more attractive investment.

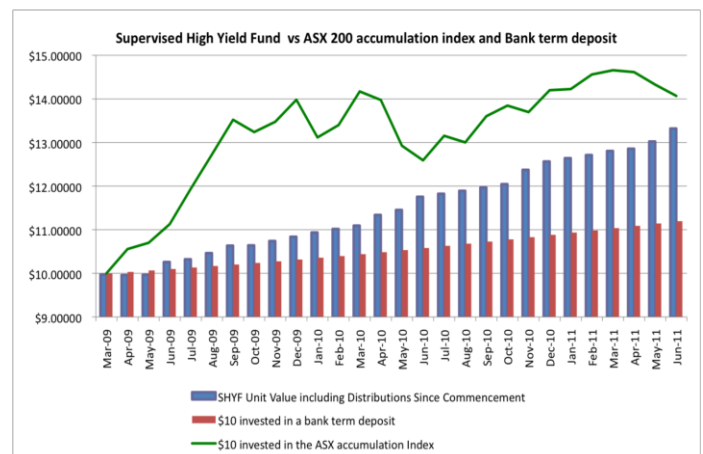
At 12% per annum the value of an investment will double every six years.

That is our objective; to double the value of an investment every six years.

After two and a half years we are pleased to advise that a \$10 investment made in April 2009 including reinvestment of annual distributions is now worth \$13.14. If we can continue to meet our objective over the next three and a half years increasing the unit value by 12% each year then with reinvestment of Fund distributions the unit value would be \$20 in April 2015.

The following chart comparing \$10 invested in the Supervised High Yield Fund vs \$10 invested in the ASX 200 accumulation index and \$10 invested in a bank term deposit illustrates the purpose of an investment in the Supervised High Yield Fund.

To achieve a consistent higher yield than is available in a bank deposit whilst providing the necessary balance and buffer to the higher risk, volatility and return inherent in an investor's equity portfolio.



The Supervised High Yield Fund offers investors the opportunity to offset the volatility and uncertainty of equity investments in a fund that has provided no negative returns since commencement in April 2009, has low volatility and high yield returns that consistently outperform a bank term deposit.

I urge you to consider rebalancing your investments by making an allocation to the Supervised High Yield Fund.

Philip J.A. Carden



SUPERVISED HIGH YIELD FUND

How to Apply

Applications can be made by completing the Subscription Form contained in the Information Memorandum and posting or faxing it to the Fund's Administrator TMF FundServices (Australia) Pty Ltd. Units will be issued on the first day of each month. The Information Memorandum can be downloaded from the website www.supervisedfund.com.au. Please contact Mr Phil Carden or any of the Directors for further information.

The minimum initial investment is AUD100,000 if the investor meets the definition of a Wholesale Client; refer to the Information Memorandum for details.

Trustee

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