



Fund Manager's Risk and Performance Review

Now as we emerge from the fog of the GFC, in Australia and in the US interest rates are lower, much lower than in the period between 2009 to 2012; but yes the fog is clearing.

As your fund manager I am obsessed with risk and reward. Now in 2014 I survey conditions in Australian and international debt markets it is clear many Self Managed Superannuation Fund managers are compromising risk in return for higher reward. I am not alone. The minutes of the June US Federal Reserve Board meeting recorded the following: "Signs of increased risk-taking were viewed by some participants as an indication that market participants were not factoring in sufficient uncertainty about the path of the economy and monetary policy".



Statue of Liberty, January 11 2014

HIGHLIGHTS

- 7.4% return over the 2013-2014 Financial Year outperformed the major bank 12 month term deposit rate by 3.55%.
- More than five years of continuous positive monthly returns.
- 10.88% average annual return since inception means every \$10,000 invested in April 2009 is now worth \$17,150.
- Sharpe Ratio since inception: 3.2

I have no doubt for some the decision to chase yield and compromise risk will end in tears. Our analysis shows where we could safely earn 12.5% in 2010 we can now only earn 7.5% (net of all fees). Supervised investments Australia Limited is a highly disciplined investment manager who will never compromise on risk.

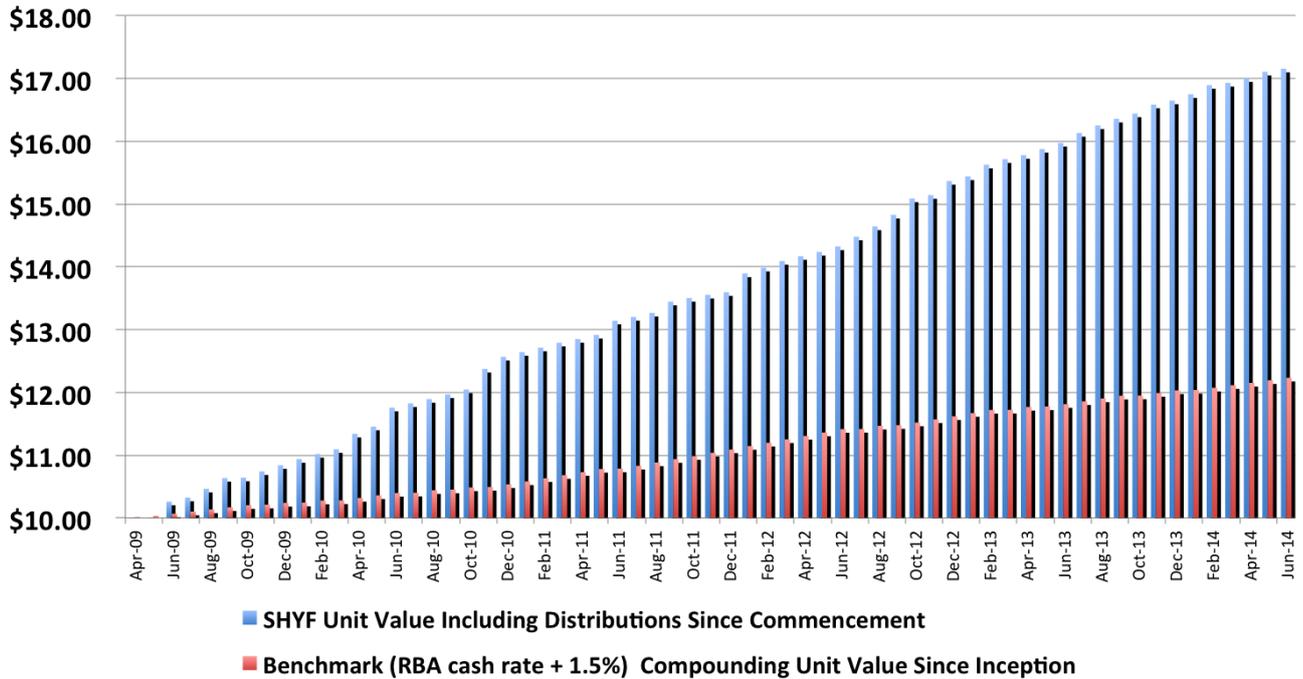
In June 2013 the Reserve Bank of Australia recorded the twelve-month unsecured term deposit rate as 3.85%. Over the same period the Supervised High Yield Fund recorded a fully secured return to its unit holders of 7.4% net of all fees and charges. Now in June 2014 the Reserve bank of Australia records the twelve-month unsecured term deposit rate at 3.3%. As manager of the Fund I expect the returns over the year ahead to be 7%.

As an investor in the Supervised High Yield Fund, I like all unit holders am currently faced with the option of chasing higher yields by reallocating my Fund investment elsewhere, at higher risk! For the reasons stated above it is an option I will not take.

Phillip Carden
Supervised High Yield Fund Manager

RETURNS ANALYSIS

Supervised High Yield Fund Unit Value Since Commencement Including Distributions



HOLDINGS ANALYSIS

Security Description	Market Value AUD	Asset Category	% of Portfolio
AIMS 2004 - 1 B	\$ 2,758,008.00	Australian RMBS	12.28%
AIMS 2005 - 1 B	\$ 940,390.00	Australian RMBS	4.19%
AIMS 2007 - 1 B	\$ 1,374,800.00	Australian RMBS	6.12%
Challenger 2007 2L A	\$ 156,885.34	Australian RMBS	0.70%
Firstmac 2005 - 3 AB	\$ 62,722.28	Australian RMBS	0.28%
Interstar 2005 2L AB	\$ 284,475.78	Australian RMBS	1.27%
Interstar 2005 2L B	\$ 770,823.59	Australian RMBS	3.43%
Liberty 2013 - 1 F	\$ 1,816,056.00	Australian RMBS	8.09%
Liberty 2013 - 1SME F	\$ 1,500,015.00	Australian RMBS	6.68%
PRS 10 E	\$ 1,519,185.00	Australian RMBS	6.77%
Sapphire 2007 - 1 MA	\$ 347,507.36	Australian RMBS	1.55%
Sapphire 2013 - 1 E	\$ 610,006.10	Australian RMBS	2.72%
Sapphire 2013 - 1 F	\$ 1,000,010.00	Australian RMBS	4.45%
Wide Bay 2006 C	\$ 514,359.53	Australian RMBS	2.29%
Panterra Corporate Loan	\$ 100,000.00	Australian corporate	0.45%
Blue Mountain 2014 - 2 E	\$ 986,339.38	USD corporate loans	4.39%
Denali 2007 - 1 B2L	\$ 2,991,731.16	USD corporate loans	13.32%
Venture CLO VIII E	\$ 3,004,770.49	USD corporate loans	13.38%
St James River CLO 2007 - 1 E	\$ 921,195.23	USD corporate loans	4.10%
Hedge Deposits	\$ 432,980.00	USD Currency hedge	1.93%
Cash	\$ 361,915.51	Cash	1.61%
Totals	\$ 22,454,175.75		100.00%

KEY FACTS

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Fund Commencement	1st April 2009
Legal Structure	Wholesale Managed Investment Trust
Base Currency	Australian Dollar
Investment Horizon	Recommended 3 years plus
Hedging	Currency Hedged
Distribution Policy	Quarterly: interest and realised capital gains
Dealing Day for Fund Redemptions	First business day of every month
Entry Fee	Nil
Exit Fee	Nil
Management Fee	1.25%pa (plus GST)
Benchmark	RBA Cash Rate + 1.50%
Performance Fee	20% (plus GST) of any return above the Benchmark subject to high watermark with no annual reset
Minimum Investment	AUD25,000.00

PERFORMANCE SUMMARY

NAV: AUD 12.4446 per unit	June 2014	Past 3 months	Past 6 months	Past 1 year	Past 3 years	Past 5 years	Since commencement
SHYF (%) increase in unit value	0.28	1.34	3.05	7.40	30.54	67.21	72.03
RBA + 1.5 (%) benchmark	0.33	0.98	1.67	3.56	14.40	21.51	30.88
SHYF return relative to benchmark (%)	-0.05	0.36	1.38	3.84	16.14	45.70	41.15
Standard Deviation (%)	-	-	-	-	-	-	2.22
Sharpe Ratio		-	-	-	-	-	3.2

	2014	2013	2012	2011	2010
SHYF (%) net of fees	7.40	11.52	9.00	11.78	14.58
RBA + 1.5 (%) Benchmark	3.56	4.22	5.49	5.81	4.77

OBJECTIVES OF THE FUND

To deliver capital preservation whilst generating a high return, low risk portfolio.

INVESTMENT MANAGEMENT

The SHYF management process is founded on the philosophy of “conservative opportunism” and headed by Philip Carden who, since 1980, has specialised in managing and trading all forms of investments 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 an absolute return investment process. This process uses economic analysis and asset research combined with historic worst case stress testing to search out and discover the lowest risk best reward investment opportunities in the debt market. SHYF does not deal in junk bonds.

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



SUPERVISED INVESTMENTS AUSTRALIA

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 AUD25,000 if the investor meets the definition of a Wholesale Client; refer to the Information Memorandum for details.

TRUSTEE

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