



SUPERVISED HIGH YIELD FUND

Celebrating its 5th Anniversary

QUARTERLY REPORT
31st March 2014

Fund Manager's Risk and Performance Review

Whilst managing the Supervised High Yield Fund (SHYF) since inception in 2009 we steered through the Global Financial Crisis and Europe's Sovereign Debt Crisis in a way that yielded consistently positive, high returns by maintaining the discipline of our two most important management principles:

1. Invest only in securities capable of surviving the worst case scenario the world's economies can produce based on historical evidence.
2. Invest only in the highest yielding securities that pass the test in point one.

Over this period, conditions in the Australian and International Debt Securities markets changed in many ways. In 2009 markets around the world were in turmoil. The crisis of confidence in financial markets was at fever pitch. The Federal Reserve Board and Bank of England put their nations' banking systems on life support.



PHILIP CARDEN
*Supervised High Yield Fund
Manager*

HIGHLIGHTS

- **Continuous positive returns to unit holders for 5 years**
- **11.16% average annual rate of return since inception means every \$10,000 invested five years ago is now worth \$16,930.**
- **7.75% return over the last 12 months to March 2014 outperformed the major bank 12 month term deposit rate by 4.45%.**
- **Sharpe Ratio over the past five years has been 3.9%**

All performance statistics quoted are net of fees and costs.

In that market most investors' decisions were driven by fear rather than logic. This created a bi-polar environment with very low yields for gilt-edged investments such as US Treasury Bills and very high yields for all other investment categories such as Mortgage Bonds, Corporate Bonds, Listed Equities and Real Estate.

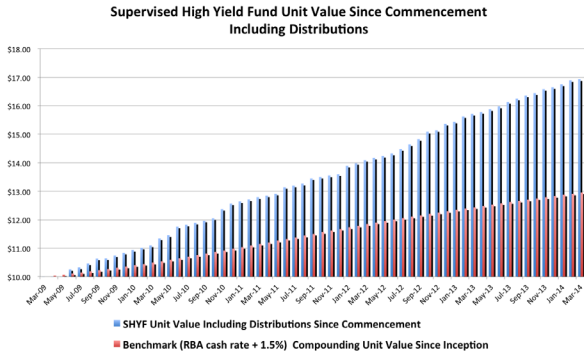
For instance, one investment the SHYF made in 2010 was an AA rated Australian Mortgage Backed Security with a yield of 15%, a premium of 10% above the Bank Bill Rate.

In 2014 fear has dissipated, logic has returned and investments of this ilk are no longer available; a 2 or 3 % premium above the Bank Bill Rate is the best that can be achieved in Australia. Now we also have the RBA Cash Rate at a historic low of 2.5% versus 4.75% in 2010. Despite changed conditions, our investment management process has safeguarded every cent of our unit holders' funds while delivering returns of 7.75% over the past year, 5.25% above the Bank Bill rate or 4.45% above the 12 month term deposit rate.

This performance validates the SHYF's management and investment policies. As the post-GFC expansion continues, the SHYF management will persist with our charter's discipline as itemised above. As your Fund Manager we will never increase risk in pursuit of a higher reward, quite simply because in 40 years of dealing in financial markets we have learnt that everything has its price, particularly risk. Most often the price of high risk is a sudden decrease in the capital value of an investment.

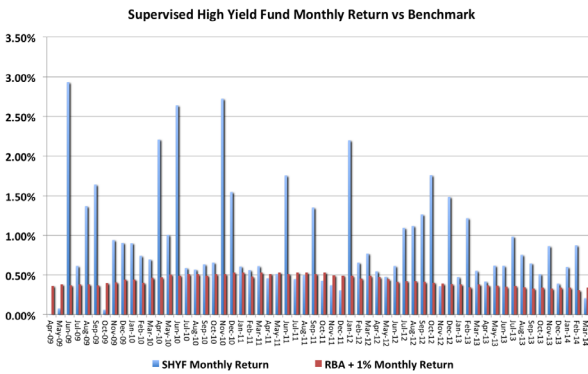
In the years ahead we anticipate delivering returns that are 4% higher than the Australian Bank term deposit rate.

SHYF SINCE COMMENCEMENT



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.

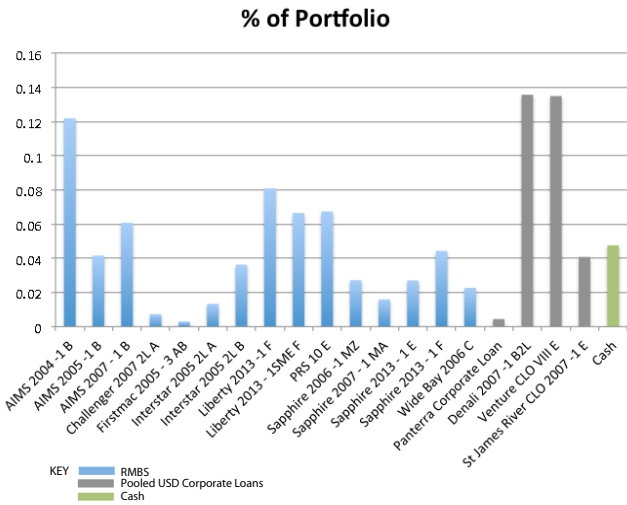
MONTHLY RETURNS VS BENCHMARK



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.

SHYF PORTFOLIO

SECURITY DESCRIPTION	MARKET VALUE AUD	% OF PORTFOLIO
AIMS 2004 - 1 B	\$ 2,751,715.00	12.20%
AIMS 2005 - 1 B	\$ 938,410.00	4.16%
AIMS 2007 - 1 B	\$ 1,371,568.00	6.08%
Challenger 2007 2LA	\$ 164,801.02	0.73%
Firstmac 2005 - 3 AB	\$ 67,285.37	0.30%
Interstar 2005 2LA	\$ 301,668.39	1.34%
Interstar 2005 2LB	\$ 818,529.67	3.63%
Liberty 2013 - 1 F	\$ 1,826,838.00	8.10%
Liberty 2013 - 1 SME F	\$ 1,501,125.00	6.65%
PRS 10 E	\$ 1,521,255.00	6.74%
Sapphire 2006 -1 MZ	\$ 613,545.04	2.72%
Sapphire 2007 - 1 MA	\$ 360,446.71	1.60%
Sapphire 2013 - 1 E	\$ 610,000.00	2.70%
Sapphire 2013 - 1 F	\$ 1,000,000.00	4.43%
Wide Bay 2006 C	\$ 515,202.67	2.27%
Panterra Corporate Loan	\$ 100,000.00	0.44%
Denali 2007 - 1 B2L	\$ 3,062,989.15	13.58%
Venture CLO VIII E	\$ 3,045,825.01	13.50%
St James River CLO 2007 - 1E	\$ 920,541.13	4.08%
Cash	\$ 1,073,894.92	4.76%
Totals	\$ 22,562,640.07	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 12.4352 per unit	March 2014	Past 3 months	Past 6 months	Past 1 year	Past 3 years	Past 5 years	Since commencement
SHYF (%) increase in unit value	0.21	1.69	3.50	7.75	32.36	69.76	69.76
RBA + 1.5 (5) benchmark	0.34	0.99	2.00	4.20	14.90	29.58	29.58
SHYF return relative to benchmark (%)	0.13	0.70	1.50	3.55	17.46	40.18	40.18
Standard Deviation (%)	-	-	-	-	-	-	2.22
Sharpe Index	1.39	-	-	-	-	-	3.90
Financial Year Results	2013	2012	2011	2010			
SHYF (%) net of fees	11.52	9.00	11.78	14.58			
RBA + 1.5 (%) Benchmark	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.



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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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