



Fund Manager's Risk and Performance Review

During the calendar year ending December 2013 SHYF produced a return of 8.34%. Over the past 4 ¾ years since commencement the Fund's total return has been 67% after all fees and costs. This means that as of 31st December 2013, every \$10,000.00 placed with SHYF on 1st of April 2009 was worth \$16,695.00.

I draw your attention to recent observations made by Australian Fund Monitors in their latest AFM Factors Report on the Fund. It noted the Fund's very low volatility of 2.25% since inception, compared to the 12.63% volatility of the equity market (ASX200), adding "over the last twelve months the volatility of the SHYF has been 0.83% while the ASX200 was 11.43%. Another positive comparison is with the PIMCO Wholesale Global Fund which had volatility of 4.35% over the last 12 months." The significance of this metric is that the lower the volatility the higher the probability is that future returns will emulate past performance.



PHILIP CARDEN
*Supervised High Yield Fund
Manager*

HIGHLIGHTS

- Annual Growth in unit value of funds - 8.34%*
- Return of 1.78% during 2013 December quarter
- 20% increase in funds under management over the last 12 months
- Sharpe Index since inception of 3.95%*
- 57 months of continuous, positive returns

* All performance statistics quoted are net of fees and costs.

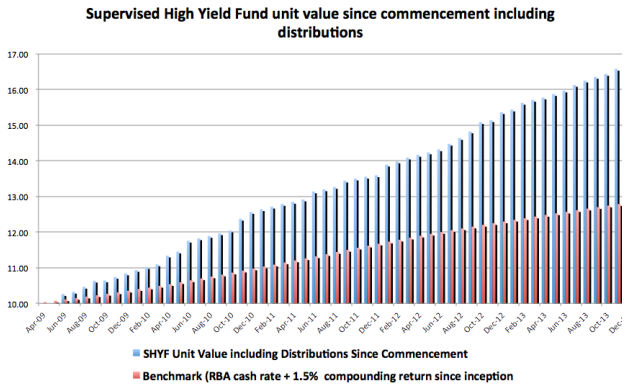
During the 2013 December quarter SHYF's exposure to Australian Residential Mortgage Backed Securities (RMBS) decreased because of an issuer's early redemption of some of the RMBS investments we bought at deep discounts. The early redemptions of these investments paid out 100% of the principal and interest obligations even though they were purchased at 15 to 20% discount to face value.

Some of the early redemptions provided the Fund with an excess of cash, which we both reinvested into the new issue RMBS market in Australia and diversified into the senior secured corporate debt sector in the US.

The US market continues to recover and following post-GFC economic adjustments has become more competitive in the global market. We are confident economic conditions in the US will continue to improve with low single digit growth rates.

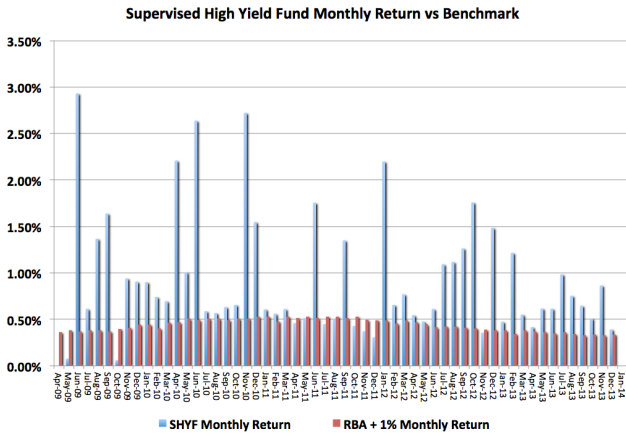
Looking forward to the calendar year ahead I expect to deliver returns to unit holders in the range of 8 to 9% after fees and charges. This level of return, although lower than our long term average annualized return of 11.40% needs to be assessed in the context of prevailing lower base interest rates. Base interest rates have fallen by 2.5% over the past few years and this naturally affects our returns. As manager of the Supervised High Yield Fund I will remain committed to our Investment Philosophy of investing only in those assets that can pass our rigorous stress test regimen and produce or exceed expected returns while preserving capital.

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.

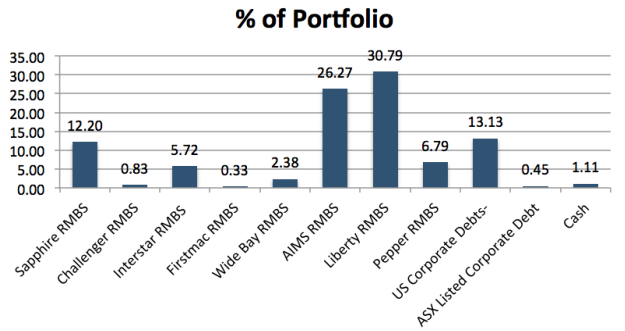
MONTHLY RETURNS VS BENCHMARK



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	Value (\$)	% of Portfolio
Cash	244,280.00	1.11
ASX Listed Corporate Bonds	100,100.00	0.45
AIMS RMBS	5,800,000.00	26.27
Challenger RMBS	182,230.18	0.83
Firstmac RMBS	71,838.73	0.33
Interstar RMBS	1,263,580.23	5.72
Liberty RMBS	6,800,000.00	30.79
Pepper RMBS	1,500,000.00	6.79
Wide Bay RMBS	526,064.47	2.38
Sapphire RMBS	2,693,714.84	12.20
US Corporate Debts-Denali	2,900,000.00	13.13
Total Value	22,081,708.45	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: AUD12.5439 per unit	December 2013	Past 3 months	Past 6 months	Past 1 year	Past 3 years	Past 4 years	Since commencement
SHYF (%) increase in unit value	0.39	1.78	4.22	8.34	32.49	53.59	66.95
RBA + 1.5 (5) benchmark	0.34	1.01	2.06	4.32	9.83	23.91	28.31
SHYF return relative to benchmark (%)	0.05	0.77	2.16	4.02	22.66	29.68	38.64
Standard Deviation (%)	-	-	-	-	-	-	2.25
Sharpe Index	1.39-	-	-	-	-	-	3.95
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.



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

TRUSTEE

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