THE SUPERVISED FUND

Quarterly Report
March 2015

Key Facts	APIR SIA0002AU
Fund Commencement	1st December 2007
Legal Structure	Wholesale Managed Investment Trust
Investment horizon	Recommended 3 – 5 years plus.
Benchmark	RBA Cash Rate + 1.00%
Base currency	Australian Dollar
Distribution Policy	Annual; interest & realised capital gain receipts
Dealing Day for Fund Redemptions	First 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 an annual high water mark
Minimum Investment	AUD 25,000.00
Additional Investment	AUD 25,000.00

Fund Objective

The objective of The Supervised Fund (TSF) is to deliver competitive returns from global equities whilst avoiding the risk of losing capital.

Investment Management

The investment team for of Mr. David Constable AM and Mitch Taylor. Mr. Constable was a member of the ASX from 1961 until 1998 and during that time was Chief Executive and Senior Partner of two different stockbroking firms. He has considerable experience in the Financial Planning industry as Chairman of Directors of a large Australian firm and a Director of Towry Law PLC. Mr Taylor has previous experience at a tier one New York based credit hedge fund, he has been employed by Supervised Investments since 2010. Mr. Constable founded Supervised Investments Limited in 1999 while he was a resident of the UK living in London. This USD vehicle subsequently merged with TSF in 2009.

Investment Policy

The management process is founded on the philosophy of "conservative opportunism". The portfolio is typically comprised of long positions in a range of global equities, investments in managed funds, currencies and occasionally commodities and bonds. The fund focuses on small cap equities however will invest in larger capitalised equities from time to time.

Performance at 31 March 2015

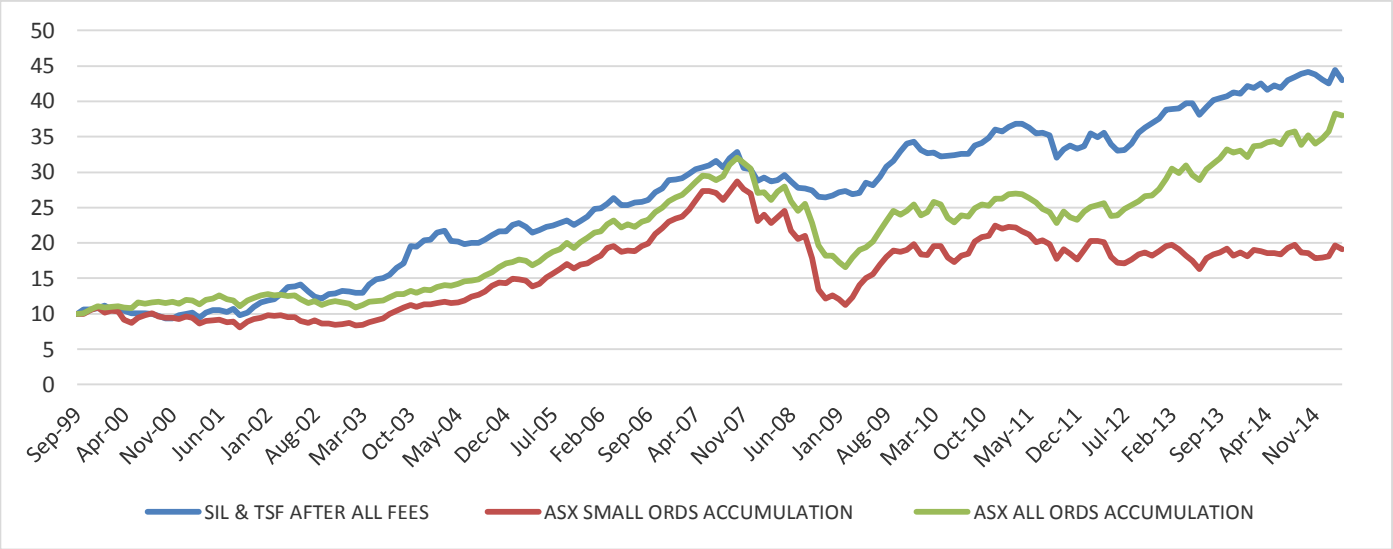
	3 months	6 months	1 year	2 years p.a	3 years p.a	4 years p.a	Inception* p.a
TSF (After Perf. Fees) %	-0.20	3.31	6.86	4.97	7.08	4.21	9.80
ASX Small Ords Accumulation %	6.39	2.25	1.44	-0.02	-1.99	-3.74	4.24
ASX All Ords Accumulation %	9.34	12.16	12.36	12.77	14.42	9.05	8.94

Financial Year	2014	2013	2012	2011	2010	2009	2H 2008
TSF (After Perf. Fees) %	9.95	15.30	-6.81	9.43	15.10	-1.73	-5.81
ASX Small Ords Accumulation %	13.11	-5.32	-14.61	16.41	16.98	-28.58	-19.21
ASX All Ords Accumulation %	17.64	20.67	-7.04	12.17	13.78	-22.15	-15.22

*Includes net returns from previous USD denominated Supervised Investments Limited which commenced in September 1999 and merged with TSF in 2009.

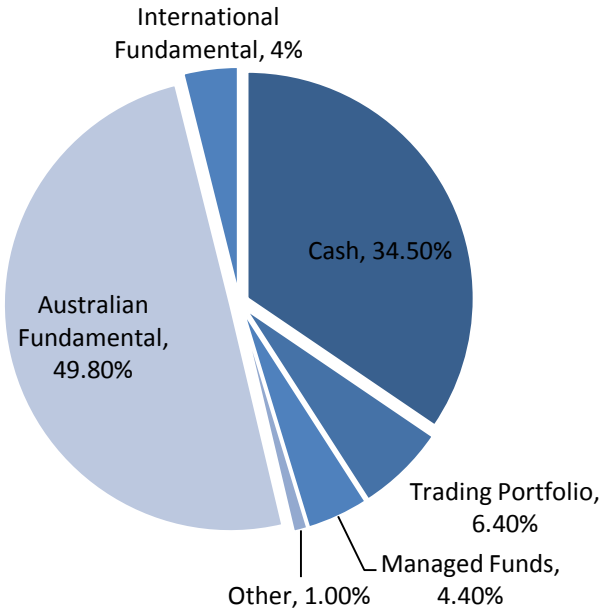
Past performance is no guarantee of future performance and no guarantee of future performance is implied

Returns Analysis*



*Includes net returns from previous USD denominated Supervised Investments Limited

Portfolio Analysis - Current



Large Holdings	Main Business	Country	% Assets
Kangaroo Island Plantation Timbers Ltd	Forestry/Land	Australia	10.9
Australian Vintage Limited	Wine	Australia	8.7
HGL Limited	Import and distribution	Australia	6.9
Momentum Trading (held over 26 positions)		International	6.4
Slater and Gordon Limited	Legal Practice	Australia	6.4
Gale Pacific Limited	Building Materials	Australia	4.6
Samuel Terry Absolute Return Fund	Managed Fund	Australia	4.4
Sirtex Medical Limited	Biotechnology	Australia	4.1
Co Operative Bank Equity	Retail Banking	United Kingdom	2.7
Net Assets			$11,351,410

Commentary

The fund did not perform satisfactorily during the third quarter of the financial year, this was largely due to our high cash holding and the underperformance of one of our largest holdings, Sirtex Medical. On the 17th of March Sirtex fell by as much as 60% (before rebounding) on the back of worse than expected initial clinical trial data. Although we reduced our exposure to Sirtex by approximately 60% in the days leading up to this negative news, the event still cost 2.8% of unit holder capital. We have dedicated this quarters report to detailing our investment thesis for this holding.

Sirtex is an Australian medical company which researches, develops and commercialises medical products for the treatment of cancer with a present focus on liver cancer. At present Sirtex's sole product - SIR Spheres - is approved for use as a third line treatment of metastatic colorectal cancer (mCRC) and Primary liver cancer. Third line or salvage status means the treatment is only approved to be used as a last resort, after other treatment options have failed. Sirtex has invested significantly in clinical trials aimed at elevating SIR Spheres from a third line to first line approved treatment. At present the company is selling just under 11,000 doses per annum generating EPS of approximately 65c. We estimate there are approximately 100,000 patients per annum for SIR-Spheres as a third line treatment in US, EU and other developed markets. This number is conservative as it does not account for the potential for SIR- Spheres as a third line treatment in Kidneys and other organs. Assuming 1.25 doses per patient we get 125,000 potential doses, and assuming a 20% penetration we have a realistic market opportunity of at least 25,000 doses. The first line market is roughly 8x this size. Under a third line only scenario we believe the company would reduce overheads and could generate more than $2 per share of sustainable earnings in five years hence assuming all First Line trials fail. With this in mind, we believe the salvage value of Sirtex is somewhere between $15 and $20 per share.

On the 17th of March the first of Sirtex's Phase III clinical studies (The SIRFLOX trial) aimed at elevating SIR-Spheres to a first line treatment option for mCRC failed to meet its primary endpoint but successfully met the major secondary endpoint. The market seems to be attributing a significantly lower probability that SIR Spheres will be adopted as a first line treatment than is truly the case. We also think the market is undervaluing the salvage opportunity and is only attributing circa $10 per share to such. The stock is currently trading near $23 which means the option over 1st Line treatment is currently costing ~$5 per share.

If SIR Spheres get approved and adopted for first Line treatment in either Primary Liver or mCRC Liver we believe the present value of the shares would be between $45 and $80. The variance depends on the extent of adoption, whether SIR Spheres are used for both Primary and mCRC, the extent of outperformance of other treatments and competitors, and the outlook for new drugs diminishing the market opportunity. A $52 valuation (please ask us to detail this valuation if you are interested) means we are currently paying $5 for $30 of upside (17%). In reality we think there is a significantly better than 50/50 chance and accordingly believe people should be paying at least $15 for the upside – ie we think the fair value is above $32.

Onto the trial; the 'results' that were released to the market (ie a failure to meet primary but success in meeting major secondary endpoint) do not necessarily imply the trial was a failure and ensure SIR Spheres will not be adopted as a 1st Line treatment in mCRC. The US FDA do not like releasing results of trials until oncology peers have reviewed the raw data. Stock market participants obviously like getting an understanding for the outcome of trials and have over time negotiated a deal with the FDA where we are informed whether the trial was successful on a purely quantitative basis prior to this peer review. This is usually advantageous as often the primary outcome is overall survival or whatever variable the oncology community will be assessing during this peer review. For the SIRFLOX trial, the initial release has raised more questions than it has answered.

In deciding whether a drug or device is worth adopting, the oncologists assess the extent to which it improves the life of the patient – with liver cancer this generally means they look for whether people live longer after having the new treatment over the existing standard of care. In other words they look at the overall survival statistics. The primary endpoint of the SIRFLOX study was Progression Free Survival (PFS). SIRFLOX was testing whether SIR Spheres are appropriate for adoption of first line treatment of mCRC (secondary liver cancer). PFS looks at how long it takes for a patient's cancer to advance to the next stage of severity and is usually measured via x-rays and other standardised methods. This endpoint was presumably adopted for time efficiency; by using PFS you don't have to wait for the patients to die before you get the ability to present data to the oncology community. PFS is generally accepted to be a good proxy for overall survival based on

previous trials, so the FDA allow this as a primary endpoint in Phase III trials – hence the pessimism in the market with respect to the outlook for the trial.

When SIRFLOX was initially designed, the primary endpoint was progression free survival with respect to metastases (mets) in the liver only. Recall – mCRC here is cancer that starts into the bowel and subsequently moves in the liver. Liver cancer is one off the most terrible cancers – 90% of deaths for mCRC stem from the cancer formed in the liver rather than the original bowel or subsequent lung or other regions. Sometime during the patient recruitment phase of the trial the FDA asked for the primary endpoint to be changed to progression free survival of all cancer. Many mCRC patients have cancer both in the liver as well as elsewhere and cancer from the liver or bowel often spreads to the lymph nodes and or lungs if not treated effectively. We recently discovered (from a credible source in the public domain) that 40% of the patients in the trial had cancers not only in the liver but somewhere else as well when they received the SIR Spheres treatment.

With this in mind, the failure to meet the primary endpoint may not be that surprising (if we knew what we now know prior to 17 March) – cancers in other areas could be expected to grow as SIR Spheres only treats the liver met. A bear view would however be that even for patients who just had liver mets while the liver met itself stopped progressing, the treatment failed to stop the spread to other regions and thus stop the growth of cancer. In any event, the fact that 90% of mCRC deaths stem from liver failure seems to imply that even if cancer did spread from the liver to other organs (in the 60% cohort with only liver mets) we can expect the overall survival of those who had the treatment to outperform that of the control.

The short answer to the trial is still unknown – we will have a better idea after the clinical review in early June and when we see the level of statistical significance by which the secondary endpoint succeeded. While the outlook is probably not as good as we or the company were expecting – we are worried by the fact that PFS has largely been shown to be a good proxy for overall survival no matter what excuses we, the company and the major shareholder seem to find – we still think there is a real chance the oncology community will adopt SIR Spheres for a first line treatment or at least postpone the decision to adopted until further overall survival data and/or other mCRC trial data is made available.

What must be remembered is that SIRFLOX is just the first of several phase III clinical trials for SIR- Spheres and furthermore SIRFLOX is only looking at mCRC. We understand the chance of cancer spreading to other organs is higher for mCRC than for primary liver cancer – accordingly we tend to think the meeting of the secondary endpoint bodes well for the outlook of the primary liver trials. mCRC and Primary liver cancer have approximately the same market opportunity in the developed world and Primary liver has a significantly better market opportunity in the undeveloped world. On top of this, SIR Spheres may be useful for treatment of other cancers and the company is beginning to investigate this via way of clinical trials. SIR Spheres are already used as a first line treatment by many (including two Australian oncologists whom we have spent considerable time interviewing) and the anecdotal evidence is such that the device works and will eventually be adopted as a first line treatment one way or another.

With all of this in mind, we are comfortable with our 4% exposure to Sirtex (which is sitting as a significant unrealised gain) and are optimistic about the future of the company.

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.supervisedinvestments.com. Please contact 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
Supervised Investments Australia Ltd.
Suite 431, 5 Lime Street
Sydney NSW 2000
T: +61 (2) 8459 0095
www.supervisedinvestments.com
ABN: 45 125 580 305
AFSL: 317 155

Directors
Mr David Constable AM (Chairman)
Mr David Young
Dr John Harvey AO
Mr Damien Cooper

Support

Auditor
Ernst & Young
680 George Street
Sydney NSW 2000
+61 (2) 9248 5555
www.ey.com/au

Fund Administrator
TMF FundServices Pty Ltd.
GPO Box A2224
Sydney South NSW 1235
+61 (2) 8988 5819
www.tmf-group.com

Custodian
JP Morgan
83 Castlereagh Street
Sydney NSW 2000
+61 (2) 9003 8888
www.jpmorgan.com.au

Legal Advisor
Henry Davis York
44 Martin Place
Sydney NSW 2000
+61 (2) 9947 6660
www.hdy.com.au