



Fund Manager's Risk and Performance Review

Over the past 12 months SHYF has produced a return of 10.32%.

This continues the impressive performance of the Fund. Over the past 4 and ½ years since we started the Fund the return has been 64.03% after fees.

Effectively, this means every \$10,000 placed with SHYF as of 1st of April 2009 was worth \$16,403.00 as of 30th September 2013.

All investments are stress tested against an historical worst-case scenario and only pursued if 100% of both capital and income are still shown to be assured of payment within the contractual periods of the loans. I draw your attention to the Sharpe Index for SHYF, which as at 30th September 2013 was 3.98. This Index is a standard assessment tool in the financial industry to relate reward to the risk involved; an Index of 1 or higher is deemed good, 2 very good, 3 and better is considered excellent.



PHILIP CARDEN
*Supervised High Yield Fund
Manager*

HIGHLIGHTS

- **Return of 2.40% during the 2013 September quarter**
- **Annual Growth in unit value of funds – 10.32%***
- **24% increase in Funds under management.**
- **Sharpe Index since inception of 3.98%***
- **54 months of continuous, positive returns**

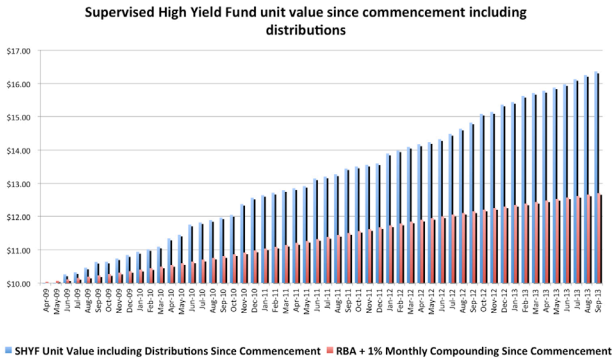
** all performance statistics quoted are net of fees and costs.*

SHYF remains substantially invested in Australian Residential Mortgage Backed Securities (RMBS), simply because these have to date been the best investments that we could find consistent with the indubitable security we seek. As other Funds buy into these investments using secondary market brokers, we are finding our relationships built with major Bank and Non Bank issuers of RMBS over the past five years, to be of considerable value to the fund. Our strong relationships enable us to source new issued stock, directly from the major issuers, supporting the on going investment philosophy of the SHYF by delivering a reliable supply of investments that survive our rigorous stress testing standards and deliver excellent returns.

In the coming year the big issue for debt markets in Australia and in the western economies globally will be Sovereign Debt. This is a complex issue particularly in the United States where markets have recently endured drawn out Government debt negotiations. The impasse between Republicans and Democrats on how to reduce the budget deficit has been extended yet again until February 2014. Whilst this continues the size of the US Government's funding program is growing and competing with demand for funds in the private sector, crowding out the flow of debt funds to private sector business.

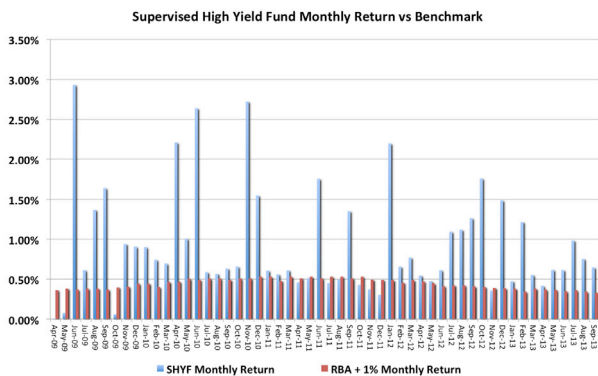
The competing demand for money between the private and public sectors, combined with the uncertainty of political impasse will provide continued pressure on risk-adjusted returns. Indeed, I expect the cost of credit to the private sector will remain at relatively high levels until sovereign debt problems are resolved. In this economic environment the supply of safe, high yielding private sector debt security investments will continue. With these economic forces at work I expect the SHYF to deliver returns over the year ahead at 6.00% over the RBA cash rate, delivering for unit holders an annual return in the order of 8.5%

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

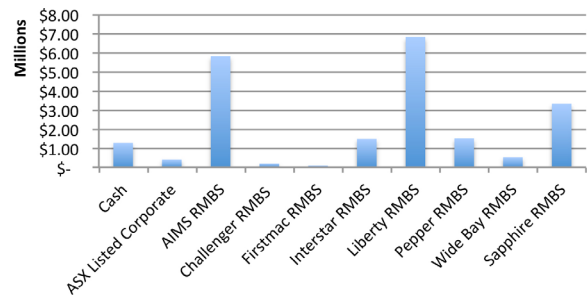


This chart illustrates the monthly performance of the SHYF since its commencement date of 31st March 2009, compared with the monthly performance of the SHYF's Benchmark, the Reserve Bank of Australia Cash Rate plus 1.00%. All distributions have been reinvested in new units in the SHYF at the prices available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

SHYF PORTFOLIO

Security Description	Value (\$)	% of Portfolio
Cash	1,276,367.00	6.0
ASX Listed Corporate Bonds	405,250.00	2.0
AIMS RMBS	5,800,000.00	27.0
Challenger RMBS	200,798.84	1.0
Firstmac RMBS	77,835.63	0.0
Interstar RMBS	1,478,780.91	7.0
Liberty RMBS	6,800,000.00	32.0
Pepper RMBS	1,500,000.00	7.0
Wide Bay RMBS	526,064.47	2.0
Sapphire RMBS	3,311,467.81	15.0
Total Value	21,376,564.65	100.0

% of Portfolio



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: AUD12.4364 per unit	September 2013	Past 3 months	Past 6 months	Past 1 year	Past 3 years	Past 4 years	Since commencement
SHYF (%) increase in unit value	0.65	2.40	4.10	10.32	36.68	53.80	64.03
RBA + 1.5 (5) benchmark	0.33	1.04	2.14	4.50	15.87	24.21	27.03
SHYF return relative to benchmark (%)	0.32	1.36	1.96	5.82	20.81	29.59	37.00
Standard Deviation (%)	-	-	-	-	-	-	2.39
Sharpe Index	-	-	-	-	-	-	3.98
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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