



## Fund Manager's Risk and Performance Review

Our Supervised High Yield Fund (SHYF) operates within the constraints of the global economy and the Fund's investment mandate. The Fund's return to investors relies on the prevailing market yields for those securities we are mandated to invest in. Yields on the mandated securities continue to fall.

Growth forecasts in the Euro Sector have been revised down as have growth forecasts in China, USA, Japan and Australia.

We are living in the age of currency wars. Every country wants to improve its prospects for growth by employing policy that devalues its currency. The Reserve Bank of Australia is operating for a lower currency, yet the Australian ten year bond yields higher than our peers and certainly we are the highest yielding AAA rated currency in the world. With a cash rate of 2.5% we also have the highest short term interest rates amongst our peers and in most cases by a factor of five to ten times higher! On a relative and absolute basis that is a huge incentive to buy Australian Dollars.

The US Fed, the European Central Bank, the Peoples Bank of China and their equivalents in other nations are all operating for a lower currency. This is a result of the low growth global economy, a world currency war with every major nation all in.

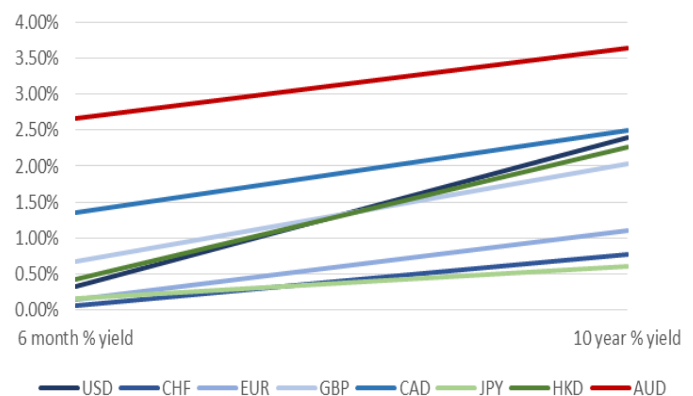
The fact is if you're fighting a currency war, the last thing you want to take on to the battle field is high interest rates; it's like turning up to a gun fight with a switchblade!

This chart illustrates just how relatively high our Australian interest rates remain.

### HIGHLIGHTS

- **More than five years of continuous positive monthly returns**
- **10.69% annualised return since inception means every \$10,000 invested in April 2009 is now worth \$17,483.**
- **Sharpe ratio since inception 3.79**
- **Last twelve month return 6.6%**
- **Stringent risk management, capital preservation is prioritised.**

AUD Yields vs Major Competing Currency Yields  
Interbank SWAP rate basis, source Bloomberg.



One can see from this data that Interest rates in Australia may not go up for a considerable period in fact the next move in official rates may be down.

In the US official rates are expected to start rising next year from 0.3% for the six month rate to maybe 1%. At this stage Australia will be two and a half times higher at 2.6%. Global investors are changing their expectations on the level of safe investment returns, by bidding up prices and pushing down yields.

For this reason the price of investing at low risk is increasing as the credit premium and interest rates decrease. We can expect this trend to continue over the next year, particularly for credit risk premiums on investments like well secured corporate debt, mortgage backed bonds and other asset backed securities.

However, in the sovereign debt markets such as the market for Italian or Greek debt, risk is ever increasing and it appears there will be no resolution other than a default in one form or another. The same applies to a lesser extent in the US where the fiscal imbalance remains historically high and the supply of Treasury debt is ever increasing.

In this world currency war, it appears corporate, mortgage and asset backed investments will be a safer choice than investing in Government debt. Government debt prices are manipulated in the interests of the Governments who pay the price on their debt, whereas corporate, mortgage and lease borrowers do not have the power of a Government borrower. The risk return is far more attractive in the non-Government sector. This dichotomy has never been more pronounced than at the current time.

That's why the Supervised High Yield Fund can continue to safely produce returns of seven and eight percent, whilst bankrupt governments like Italy and Greece still pay only two or seven percent for their money.

Phillip Carden

Supervised High Yield Fund Manager

Supervised Investments Australia ACN 125 580 305 AFSL 317155 (**SIAL**) is the investment manager of the Supervised High Yield Fund (ARSN 600 244 102) (**SHYF** or **Fund**).

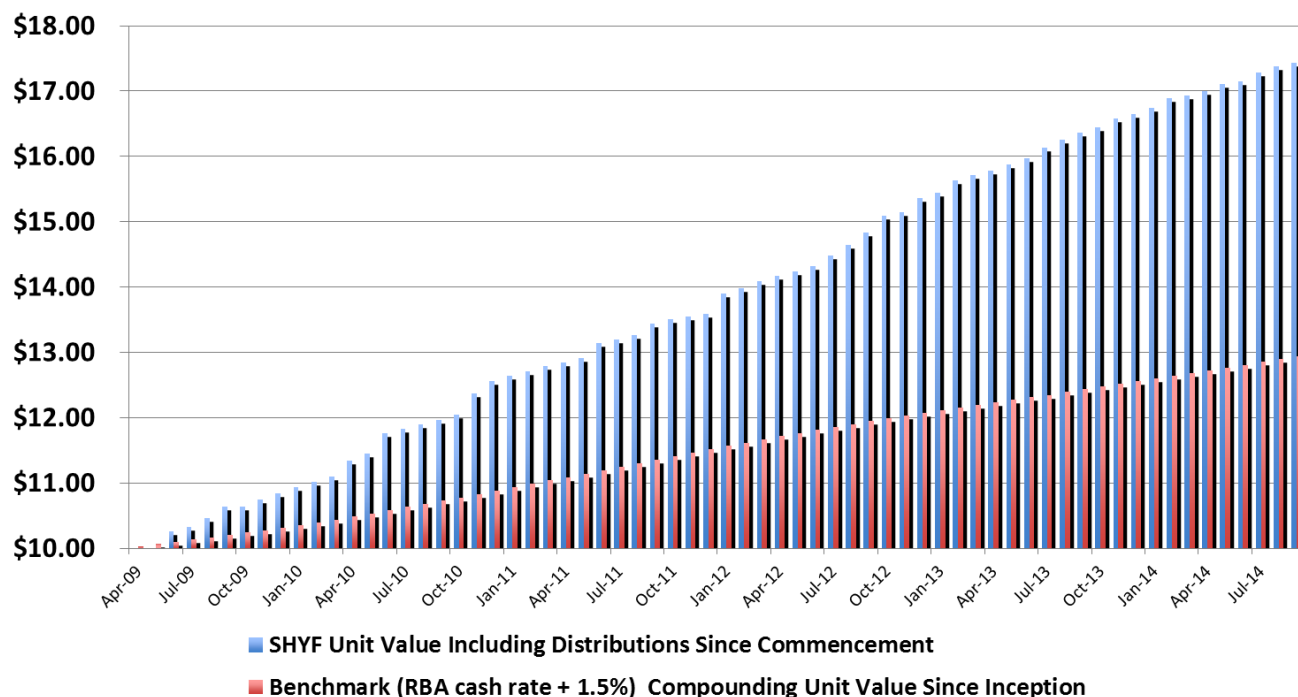
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## RETURNS ANALYSIS

Supervised High Yield Fund Unit Value Since Commencement  
Including Distributions

## HOLDINGS ANALYSIS AS AT 30 SEPTEMBER 2014

Security Description	Market Value AUD	Asset Category	% of Portfolio
SAPP 2007-1 MA	\$ 319,980.31	AUD RMBS	1.50%
CHMT 2007-2L A	\$ 145,178.09	AUD RMBS	0.68%
FMACB 2005-3 AB	\$ 59,516.83	AUD RMBS	0.28%
IMT 2005-2L AB	\$ 269,693.14	AUD RMBS	1.26%
WBT 2006-1 C	\$ 518,531.23	AUD RMBS	2.43%
AIMS 2005-1 B	\$ 947,111.00	AUD RMBS	4.44%
AIMS 2004-1 B	\$ 2,785,350.00	AUD RMBS	13.05%
AIMS 2007-1 B	\$ 1,389,760.00	AUD RMBS	6.51%
PGI AU	\$ 100,000.00	AUD loan	0.47%
IMT 2005-2L B	\$ 730,975.31	AUD RMBS	3.42%
LBRTY 2013-1SME F	\$ 1,500,000.00	AUD RMBS	7.03%
SAPP 2013-1 E	\$ 612,897.50	AUD RMBS	2.87%
SAPP 2013-1 F	\$ 1,006,210.00	AUD RMBS	4.71%
DENC7 2007-1A B2L	\$ 3,225,400.48	USD CLO	15.11%
SJRVR 2007-1A E	\$ 869,226.49	USD CLO	4.07%
VENTR 2007-8A E	\$ 2,867,100.00	USD CLO	13.43%
Blue Moutian 2013 CLO E	\$ 901,100.00	USD CLO	4.22%
Cash and deposits	\$ 3,097,204.11	Cash and Deposits	14.51%
<b>Totals</b>	<b>\$ 22,454,175.75</b>		<b>100.00%</b>

## KEY FACTS

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Fund Commencement	1st April 2009
Legal Structure	Unit Trust. ARSN: 600244 102
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	Currently Nil
Exit Fee	Currently 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

## 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.

## PERFORMANCE SUMMARY

NAV: AUD 12.3714 per unit	Sept 2014	Past 3 months	Past 6 months	Past 1 year	Past 3 years	Past 5 years	Since commencement
SHYF (%) net of fees <sup>1</sup>	0.31	1.63	3.00	6.60	29.68	63.94	74.84
RBA + 1.5 (%) benchmark	0.33	1.00	2.00	4.07	13.90	26.82	29.37
SHYF return relative to benchmark (%)	-0.02	0.63	1.00	2.53	15.78	37.12	45.47
Standard Deviation (%)							2.16
Sharpe Ratio							3.80

Financial Year Results	2014	2013	2012	2011	2010
SHYF (%) net of fees	7.40	11.52	9.00	11.78	14.58
RBA + 1.5 (%) Benchmark	4.06	4.22	5.49	5.81	4.77

<sup>1</sup> The Responsible Entity and the Investment Manager provide no guarantee or assurance as to the future performance of SHYF. Prospective investors are recommended to obtain and read a copy of the PDS before deciding whether to invest in SHYF.



## SUPERVISED INVESTMENTS AUSTRALIA

### HOW TO APPLY

There will be a PDS issued shortly. Once issued it will be available on both the website for the Responsible Entity and the Investment Manager. 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.

#### RESPONSIBLE ENTITY

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