

## Continuing strong performance: 8.5% growth for the quarter

### MESSAGE FROM THE CHAIRMAN



Supervised Investments Limited (SIL), an overseas investment fund, commenced operations in September 1999. Whilst living in London, I managed this fund and on my return to Australia, I started The Supervised Fund (TSF). SIL has now merged into TSF.

The third year of operation of TSF has now begun and it's over a decade since the combined fund commenced. The past quarter celebrates another excellent result for TSF with a gain of 8.5%. TSF had an exceptional first half of this financial year, up almost 20%. A wide range of equity investments chosen through our proprietary *Supervised System*, showed strong returns as global equity markets improved. The return over the second quarter of 2009/2010 was 8.5%. The last quarter also showed strong growth in funds under management, no doubt due to the performance of TSF and increased investor confidence. TSF now has almost \$24 million under management.

Over the past decade SIL achieved an average 11.2% annual return and since the commencement of operations in Australia TSF has outperformed the ASX200 by 37.8% and the MSCI World (adjusted to AUD) by 39.7%.

One reason for the recent excellent performance of TSF was my belief that the Australian dollar would strengthen, and continue to do so. As a result, TSF has been overweight in Australian equities and the currency. My view has been borne out in the first half of 2009/2010 as the AUD rose from USD = AUD0.8114 on 30 June 2009 to USD = AUD0.8969 on 31 December 2009. As a result, the quarterly performance of TSF was greatly protected from the effects of the strong upward move of the AUD.

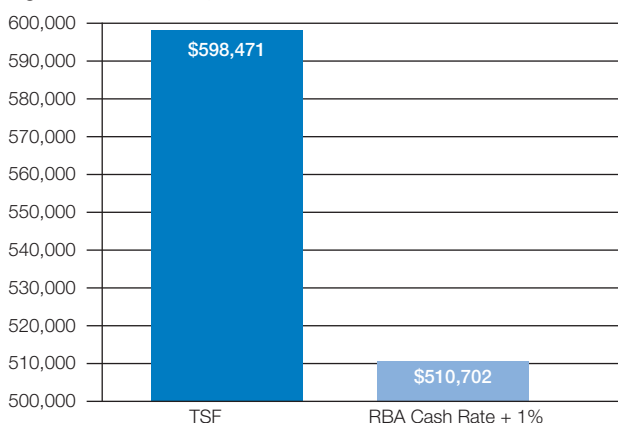
In the 2008/2009 Annual Report I commented that an investment in TSF would make good sense as daily headlines were painting an improving picture of the global financial markets. Investors who took this advice and joined TSF at the beginning of this financial year would have seen an investment of \$500,000 grow to \$598,471 at the end of 2009.

TSF's fee structure (a low management charge and an absolute performance based investment advisor incentive) together with the fact that all the directors of TSF are significant investors in the fund, ensures that the interests of all stakeholders are aligned. After such a strong rise in the second half of 2009 investors should not be surprised to see some correction occurring during the first quarter of 2010. If a correction occurs this will be a signal to existing investors that the market is forming a new base for future growth, which most market observers are forecasting for 2010. For new investors prepared to take an appropriate longer term view, say three to five years and a positive view of the future, a correction during early 2010 may well signal a very favourable time to consider investing in TSF.

*David Constable*

**David Constable**  
Chairman  
Supervised Investments Australia Limited

**Figure 1: Value of \$500,000 invested over first half 2009/10**



## DAVID COMMENTS ON THE PORTFOLIO

In the 2008/2009 Annual Report and again in the First Quarter Report for 2009/2010, I highlighted Sirtex Medical, a stock which by the end of this past quarter had grown to be the largest equity holding in TSF. On 30 June 2009, this stock was \$3.35 which represented a respectable gain of 11.7% over the 2008/2009 year. I indicated that I was continuing to hold Sirtex as I was very confident this stock would perform well. By 30 September 2009, Sirtex had risen to \$4.84, representing a spectacular gain of 44.5% and by the end of 2009 has risen to \$7.55, a further rise of 56% over the last quarter, more than justifying my confidence in the stock. Because of the stock's stellar rise over the past 18 months, in December I formed the view that Sirtex was now fully valued and due for a period of correction and consolidation. As a result, I reduced the holding of Sirtex in our portfolio although I believe Sirtex has the potential to continue to show solid gains in the longer term.

Another holding in the portfolio I highlighted in the last report was Dominos Pizza. This stock is a major player in the fast food sector. As at 30th June 2009 Dominos was \$3.19, at 30 September 2009 it was \$4.00 and at the end of 2009 \$5.40, representing an increase of 69% over the past six months. Dominos Pizza may now enter a period of consolidation because of the recent rapid rise but I plan to continue to hold the stock in the portfolio.

Over the past six months I have been accumulating Hunter Hall Investment Management, an ASX listed equity, which is Australia's largest dedicated ethical investment manager. Hunter Hall reached \$18 prior to the global financial crisis and then fell to below \$4 at which level analysis undertaken through the *Supervised System* indicated that the stock represented excellent value. As at 31/12/2009 Hunter Hall was \$6.80 and barring a severe global equity market reversal I expect will perform well in the future.

As indicated in the last two reports, TSF was very confident about gold and TSF was overweight in this sector during the last quarter. My confidence was rewarded with a number of gold stocks in the portfolio including Norton Gold Fields, up 16%, Lihir, up 17%, and Medusa, up 14%, showing excellent returns. In the last report I indicated that I was expecting good returns from the energy sector. Catch the Wind, a Canadian stock in our portfolio, rose from \$1.675 to \$2.16 over the quarter, an increase of 29%. One of the energy stocks I highlighted in the last report was PO Valley Energy, a company with large gas reserves in northern Italy and one commercial well only several kilometres from Milan. PO Valley Energy rose from \$1.435 to \$1.68 over the first half of the 2009/2010 year, an increase of 17%, which has been a promising start to what I believe will be an excellent long-term contribution to the TSF portfolio.

## KEY FACTS

Figure 2:

	31 December 2009	Inception		
Unit price	\$11.23	\$10.00		
<b>Performance – Second quarter 2009/2010</b>				
TSF	+8.5%	ASX 200	+2.7%	
ALL ORD	+3%	MSCIW*	+3.7%	
<b>Performance – since inception</b>				
TSF	+12.3%	ASX 200	-25.5%	
ALL ORD	-26%	MSCIW*	-27.4%	

Figure 4: TSF Top Country Stocks

Europe	Fromageries
USA	Barrick Gold Corp
Canada	Catch the Wind
UK	BP PLC
Australia	Dominos Pizza
	Po Valley Energy
	Sirtex Medical

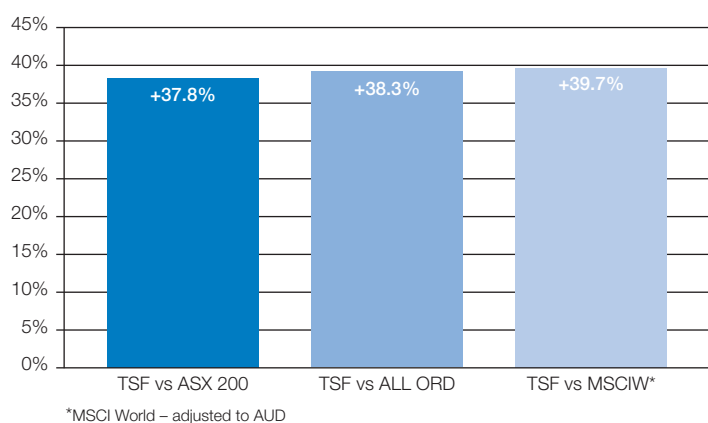
## HOW TO APPLY

Applications can be made by completing the Subscription Form contained in the Information Memorandum and posting or faxing it to the Fund Administrator, Kingsway Taitz Fund Administration Pty Limited. Units will be issued on the first day of each month. The Information Memorandum can be downloaded from the website, [www.supervisedfund.com.au](http://www.supervisedfund.com.au). Please contact any of the Directors for further information.

Figure 3:

### TSF outperformance since inception

TSF vs ASX 200	+37.8%
TSF vs MSCIW*	+39.7%



## DIRECTORY

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