AFM Fund Review
Supervised Global Income Fund

16-Apr +0.48 %
Latest 12 Months +4.40 %

Key Points:

- Supervised Investments Australia is a boutique Sydney based fund manager established in 2007 managing the Supervised Fund (Global Long/Short Equities) & the Supervised Global Income Fund (SGIF) with total FUM of A$32m.
- The SGIF Investment strategy aims to deliver returns with zero correlation to equity markets by investing in debt securities with minimal default probability. The Fund aims to record returns above the risk free rate.
- The Manager targets a risk level as opposed to annual returns while focusing on capital protection and providing quarterly distributions.
- The Fund has out-performed the RBA Cash Rate Index since inception, with over 97% of positive monthly performances.

Management Company Overview:

Supervised Investments was established by David Constable AM, whose career in Financial Markets spans over 41 years, including as a member of the Australian Stock Exchange from 1961 to 1998, and as CEO and senior partner of two stockbroking firms. He moved to London in 1996 and in 1999, while in London he established Supervised Investments Ltd, a broadly based fund investing in global equities. On his return to Australia in 2005 he established Supervised Investments Australia Ltd (SIAL).

The other directors of SIAL are John Harvey and Damien Cooper. Harvey was previously a board member of IBM Super Life Australia. Cooper is the Managing Director of OYA Financial Decisions Pty Limited, a Sydney based financial advisory firm which purchased a holding in SIAL in 2012 and currently owns 10% of the management company.

In 2015, Ouafaa Karim, whose career in the Financial Services spans over 26 years, was appointed as Supervised's COO and CFO. Karim hold a Masters in Commercial Law and has previously held the position of CEO at Hunter Hall International (UK) and was Group Company Secretary and Head of Compliance and Risk Management of Hunter Hall International Limited.

In February 2009 SIAL established the Supervised Global Income Fund (previously Supervised High Yield Fund) to invest in debt and credit markets, and to provide investors with the opportunity of diversifying exposure away from volatile equity markets.

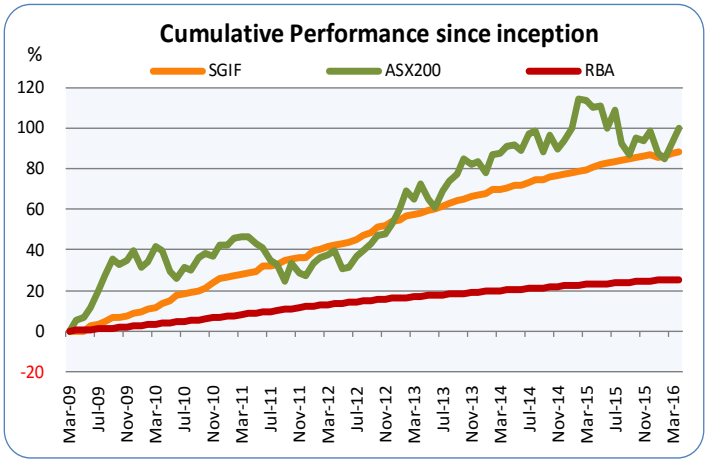
The Investment Manager

The Supervised Global Income Fund is managed by Philip Carden whose experience in debt and capital markets spans 33 years, during which time he has successfully traded wide range of bonds in international markets including corporate, asset backed, sovereign, derivative, and hybrid debt securities.

Carden was an Executive Director at Macquarie Bank and responsible for the formation and management of Macquarie Bank's Debt Markets Division in both Australia and London. The division was developed new and innovative derivative product

Key Performance Statistics	Supervised	Index*
Apr-16	0.48	0.14
Annualised Return	9.35	3.26
Latest 3 Months	1.45	0.48
Latest 6 Months	1.34	0.97
Latest 12 Months	4.40	1.98
Latest 24 Months p.a.	5.09	2.21
Latest 36 Months p.a.	5.97	2.33
Latest 60 Months p.a.	7.88	2.95
% Positive Months	97.65	100.00
Best Month	2.93	0.39
Worst Month	-0.51	0.14
Largest Drawdown	-0.51	0.00
Average +ve Return	0.77	0.27
Average -ve Return	-0.32	0.00
Annualised Standard Deviation	2.08	0.27
Downside Deviation (Since Inception)	0.31	0.00
Sharpe Ratio (Since Inception)	2.89	0.00
Sortino Ratio	18.57	0.00

*Index is RBA Cash Rate Index adjusted since Fund's Inception



Performance - Net of Fees (%)							Supervised Global Income Fund						
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2016	-0.51	0.20	0.77	0.48	-	-	-	-	-	-	-	-	0.93%
2015	0.23	0.38	0.45	0.52	1.04	0.21	0.47	0.36	0.36	0.54	0.04	0.37	5.08%
2014	0.60	0.87	0.21	0.44	0.61	0.28	0.78	0.54	0.31	0.41	0.54	0.58	6.35%
2013	0.47	1.22	0.55	0.42	0.62	0.61	0.98	0.75	0.65	0.51	0.87	0.39	8.33%
2012	2.20	0.66	0.77	0.55	0.48	0.61	1.09	1.12	1.27	1.76	0.36	1.48	13.04%
2011	0.61	0.56	0.61	0.46	0.51	1.75	0.45	0.50	1.35	0.43	0.37	0.31	8.19%
2010	0.90	0.74	0.70	2.21	1.01	2.64	0.59	0.57	0.63	0.66	2.72	1.55	15.92%
2009	-	-	-	-0.12	0.08	2.93	0.61	1.37	1.64	0.06	0.94	0.91	8.69%

Copyright Australian Fund Monitors Pty Ltd (AFM). AFM believes the information to be correct but does not guarantee its accuracy. The information has not been prepared taking into account the investment objectives or financial needs of any particular investor and recipients should assess if the information is appropriate for their own circumstances before making any decision. Past performance should not be relied on as an accurate indication of future performance.

across a wide range of fixed income securities. Carden has extensive experience in the non-bank mortgage origination and securitisation markets.

His previous career includes establishing Carden Treasury Corporate Pty Ltd, which among other roles was involved in the 1994 restructuring of Victorian State Government $7 billion debt portfolio, and in 1995 he was appointed as the investment manager of a $500 million AMP debt portfolio.

Carden has managed the Fund since its inception and owns 7.0% of SIAL in addition to being an investor in the Fund, providing a strong alignment of interests. Carden uses his expertise in debt securities to strive for steady returns amid volatile markets.

Investment Strategy

The Supervised Global Income Fund is an alternative income fund which invests in Global and Australian debt markets, with any foreign receivables hedged back into Australian dollars. The Fund can invest in a wide range of debt instruments such as government and corporate bonds, mortgage and asset-backed securities, Treasury & bank bills, commercial paper, interest-rate markets and debt/equity hybrid securities listed on the ASX.

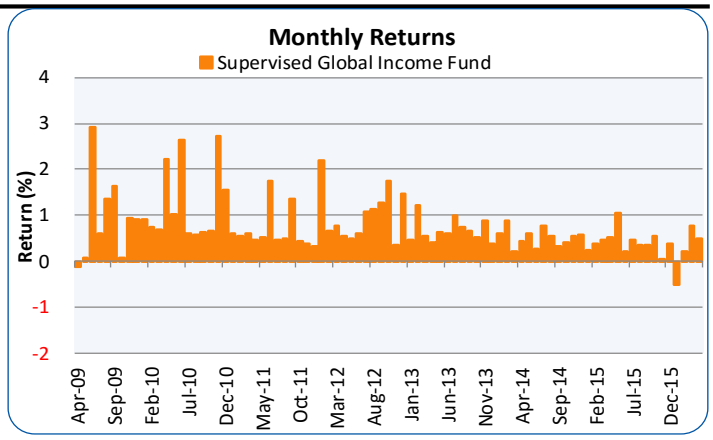
The Fund utilises a top down analysis of the economic environment and market to screen and identify debt market opportunities which it believes offer low risk with high yield.

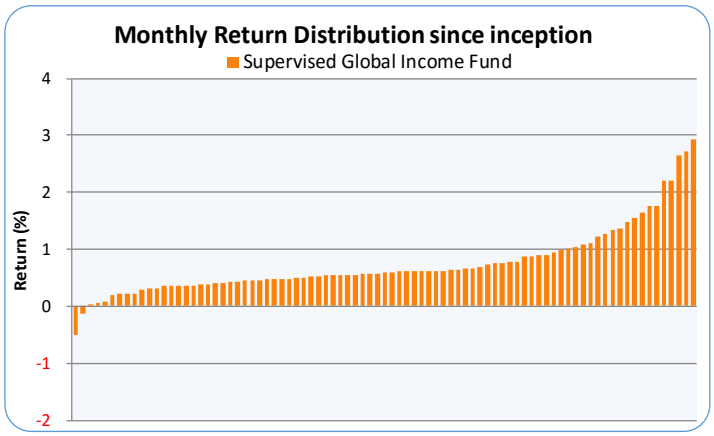
The investment strategy consists of a structured approach comprising a documented nine-step process which commences with a definition of current risk parameters, followed by research into the overall macroeconomic environment. A view is then formed on interest rates, credit outcomes and asset classes for the major economies, and in particular their likely impact on Australia.

The next stage is the development of a risk matrix and investment strategy, following which detailed research is undertaken on specific investment opportunities which meet the pre-defined criteria established in the investment strategy.

Prior to approving an investment for the Fund each potential investment is subject to two stress tests. The first of these is for credit and default risk, in which the investment is stress-tested to ensure that in a worst case economic environment it can repay 100% of its principal and interest obligations. The stress-testing takes these worst case outcomes from serious market dislocations in the asset class, including the 1929 Depression, and the GFC in 2008 amongst others, and this data is used to model individual investment outcomes. For example, in the case of Residential Backed Mortgage Securities (RMBS) this models a fall of 50% in housing prices as well as a 14% default rate for prime rated securities.

The second test examines market risk. In this case Carden looks at the worst case scenario for the asset by examining the highest margin over the risk rate that the investment has previously experienced in a crisis situation. Any decline in value under the stress test that exceeds 10% of the Fund's value is avoided. Only after the risk analysis is completed is the





Performance Review

- The Fund has delivered positive monthly returns at very low levels of volatility, with an annualised return of 9.35% and standard deviation of 2.08% since inception. However, the focus on protecting investors' capital and the nature of the asset class itself can lead to under-performance compared with equities in rising markets.
- In periods of increased volatility experienced during and since 2009, the Fund has experienced minimal drawdowns. The Fund's historical performance includes two negative months, -0.51% in January 2016 and -0.12% in April 2009, corresponding to 98% positive months' performance, since inception.
- The Fund has a very low correlation to the ASX 200 as indicated in Fund & Index - 10 Best & Worst Chart.
- Whilst past performance cannot be guaranteed to be repeated, the Fund's strategy & investment process, and Carden's experience have each contributed to the Fund's performance and risk record.

Copyright Australian Fund Monitors Pty Ltd (AFM). AFM believes the information to be correct but does not guarantee its accuracy. The information has not been prepared taking into account the investment objectives or financial needs of any particular investor and recipients should assess if the information is appropriate for their own circumstances before making any decision. Past performance should not be relied on as an accurate indication of future performance.

expected return of the investment calculated, and if acceptable a recommendation is submitted to the Board's Investment Committee. Written approval is required from the David Constable and at least one other member of the Investment Committee prior to implementation.

The complete portfolio is reviewed each month, with Carden producing a written report to the board identifying investments that may require further analysis prior to their potential sale.

Since inception in April 2009 the Fund has used this process to identify a variety of opportunities, to date largely in the RMBS securitisation market in Australia, an area in which Philip Carden has significant experience. These opportunities were created by the drying up of credit availability and liquidity in the RMBS markets following the GFC which allowed the manager to target and achieve returns of over 12% p.a. in some years post 2009.

The Manager expects that these situations will diminish as markets normalise, and is replacing RMBS with corporate debt opportunities, both domestically and overseas. These opportunities arise as listed companies with sound cash flow are required to roll over or replace debt facilities and will be issuing corporate paper at attractive yields.

The Manager will continue to survey investments in all major economic jurisdictions & debt sectors including asset backed and corporate debt, infrastructure, and sovereign debt. As such, provided new opportunities are able to satisfy the Manager's stress testing, they will be considered for investment in the Fund as Carden does not intend to adjust the Fund's risk tolerance to enhance yield, even in low yield environments.

Risk Management and Analysis

Concentration risk in assets such as RMBS or debt securities is calculated against the underlying secured asset base, with each investment limited to 10% of the overall portfolio.

The Fund does not employ stop losses as the Manager believes these might be triggered by liquidity events rather than the underlying value of the investments. Carden's view is that by focusing on the risk analysis during the research phase of the investment process, and the monthly re-evaluation of each asset, the need for stop loss limits is unnecessary.

A significant risk for investors in the Fund is the liquidity of the underlying assets. These can normally be liquidated in a reasonable time frame, but are not traded on-market. An investment in the Fund should therefore not be seen as a high yield alternative to a low yielding but highly liquid short term bank deposit without this understanding.

Operational, Business Risk and Compliance

As Supervised Investments utilises an experienced investment manager, and has experienced directors, the principal operational concern relates to Key Person Risk resulting from the incapacity or absence of Phil Carden. This risk relates more to the ongoing management of the portfolio than the ability of the Board to effect an orderly wind down in the event the Fund needs to be liquidated in his absence.

The Investment Committee reviews each investment decision, with David Constable and one other the Investment Committee member approving each investment. Stress testing levels and investment criteria for worst case scenarios are also subject to this approval process, following which the day-to-day portfolio and risk management is the responsibility of Phil Carden.

The Fund is considered more appropriate for individuals, SMSF's or Family Offices than institutional investors as the Fund's FUM and operational infrastructure, while adequate, is less developed than might be expected by larger institutional investors.

IT and Technical services are outsourced, and disaster recovery processes include storage in the cloud & remote access by the investment and operational management.

Terms & Conditions and Fees

The Fund charges an annual management fee of 1.0% with no performance fee, which is lower than other boutique management company of its type. The benchmark is Bloomberg Ausbond Bank Bill Index. Distributions are made quarterly. Redemption requests must be made before 2.00pm AEST on the 10th day of each month. Proceeds are expected to be available at the close of business on the last Business Day of that month.

The Investment Manager & Directors' investments currently account for 50% of the Funds under Management providing a strong alignment of interest between Directors, the Investment Manager & external investors. One Managed Investment Funds Limited is the Independent Responsible Entity.

Supervised Investments Australia Limited (ACN 125 580 305) holds Australian Financial Services License 317155 issued on 2nd October 2007. The Fund is now available to retail investors via the Macquarie Investment Management IDPS platform. Philip Carden is the Responsible Manager of the Licensee.

Supervised Global Income Fund	
Strategy	Fixed Income
Domicile	Australia
Investor Type	Wholesale and Retail
Min. Investment	A$10,000
Additional Investment	A$25,000
Management Fee	1.0% pa
Min. Term	1 month
Redemption	Monthly
Inception Date	Apr-09
Fund Size	A$19m
Manager's Total FUM	A$32m
Distributions:	Quarterly

Service Providers

Custodian: JPMorgan Australia Limited
Administrator: TMF Group
Auditors: Ernst & Young
Legal Henry Davis York

This Report is valid till June 2016

Copyright Australian Fund Monitors Pty Ltd (AFM). AFM believes the information to be correct but does not guarantee its accuracy. The information has not been prepared taking into account the investment objectives or financial needs of any particular investor and recipients should assess if the information is appropriate for their own circumstances before making any decision. Past performance should not be relied on as an accurate indication of future performance.

About Australian Fund Monitors

Australian Fund Monitors (AFM) is a specialist research and information provider focusing on the Absolute Return and Hedge Fund Sector. Established in 2006, AFM holds AFS licence 324476 to provide general advice to wholesale investors only.

AFM Information and Research Services

AFM's Information Services provide comparative performance and factual fund data along with industry information available on www.fundmonitors.com and www.prismselect.com.

AFM Research Services include AFM Fund Reviews which provide quantitative performance information along with descriptions of various aspects of each specific fund and the fund's manager. AFM Fund Reviews do not contain financial advice but are designed to provide self-directed investors and their advisers with an accurate, balanced and verifiable description of the fund's strategy and the manager's approach to enable the reader to make an informed decision on the suitability of the product for their particular purposes.

AFM FACTORS Research

AFM FACTORS Reports consist of in depth and detailed due diligence reports on specific funds and are designed for use by the research departments of dealer groups, financial advisers, and platforms. FACTORS research provide a quantitative approach to a range of operational and due diligence factors which combined with a detailed qualitative description provides the basis for inclusion of a particular fund on the approved product lists. AFM FACTORS reports are updated quarterly.

AFM Research Methodology

AFM's research product and methodology has specific benefits and features which differentiates AFM Fund Reviews from other research products.

AFM Fund Reviews do not provide ratings or recommendations:
We believe that blanket ratings and recommendations can be misleading, and are not able to take into account the financial circumstances or objectives of individual investors.

AFM Fund Reviews are clearly and concisely written:
This enables investors or their advisors to understand the objective and processes behind each fund's strategy, and structure and operations of the management company. When used in conjunction with the quantitative comparison of the fund's key performance and risk indicators (KPI's) included in each Fund Review, the reader is in a better position to make an informed decision regarding the suitability of the fund for individual investor's requirements.

AFM Fund Reviews are updated every month:
Out of date research is potentially inaccurate research. Not only can a fund's performance and risk profile change over the course of the year (typically the cycle for much of the managed fund research available) but so can operational details and investment personnel. Each AFM Fund Review contains an expiry date, and each fund manager is not permitted to distribute out of date reviews.

AFM specialises in the absolute return, hedge and actively managed fund sector:
We believe that this is a specialised area of the managed fund market, and as such requires a specific focus and expertise. The seniority and experience of AFM's research team and our focus explains why we label our product as: **"Trusted, Targeted Research"**

Disclaimer & Copyright

The information in this report, including financial returns, strategies, and other content (collectively referred to as "Content") has been prepared and issued by **Australian Fund Monitors** Pty Limited (A.C.N. 122 226 724, AFSL 324476) otherwise referred to as AFM. The information and content herein does not constitute financial advice and is for general information purposes only. Users of this report or any Content of AFM's websites (the "Websites") should not act or make any financial decision without first seeking professional advice. Whilst the Content has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by **AFM** for any errors or omissions or misstatements contained herein. Any opinions, forecasts or recommendations reflect information and assumptions at the date of publication and may change without notice. In preparing the Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

Disclosure of Interest

AFM has or may have, received fees either directly from a company itself or by a third party to provide consultancy services or corporate research. AFM has or may have interests in, or received fees either directly from a company itself or by a third party to provide consultancy services or corporate research. Australian Fund Monitors Pty Limited, its directors, employees or related parties (collectively "AFM") may have investments in, or commercial relationships with, companies or entities which are mentioned in this Report, and which might give rise to a potential conflict of interest.

Copyright Protection

All Content herein is owned by **Australian Fund Monitors** Pty Limited (A.C.N. 122 226 724) and is protected by copyright. You must not copy, frame, modify, transmit or distribute the content in full or in part, without seeking the prior written consent of the copyright owner. Users are prohibited from copying, distributing, transmitting, displaying, publishing, selling, licensing, creating derivative works or using any content on the web site for commercial or public purposes

Copyright © 2016 by **Australian Fund Monitors** Pty Limited All rights reserved.

No Warranties

AFM does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content. All information and content in this report is provided on an *as is* basis, without warranty of any kind either express or implied. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other. Furthermore, AFM does not warrant or represent that this content is error free.

Copyright Australian Fund Monitors Pty Ltd (AFM). AFM believes the information to be correct but does not guarantee its accuracy. The information has not been prepared taking into account the investment objectives or financial needs of any particular investor and recipients should assess if the information is appropriate for their own circumstances before making any decision. Past performance should not be relied on as an accurate indication of future performance.