Stonehouse Core Value Portfolio
Monthly Update - April 2018

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April Performance Overview

The Stonehouse Core Value Portfolio (CVP) returned +1.07% in April, a welcome result given the volatility of the previous two months which sees the Portfolio nearing its high water mark set at the end of January 2018.

The Equities sector bounced strongly as global investors added to their risk exposures. Allan Gray Australian Equity was the standout performer, climbing 6.4%, with Macquarie Australian Equities True Index (+3.9%), Wingate Global Equity Income, (+3.7%), and the Blackrock Japan High Divided Yield ETF (+3.7%) also contributing to returns. Lansdowne European Equity (-3.9%) disappointed on the downside.

The Alternatives sector recorded mixed results, as Bennelong Long Short Equity (+2.6%) contributed positively, however AQR Managed Futures (-1.4%) and BlackRock Absolute Return (-0.7%) both registered losses.

Our Property and Infrastructure sector holdings continued to bounce back impressively after a poor start to 2018. Lazard Global Infrastructure soared +6.1%, Resolution Global Property leapt 4.1% and Cromwell Phoenix Property Securities rose 2.2%.

Fixed Income managers again had a mixed month with only the CQS Credit Multi Asset Fund (+0.5%) contributing positively to returns.

Given the equity market volatility experienced earlier this year and uncertainly around geopolitical events we remain cautious and happy to hold an elevated level of cash within the Portfolio as we wait for better risk reward opportunities to present themselves.

Portfolio Summary

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Unit price	$ 1.1195

Asset class ranges & current allocations[1]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	33.7%
Property	0% – 25%	4.4%
Equities	25% – 65%	43.6%
Alternatives	5% – 35%	17.8%

Top 10 investment holdings (ex cash)
1. Wingate Global Equity Income
2. Old Mutual World Equity
3. Northcape Emerging Markets
4. Macquarie True Index Aus Shares
5. Invesco GTR
6. T Rowe Dynamic Global Bond
7. Platinum International Class A
8. Payden and Rygel Global Income Opportunities
9. Ardea Inflation Plus

[1] The current exposures include the underlying asset allocations of each investment. The total exposure may not sum to 100% due to any direct derivative investments (such as options and futures).

AFSL: 292 469

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Market Performance and Outlook

Despite the US 10-year bond yield touching 3% for the first time since January 2014 and the US government bond yield curve continuing to flatten, equity market volatility receded in April as some stability returned to financial markets. Slightly softer economic data, particularly on growth and inflation, combined with easing geopolitical tensions and rising commodity prices led equities higher, particularly in Europe.

Within Fixed Income, government bond yields resumed their upward trend as central banks continued to forecast the normalisation of monetary policy. The US and Australian 10-year government bond yields finished the month at 2.95% and 2.77%, rising from 2.74% and 2.60% at the end of March, respectively. Global Credit indices fell 1.2% (hedged to AUD).

The ASX200 Accumulation Index added 3.9% for the month, while the MSCI World (AUD Hedged) rose 2.0%, the S&P500 Index (USD) inched 0.4% higher and the MSCI Emerging Markets Index (AUD Hedged) finished the month 0.5% lower. With positive sentiment returning to markets, the AUD gained against the majors such as the JPY (+1.1%), but with the USD continuing to appreciate, the AUD fell 1.7% against the greenback.

Within Australia, all of the major market sectors registered gains, with Energy (+10.8%), Materials (+7.6%) and Health Care (+7.4%) the stand out performers.

As we enter May 2018, markets seem relatively calm as concerns around geopolitical tensions and rising interest rates have eased. China and the US appear to be willing to work together, as do North and South Korea, and this has been viewed positively by investors. Although geopolitical risks remain a concern, such as the Middle East and oil prices, there is a compelling argument which suggests that after the strong gains of 2017 and the sharp run up in January 2018, a continued period of sideways consolidation in equity markets is required and to be expected. If this scenario does eventuate, we have confidence in our active managers to selectively allocate to those sectors that will outperform as investors rotate exposure to areas of the market that have lagged others over recent times and should hold up better in the event of an equities downturn.