Stonehouse Core Value Portfolio

Monthly Update – April 2019

March Performance Overview

The Stonehouse Core Value Portfolio (CVP) generated a positive return of +1.48% in April. Global equity markets continued to grind higher in April fuelled by optimism around the US/China trade dispute being resolved and a better than expected quarterly reporting season in the US. The MSCI World Ex Australia Index posted strong gains (+4.6%) while the Australian equity market was also up (+2.5%).

Within the domestic equity component of the Portfolio, all managers generated positive returns, led by the small company exposure held through SGH ICE (+3.2%). This was followed by Macquarie Australian Shares True Index (+2.5%), IML Equity Income (+2.1%) and Allan Gray Australian Equity (+2.0%).

The performance of the global equity managers was also positive in April led by Platinum International (+4.0%). This was followed by Northcape Emerging Markets (+3.7%), Merian World Equity* (+2.7%) and Talaria Global Equity (+2.5%).

Within Alternatives, both managers contributed positively to the portfolio performance. The best performing strategy was the GMO Major Markets Trust (+2.2%), followed by Bennelong Long Short Equity (+0.5%).

The performance of the property and infrastructure exposures was mixed in April. The best performing strategy was Lazard Global Listed Infrastructure (+2.4%), followed by Resolution Global Property (+0.1%). The remaining manager, Cromwell Phoenix Property Securities (-1.5%) posted a negative return as interest rate sensitive securities were impacted during the month.

Performance of the domestic and global bond managers was positive in April. The top performing holding was the CQS Multi-Asset Credit (+1.2%). This was followed by Ardea Real Outcome (+0.6%), Payden Global Income Opportunities (+0.5%), Aquasia Enhanced Credit (+0.5%), YBR Smarter Money Active Cash (+0.4%), and lastly the Franklin Templeton Australian Core Bond Plus (+0.3%).

T Rowe Price Global Dynamic Bond Fund was exited during the month and the funds were rotated into the AMP Capital Core Infrastructure Fund. This new position will bring strong income and capital growth opportunities along with the defensive characteristics of infrastructure holdings which are 50% unlisted.

*In local currency terms.

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Portfolio Summary

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Unit Price at 30 April 2019	$1.1098

Asset Class Ranges & Current Allocations[1]		Current Exposure
Cash & Fixed Interest	15% - 60%	43.4%
Property	0% - 25%	8.9%
Equities	25% - 65%	40.6%
Alternatives	5% - 35%	7.0%

[1] The total exposure may not sum to 100% due to any direct derivative investments (such as options and futures).

Top 10 Investment Holdings (ex cash)	
1.	Merian World Equity
2.	Franklin Templeton Australian Core Bond
3.	Platinum International
4.	Talaria Global Equity
5.	IML Equity Income
6.	Macquarie Australian Shares True Index
7.	Aquasia Enhanced Credit
8.	Ardea Real Outcome
9.	Payden Global Income Opportunities
10.	Northcape Emerging Markets

Market Performance and Outlook

April was a good month for equity markets, with latest data showing the US economy performing better than had been expected. In particular, the Q1 corporate earnings season reports gave the markets a boost. The US labour market remains very strong, with unemployment around 50 year lows, but inflation is still below the Federal Reserve's target. The bond market believes the Fed will need to cut interest rates in order to lift growth enough to stop inflation slipping further. However, the Fed thinks the inflation softness is transitory and has a more balanced view on interest rates. Overall, the combination of better growth, low inflation and expectations of rate cuts helped push the S&P500 to a new record high by the end of the month.

The inflation/interest-rate narrative carried over into Australia in April, when Q1 underlying CPI inflation was reported at 1.6%, compared with the Reserve Bank's 2%-3% target range. The most bullish forecasts have the RBA making a 25 basis point cut before the May 18 election. However, the RBA has indicated that it would prefer to see a sustained upward move in the unemployment rate before cutting interest rates. The A$/US$ fell in reaction to the CPI data and declined for the month as a whole, despite stronger prices for oil and iron ore.

Latest data show some improvement in growth in both China and Europe, although the latter remains quite subdued. Brexit remains unresolved and Europe has given the UK another extension to the end of October to find a solution.

Equity markets have had a very good run since the start of the year and while no longer cheap, do not look overly expensive. The current environment of moderate growth, low inflation and potential rate cuts is favourable for equity markets. Risks that could trigger a correction include Brexit, the China-US trade dispute, and sudden weakness in the Chinese economy. As always, we are monitoring these and other developments for potential impact on markets and our portfolios. For the moment, our expected returns across the major asset classes remain low, with their relative attractiveness driven more by income returns rather than capital growth.

In these conditions, we are comfortable running well-diversified portfolios with risk asset allocations close to their long run neutrals. Within those risk allocations, where possible, we have used defensive investments which would help protect portfolio performance in the event of an equity market correction. If such a correction were to occur, we would assess whether it is a potential buying opportunity. On the other hand, if equity markets were to keep moving up enough to push our expected returns into negative territory, we would assess whether to lighten up our exposures.