

Stonehouse Core Value Portfolio

Monthly Update - August 2017



August Performance Overview

The Stonehouse Core Value Portfolio rose +0.5% in August, in a month that also saw the Australian share market (+0.7%) finish higher, while the MSCI World (+0.2% in AUD Hedged terms) delivered a small positive return. The Australian dollar gave back some of the previous months' strong performance (-1.0%), while Australian bonds rose +0.2% and safe haven assets such as Gold Bullion (+6.4%) surged in a month of heightened geopolitical risk.

The International Equity managers were mixed for the month, with major contributors including the Portfolio's recent addition JO Hambro (+3.0%)¹, Northcape Emerging Markets (+2.9%), Janus Henderson Global Natural Resources (+2.9%) and Old Mutual (+0.3%)¹. Platinum International has continued its strong recent performance, returning +2.5%. Detractors included Lansdowne European (-0.8%)¹ and Wingate (-0.1%).

The Australian equity managers were all positive for the month with contributors including IML Equity Income (+0.3%) as well as value managers Allan Gray (+2.1%) and SGH ICE (+1.4%), whose outperformance over the index was pleasing as reporting season delivered mixed sector results.

All of the Property and Infrastructure holdings were positive during August. Lazard Global Infrastructure produced strong returns again (+3.1%) and has now delivered +20.2% p.a. to the Portfolio over the last two years. Both the Australian Property manager Cromwell Phoenix and Global Property manager Resolution delivered good performance (+2.3% and +1.5% respectively).

Portfolio Summary

Stonehouse Core Value Portfolio

Unit price \$1.0616

Asset class ranges & current allocations² Current exposure

Asset Class	Range	Current Exposure
Cash & Fixed Int.	15% - 60%	24.9%
Property	0% - 25%	4.5%
Equities	25% - 65%	49.8%
Alternatives	5% - 35%	20.7%

Top 10 investment holdings (ex cash)

1. Macquarie True Index Aus Shares
2. Old Mutual World Equity
3. Invesco GTR
4. Platinum International Class A
5. Northcape Emerging Markets
6. Wingate Global Equity Income
7. T Rowe Dynamic Global Bond
8. IML Equity Income
9. AQR Managed Futures
10. CQS Credit Multi Asset Fund

¹In local currency terms.

²The 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).

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August Performance Overview (continued)

Most of the Alternative managers delivered positive returns including Blackrock (+3.0%), AQR Managed Futures (+1.0%), Acadian (+0.1%) and JP Morgan Global Macro (+1.4%). Bennelong Long Short (-6.7%) faced a difficult month as a number of pair trades went against them during the reporting season, however in the first half of September they have managed to reverse a substantial portion of that loss. We halved our exposure to AQR Managed Futures at the end of the month to increase our allocation to Invesco (+0.3%) whose global Multi Asset approach delivers an attractive risk/reward strategy for the Portfolio.

The Fixed Income managers T Rowe (+0.5%), Ardea (+0.2%) and Payden & Rygel (+0.4%) posted reasonable gains while the global credit manager CQS was flat for the month.

During the month we increased the exposures to some managers where the Investment Committee sees pockets of value, including International Equities (Old Mutual), Emerging Markets (JO Hambro) and Global Property (Resolution).

Market Performance and Outlook

While August is generally a quiet month, geopolitical events and the weather (Hurricane Harvey) combined to cause significant volatility in the markets. Specifically, heightened tensions related to North Korea's latest nuclear test contributed to a "risk off" move in August with investors bidding up "safe haven" assets such as bonds and gold.

World share markets were mixed despite global equities returning +0.3% in local currency terms, after a robust +1.8% gain in July. The US S&P 500 Index was flat while Europe and Japan were down -1.1% and -1.4% respectively; the rest of Asia (ex Japan) did better, gaining +1.0%. While the Australian share market recorded a modest gain (+0.7%), sector performance was mixed. On the commodities front, a key feature of the month was a further lift in iron ore prices, which supported solid gains in resource stocks.

More broadly, the global economy continues to surprise to the upside with US second quarter GDP growing at 3% (annualised), while Purchasing Managers Index (PMIs) activity indicators in the US, Europe and China are all coming in at elevated levels. In spite of the broad based expansion across countries and sectors, underlying inflation remains subdued. As a result, monetary policy is unlikely to be tightened in the short term. While the US central bank (Fed) is still likely to make an announcement about balance sheet reduction in September, expectations about further interest rate increases for this year have fallen. The European Central Bank (ECB) has also indicated it will not withdraw monetary stimulus quickly.

Despite concerns about global equity valuations, good growth in corporate earnings has remained a major support factor over the past year keeping global Price to Earnings (P/E) valuations broadly stable. Low bond yields also continue to provide solid support to equity market valuations.

Nonetheless, we continue to believe that investors would benefit from a selective approach to investing in global equities with Emerging Markets, Japan and Europe offering a more attractive risk/return proposition relative to other markets. With Global Bond markets also continuing to be richly valued, we are looking to source return outcomes from a range of different Asset Classes.