Stonehouse Core Value Portfolio

Monthly Update – August 2019

August Performance Overview

The Stonehouse Core Value Portfolio (CVP) generated a small loss of -0.09% during August in a month which saw volatility return to markets and Australian and global equity markets all declined in local dollar terms.

Within the domestic equity component of the Portfolio, all managers experienced negative returns as the Australian equity market was dragged lower (-2.2%). The biggest detractor was Allan Gray Australian Equity (-2.4%). This was followed by the beta exposure held in Macquarie Australian Share True Index (-2.3%). The remaining two managers SGH ICE (-1.8%) and IML Equity Income (-1.5%) experienced smaller losses compared to the market.

While global equity markets experienced losses, three global equity strategies within the Portfolio pleasingly managed to generate positive returns in August. The best performing strategy was Talaria Global Equity (+2.3%). This was followed by Loomis Sayles Global Equity (+1.0%) and the emerging market exposure held through Northcape Emerging Markets (+0.2%). The biggest detractor was Lazard Global Equity Franchise (-2.9%), followed by Platinum International (-1.7%).

Within Alternatives, both strategies experienced losses led by Bennelong Long Short Equity (-2.3%) and followed by GMO Major Markets (-1.9%).

Property and infrastructure exposures performed well in August and is a sector we have added to in the last 6 months to diversify the source of portfolio returns and to receive yield in a different way to traditional bonds. The best performing strategy was Resolution Capital Global Property (+5.2%). This was followed by Cromwell Phoenix Property Securities (+2.6%), AMP Capital Core Infrastructure (+2.0%) and Lazard Global Listed Infrastructure was flat (+0.0%).

Performance of the fixed income exposures was mostly positive in August. The best performing strategy was the core holding in Franklin Templeton Australian Core Bond Plus (+1.8%). This was followed by Ardea Real Outcome (+1.2%), Aquasia Enhanced Credit (+0.4%), Payden Global Income Opportunities (+0.4%) and Alexander Fixed Income (+0.3%). The CQS Multi-Asset Credit was the only detractor and generated a small loss (-0.3%).

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Portfolio Summary

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Unit Price at 31 August 2019	$1.0788

Asset Class Ranges & Current Allocations [1]		Current Exposure
Cash & Fixed Interest	15% - 60%	44.3%
Property	0% - 25%	10.7%
Equities	25% - 65%	37.8%
Alternatives	5% - 35%	7.2%

[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.	Franklin Templeton Australian Core Bond
2.	Talaria Global Equity
3.	Macquarie Australian Shares True Index
4.	Platinum International
5.	IML Equity Income
6.	Northcape Emerging Markets
7.	Aquasia Enhanced Credit
8.	Ardea Real Outcome
9.	Alexander Fixed Income
10.	Loomis Sayles Global Equity

Market Performance and Outlook

August was a turbulent month for global financial markets. The concerns that emerged at the end of July about the trade dispute between the US and China, and about how much the Fed might cut rates, all spilled over into August. Fears of global recession intensified, yield curves flattened even further and equity markets suffered some significant falls. However, it was not all bad news and by the end of the month equity markets had recovered much of their losses to finish the month only a few percent down. Emerging equity markets lagged developed markets in August, partly because of developments in Argentina.

The volatility we saw in August was exacerbated by the seasonal thinness of trading conditions with the Northern Hemisphere summer holidays, and by a litany of sensationalist headlines in the popular media. Underlying all this is a high degree of uncertainty among investors about what is happening with the global economy. Data continued to show that manufacturing sectors around the world are bearing the brunt of the trade dispute and Brexit, while services sectors and households are still in fair shape. Central banks around the world have either eased policy further, or flagged imminent policy changes, notably in Europe. The Reserve Bank of Australia has kept the cash rate at 1% but reiterated that it can fall further if required. The US and German governments said they are considering fiscal stimulus for their economies.

The general air of uncertainty and caution around global markets has been compounded by developments in Hong Kong, in the UK with Brexit, in Italy with the government collapsing and in Argentina with surprise election results triggering a fall of over 30% in the equity market in one day.

In the current environment of global investor uncertainty and caution, we are likely to see more bouts of volatility such as in August. However, it is apparent that the notion of imminent global recession, while a concern, is not a central scenario for the majority of global investors. If it was, then equity markets would be a lot lower than they are now. Investors have not completely abandoned their faith in the central banks' ability to provide effective stimulus. Coming weeks and months will provide clarity on this, as major central banks take steps to support their economies.

In these circumstances it is important to maintain our disciplined approach to running well-diversified portfolios, including defensive investments within the risk asset exposures. For example, the Investment Committee has approved a manager with exposure in selected unlisted investments in global private equity and real assets which are proving their worth by generating positive returns independent of market volatility.

As always, we will be monitoring the economic situation and its implication for markets very carefully for signals which may require us to scale back exposures to equities. If a correction were to occur in equity markets we would assess whether it is a potential buying opportunity.