Stonehouse Core Value Portfolio

Monthly Update – December 2018

December Performance Overview

December was a terrible month for global equities, especially the US equity market (S&P 500) which posted its worst December result since 1931. Even US tech stocks, which had previously seemed almost invulnerable, were not immune and the NASDAQ fell heavily. The MSCI World Index lost -4.1% and the Australian equity market lost -0.7%. The diversification in the Stonehouse Core Value Portfolio (CVP) provided meaningful protection against the disruption in global markets with the portfolio posting a return of -0.8%.

Within the domestic equity component of the Portfolio, the small cap exposure through SGH ICE (-4.20%) was the largest detractor, symptomatic of the tough period for smaller cap stocks in general. This was followed by Allan Gray Australia Equity (-1.3%), IML Equity Income (-0.7%) and the beta exposure held in Macquarie True Index (-0.2%).

In a falling market the global component of the Portfolio's equity investments in aggregate performed well. The top performing strategy was the emerging markets exposure held in Northcape (+1.8%) which pleasingly posted a positive return. The worst performer within global equities was Old Mutual World Equity* (-7.5%) which had a volatile quarter but has recovered well in the beginning of 2019. Lansdowne European Equity* returned -1.6% but had posted gains of almost +6% in the second half of the year which is a strong result. This position has been strategically exited at the end of December in order to taper targeted global equity exposures held within the Portfolio. Wingate which has rebranded to Talaria Global Equity posted a negative return of -0.8% followed by Platinum International (-0.4%); both of which had losses much smaller than the overall market declines.

The performance of Alternatives was mixed in December. The best performing strategy was Bennelong Long Short Equity (+2.1%) followed by GMO Major Markets Trust (+0.2%). The remaining two strategies posted negative returns led by Ellerston Australian Market Neutral (-2.5%) and then Watermark Market Neutral (-1.3%).

The exposure to Property and Infrastructure detracted from returns in December. The best performing strategy was Cromwell Phoenix Property Securities (+0.3%). The remaining two managers posted negative returns led by Lazard Global Infrastructure (-3.1%) and followed by Resolution Global Property (-2.6%).

Performance of the domestic and global bond managers was mixed. The top performing manager was T. Rowe Price Global Dynamic Bond (+1.2%) which fulfilled its role of providing positive returns in a risk-off environment. This was followed by the new addition to the Portfolio, Aquasia Enhanced Credit (+0.4%). Ardea Real Outcome (+0.3%) and YBR Smarter Money Active (+0.1%) continued to contribute to Portfolio, whilst CQS Multi-Asset Credit (-1.2%) and Payden & Rygel Global Income Opportunities (-0.3%) disappointed in a difficult month for global credit.

*In local currency terms.

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Portfolio Summary

Stonehouse Core Value Portfolio	
Unit Price at 31 December 2018	$1.0480

Asset Class Ranges & Current Allocations[1]		Current Exposure
Cash & Fixed Interest	15% - 60%	41.6%
Property	0% - 25%	4.6%
Equities	25% - 65%	39.9%
Alternatives	5% - 35%	13.9%

[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.	Platinum International
2.	Old Mutual World Equity
3.	Talaria Global Equity
4.	T Rowe Price Dynamic Global Bond
5.	Macquarie Australian Shares True Index
6.	AquAsia Enhanced Credit
7.	Ardea Real Outcome
8.	Payden & Rygel Global Income Opportunities
9.	Northcape Emerging Markets
10.	Bennelong Long Short Equity

Market Performance and Outlook

The equity market moves in December reflected market fears that the Fed is being too aggressive about tightening monetary policy while the world economy is slowing down. There was more talk about the US yield curve inverting and a recession in the US in the next year or two. The overall risk-off mood was compounded by intemperate remarks from Trump about the Fed and Chairman Powell, the government shutdown over a funding dispute with the Democrats and concerns about the trade dispute with China. Global bond markets benefited from these developments as investors sought safety from the risk of equities. The ASX200 was surprisingly resilient in the face of these moves, although the Small Ordinaries fell more in the overall risk-off environment. The AUD/USD fell from just over 0.732 at the start of the month to finish at 0.704. The big decline in the price of oil contributed to this.

We remain cautious about the outlook for markets as we move into 2019. The significant falls in equities in recent months has restored some value to the markets, but sufficient uncertainty remains about how the markets are reading the outlook for US growth and inflation to warrant caution for a while longer. We will be closely assessing developments on these and other key issues to identify appropriate opportunities for increasing equity exposures in the Portfolio in the coming year. In the meantime, we will continue with our current approach of lower than average levels of equity risk and a focus on careful portfolio diversification.