Stonehouse Core Value Portfolio
Monthly Update - February 2017

February Performance Overview

The Stonehouse Core Value Portfolio (CVP) rose +0.84% for the month of February.

Equity holdings had a solid month with Old Mutual Global Equity[1] +3.4%, Northcape Emerging Markets +2.2%, Macquarie True Index +2.2%, IML Equity Income +1.8%, SGH ICE +0.9%, Platinum International +0.9% and LHC Australian High Conviction +0.7%.

Alternative holdings delivered positive returns as a group, with 2016 laggards Bennelong Long Short +2.1% and AQR Managed Futures +2.2% extending their performance turnaround from last month. Acadian Global Equity Market Neutral +2.0%, Blackrock Absolute Return +1.9% and Invesco +1.4% also contributed whilst JP Morgan Global Macro -1.6% detracted from returns.

Fixed Income holdings delivered positive returns with CQS +0.8%, Payden & Rygel +0.4%, Kapstream +0.5% and Ardea +0.3%, with T Rowe Dynamic Bond Fund (-0.4%) the only detractor from returns.

Property and Infrastructure holdings also had a strong month with Cromwell Phoenix +3.8%, Lazard Global Infrastructure +5.2% and new entrant Resolution Global Property Securities +1.7%.

The Investment Committee note current macroeconomic conditions are reflecting a shift to a tighter monetary policy regime albeit from very accommodative levels (especially in the US) and a greater reliance on Fiscal Policy. We continue to actively identify opportunities to increase market exposure on an opportunistic basis.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	$1.0589

Asset class ranges & current allocations[2]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	31.7%
Property	0% – 25%	3.5%
Equities	25% – 65%	43.2%
Alternatives	5% – 35%	20.5%

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

[1] In local currency terms.
[2] 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

Economic indicators continue to paint a picture of accelerating growth momentum. Base effects linked to commodity prices are sending inflation higher, breaking the earlier disinflationary trend. Financial markets have been moving in the same direction with stock prices and interest rates in general, moving up.

While market volatility (as measured by VIX) is very low, economic policy uncertainty has increased with the Trump presidency. There are a number of risks to the current positive growth momentum including Eurozone political uncertainty, Trump failing to deliver on his reform agenda and China's unsustainable credit boom.

February witnessed the implied probability of a US Fed Rate hike diminish to below 50% before climbing above 80% in early-March on the back of more hawkish comments from Chairwoman Janet Yellen and others. On 3 March, Yellen stated that the Fed was "close" to meeting its goals and that "in the absence of new developments that might materially worsen the economic outlook, the process of scaling back accommodation likely will not be as slow as it was in 2015 and 2016." After these comments and the stronger data releases we anticipate the first Fed hike may occur on 15 March, with two or possibly three hikes to occur this year. A faster pace of rate hikes, such as four this year, could catch the markets off guard. In Europe, however, Bond yields remain at very low yields with the German Bund - US Treasury spread at historically wide levels.

Japanese valuations are still among the most attractive globally which has spurred inflows into Nikkei ETFs with a weaker Yen clearly supportive for bigger exporters. The Australian Bond market has been relatively quiet given a holding stance from the RBA but volatility could manifest in the Currency market - we would expect AUD to weaken as the US raises rates and the RBA remains on hold.

We continue to maintain a well-diversified portfolio with a meaningful exposure to Growth Assets as well as Alternatives for protecting capital in a future Equity market correction. The Investment Committee continues to focus on opportunistic Equity investments and remain very underweight Fixed Income duration which should insulate portfolios from a spike in yields.