Stonehouse Core Value Portfolio
Monthly Update - February 2018

February Performance Overview

After some strong performance in prior months, volatility made a sharp return to the markets in February. The Stonehouse Core Value Portfolio (CVP) ended down -0.78% in a month where International Equities were particularly heavily impacted against a backdrop of a -3.7% return for the S&P500 (US market index).

Within the Equities component of the CVP, JO Hambro was down (-5.0%)[1], Blackrock Japan High Dividend declined (-4.2%) and Old Mutual fell (-3.0%)[1]. Australian Equity fund Macquarie True Index rose (+0.3%) whilst Wingate was the best performer for the month (+0.5%). Note after taking some profits from international managers prior to February we did increase the allocation to Wingate as we feel they are well placed to outperform other managers during periods of heightened volatility.

Within the Alternatives sector, the best performing manager for February was Blackrock Absolute Return (+2.1%) followed by JP Morgan Global Macro (+1.5%), with Bennelong Long Short Equity (+0.1%) just eking out a positive return. Invesco (-0.8%) was slightly negative, whilst Acadian Diversified Alpha (-2.8%) and AQR Managed Futures (-10.5%) both disappointed.

All of the managers within the Property and Infrastructure sector had a poor month as rising interest rate concerns continued with Lazard Global Infrastructure (-4.9%), Resolution Global Property (-3.1%) and Cromwell Phoenix Property Securities (-2.8%) all falling.

Fixed Income managers had a mixed month. T Rowe Global Bond (+1.0%) was positive whilst Ardea Inflation Plus (-1.6%) fell.

We continue to maintain a higher level of cash, not only as a defensive measure but also in anticipation of opportunities that may present in these volatile conditions.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	$1.1138

Asset class ranges & current allocations[2]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	29.1%
Property	0% – 25%	4.3%
Equities	25% – 65%	43.7%
Alternatives	5% – 35%	18.3%

Top 10 investment holdings (ex cash)
1. Macquarie True Index Aus Shares
2. Old Mutual World Equity
3. Northcape Emerging Markets
4. Wingate Global Equity Income
5. Invesco GTR
6. T Rowe Dynamic Global Bond
7. Platinum International Class A
8. Ardea Inflation Plus
9. iShares MSCI Japan High Dividend ETF
10. SGH ICE

[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

Market Performance and Outlook

February saw the return of volatility as a strong US payrolls report caused market participants to reassess their outlook for US inflation and interest rates, and the implied impact on asset valuations.

Signs of growing momentum in US wage growth in January saw yields pick up across the globe, with the US 10 year yield rising towards 3.0% and finishing the month at 2.9% - a significant increase from the 2.4% yield prevailing at the end of December 2017.

After an exceptionally strong 2017 and a bumper January 2018, major equity markets experienced their first 10% plus drawdown in over 2 years during February. Technically-driven selling of short volatility positions spiralled into sharp falls in equity markets on Monday 5th February, leading to widespread risk aversion amongst investors in the days thereafter. However, investors once again stepped in to “buy-the-dip” leading to significant recoveries by month end.

The ASX200 Accumulation Index finished the month up 0.36%, while the MSCI World (AUD Hedged) closed down 3.6%, the S&P500 Index (USD) lost 3.7% and the MSCI Emerging Markets Index (AUD Hedged) finished the month 4.9% lower. The risk off tone permeating markets saw the AUD give up some of its recent gains, falling 3.6% against the US Dollar and 5.1% against the perceived safe haven Japanese Yen.

Within Australia, the major market sectors produced mixed returns, with Health Care stocks up 7.0% and Consumer Staples stocks up 2.2%, while Telecoms fell 6.0% and Energy stocks lost 3.7%.

As we enter March 2018, volatility across markets remains elevated, with the calm that investors became accustomed to in 2017 clearly disturbed. With Jay Powell now heading up the US Federal Reserve, there is a fear that the “Fed put” may be dead, or have a strike much lower than under Yellen’s leadership. There are also a number of other risk-events simmering in the background that are fuelling investor anxiety, such as a Trump-initiated Trade War, rising inflation and interest rates, the withdrawal of central bank stimulus, slowing US growth, Russian political aggression, and Brexit.

Against this cautious backdrop, there remain many positives. Globally GDP growth remains positive and there is little sign of recession in the next 6-9 months, US tax cuts are set to increase company earnings, there is talk of a US infrastructure package, Chinese growth remains upbeat and market commentators have discussed the prospect of global tax cuts.

The main question remains, has all the good news already been priced in by markets? With equities at record levels, it isn’t a hard argument to make. 2018 looks set to be an interesting year where patience and the flexibility to deploy capital as and when opportunities arise could well be rewarded.