Stonehouse Core Value Portfolio

Monthly Update – February 2019

stonehouse

February Performance Overview

With equity markets continuing to push higher, the Stonehouse Core Value Portfolio (CVP) generated a positive return (+1.90%) for the month in February.

Given the Australian equity market's strong performance (+5.3%), all domestic equity managers positively contributed led by Allan Gray Australia Equity (+6.2%) which outperformed the market return and the beta exposure held in the Macquarie Australian Shares True Index (+6.0%). The small cap exposure through SGH ICE (+3.3%) and the IML Equity Income Fund (+2.6%) also had favourable performance through the reporting season.

With the MSCI World ex Australia Index's solid gain (+5.6%), all global equity managers provided positive returns led by Platinum International (+4.2%). This was followed by Merian World Equity* (+4.1%) and Talaria Global Equity (+3.2%). Northcape Emerging Markets (+3.1%) was positive in both absolute and relative terms, thanks to their stock selection and key geographic underweight positioning.

The remaining Alternative exposures in the portfolio delivered mixed performance for the month. The best performing strategy was the GMO Major Markets Trust (+1.2%) and Bennelong Long Short Equity (-0.8%) detracted from returns.

The exposure to Property and Infrastructure added to returns in the month with all managers providing solid positive returns. The best performing strategy was Resolution Global Property (+3.1%) followed by Lazard Global Infrastructure (+2.6%). Cromwell Phoenix Property Securities' holding was increased within the Portfolio and returned +0.8% during February.

Performance of the domestic and global bond managers was mostly positive in February. The top performing manager was CQS Multi-Asset Credit (+1.2%). This was followed by Ardea Real Outcome (+0.7%), Aquasia Enhanced Credit (+0.4%), YBR Smarter Money Active Cash (+0.4%) and Payden Global Income Opportunities (+0.4%). The portfolio made a partial redemption of the remaining manager T.Rowe Price Global Dynamic Bond (-0.2%), which posted a small negative return in February.

Toward the end of the month a core position within Fixed Income was created in the Franklin Templeton Australian Core Bond Fund, a traditional domestic fixed income allocation. The dynamics of the exposure is expected to increase diversification and bolster the portfolio's ballast against equity market volatility.

* In local currency terms. Formerly known as Old Mutual World Equity.

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Portfolio Summary

Stonehouse Core Value Portfolio	
Unit Price at 28 February 2019	$1.0858

Asset Class Ranges & Current Allocations[1]		Current Exposure
Cash & Fixed Interest	15% - 60%	47.9%
Property	0% - 25%	5.9%
Equities	25% - 65%	39.2%
Alternatives	5% - 35%	7.0%

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

Market Performance and Outlook

Around the world, February saw further signs of slowing growth, muted inflation and ongoing geopolitical risks. Key policymakers have responded with more of the "patience and flexibility" message they have been delivering in recent months. Central banks in Australia, the US, Canada, India, and Europe have all indicated interest rates are on hold for the time being, while EU authorities are showing more willingness to accept a delay in Brexit. Policy pragmatism in the face of global risks is exactly what the markets want to hear. Equity markets have another positive month in February, with the Australian market performing particularly well after a reasonable earnings season and speculation about possible interest rate cuts later this year. Geopolitical events continue to make markets nervous, especially the US-China trade dispute. Latest talks between the US and North Korea ended abruptly as both sides realised they could not reach agreement. The Spanish Prime Minister called a snap election after parliament vetoed the government's budget. The US government shutdown ended with the President invoking national emergency powers to authorise the building of a wall on the border with Mexico.

The prospect of a slower global economy with muted inflation risks and central banks on hold is, on the face of things, less risky for markets than the conditions prevailing even a few months ago. However, it is also an environment in which it is hard to see scope for above-average returns across asset markets. In particular, the strong performance of equity markets seen in January and February is not expected to continue. It is more likely we will see below average returns through the year, with periodic bouts of uncertainty and volatility caused by fluctuations in the economic data, as well by events such as the US-China trade dispute and Brexit. Under these circumstances, it is important to run diversified portfolios, while looking for opportunities to enhance returns while managing risks.