# Stonehouse Core Value Portfolio
# Monthly Update - January 2016

## January Performance Overview

The Stonehouse Core Value Portfolio (CVP) was down (-1.52%) over the month of January in what was the most tumultuous start to a calendar for the ASX on record. As should be expected by CVP investors, the ASX 200 fell by a much more significant (-5.48%) over this period as markets became caught in the grip of global GDP growth slowdown concerns and associated falls in energy prices.

For the month, positive performances came from our defensive managers 36 South (+7.87%), Cantab (+3.91%) and AQR Managed Futures (+2.77%). Phoenix Property Securities (+0.46%) and Northcape Emerging Markets (+0.20%) also posted positive monthly performances – very pleasing given the difficult market conditions for the asset classes they represent.

Negative performances over the month came from Australian equities manager Allan Gray (-5.66%) as well as resources focused 90 West (-5.12%) and international property manager Brookfield (-9.73%) in an exposure that we have been deliberately underweight due to valuation concerns. Hearteningly however the earlier mentioned underperforming assets in January have subsequently gone on to add significant value to the Portfolio at the time of writing in February.

## Market Performance and Outlook

What a start to 2016 it has been. Most equity markets have recorded their worst ever start to a calendar year. It seems market participants have found just about any reason to see the glass as 'half empty' rather than 'half full' at the present juncture. What has changed by way of fundamentals? Not much. Some softer economic indicators out of the US, China devaluing the Yuan in response to a slowing domestic economy and depleting foreign exchange reserves, and the ongoing decline in energy prices. Ironically the latter point – the ongoing decline in energy prices - is generally regarded as a 'good thing' for the global economy / global markets (at least over the medium to long term). However as stated above, the market for some reason is interpreting this information as a 'glass half empty' rather than a 'glass half full' phenomenon.

## Portfolio Summary

| | Stonehouse Core Value Portfolio |
|---|---|
| Unit price | $1.0436 |

| Asset class ranges & current allocations[1] | Range | Current exposure |
|---|---|---|
| Cash & Fixed Int. | 15% – 60% | 27.3% |
| Property | 0% – 25% | 4.6% |
| Equities | 25% – 65% | 45.6% |
| Alternatives | 5% – 35% | 22.5% |

| Top 10 investment holdings (ex cash) |
|---|
| 1. Statestreet S&P/ASX 200 ETF |
| 2. Bennelong Long Short Equity |
| 3. Northcape Emerging Markets |
| 4. 36 South Kohinoor Core Fund |
| 5. Payden and Rygel Global Income Opportunities |
| 6. Kapstream Absolute Return |
| 7. Ardea Inflation Plus |
| 8. J O Hambro Asia ex Japan |
| 9. Wingate Global Equity Income |
| 10. Platinum International Class A |

[1] 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).

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So what to make of all the market mayhem? In short, transitions are difficult.

1. China is undergoing a transition from investment driven GDP growth to consumption driven GDP growth.
2. The US is undergoing a transition from externally driven GDP growth to internally driven GDP growth - thanks to significant $US headwinds impinging on US manufacturing exports.
3. Global markets too are undergoing their own form of transition as they are gradually weaned off cheap and easy (central bank provided) money.

Still, what is in the back of everyone's minds is that maybe this tantrum is somehow justified and we are in danger of a re-run of the infamous 2010 global GDP 'growth fade'. When this occurred many a developed economy slipped back into recession just when they thought they were climbing out of their GFC inspired lows. Such an outcome would be challenging for global financial markets as 2010 proved to be a very difficult year for investing overall – although by year end markets were generally stronger.

What is heartening at the present time (and is giving us confidence to look at this moment as a glass as 'half full' opportunity) is that there are some major differences between now and the start of 2010. For a start unemployment was 9.8% at the start of 2010 - in contrast to the 'full' employment 4.9% level that stands today. Secondly, corporate and household balance sheets are much more robust now than they were in the immediate post GFC period. Finally, banks were still failing at a rapid rate in 2010 – 157 in the US alone.

Still, this doesn't give us cause to be complacent. The markets appear to be doing their very best to turn this slight pause in global GDP growth into something more sinister. Indeed, we must be prepared for markets setting off a self-fulfilling dynamic where global market sell-downs impinge on investor and consumer confidence to such an extent that the global economic growth is paused.. The traditional circuit-breaker in such situations is central bank action but they are loathe to intervene at this juncture because it begets a more difficult weaning process later on.

It is for this reason that while our base-case scenario is one of a 'glass half full' outlook and that markets will rebound before the end of 2016, we are also cognisant that the global sell-off might inflict considerable damage to the real economy at some point and delay the upturn.

Accordingly we are maintaining a close watch on our defensive line up in the immediate period, standing ready to bolster the defences if we feel the need arises, and adding to positions at favourable price points wherever prudent to do so.