Stonehouse Core Value Portfolio
Monthly Update - January 2017

January Performance Overview

The Stonehouse Core Value Portfolio (CVP) detracted -0.42% over the first month of 2017 although at time of writing this result has subsequently reversed with February looking quite positive.

Equity holdings predominantly detracted from returns. Negative performers included iShares MSCI Japan High Dividend ETF -0.42%, Lansdowne European* -0.3%, Lazard Global Small Caps -3.5%, Northcape Emerging Markets -2.5% and Wingate Global Equity Income -3.9%. However there were some positive contributors such as new entrant Old Mutual Global Equity +2.9% and Henderson Global Natural Resources +3.1%.

Alternative holdings were predominantly positive with two laggards over 2016, Bennelong Long Short and AQR Managed Futures delivering a strong +5.0% and +1.4% respectively. Blackrock Absolute Return +1.8% also had a strong month with 36 South Kohinoor* -3.6%, JP Morgan -1.6% and Invesco -0.4% detracting from returns. The first of these detractors was especially disappointing and prompted our decision to move from an underweight to a full redemption of the position over the course of the coming months with better value expected from its replacement.

Fixed Income holdings contributed positively to returns with CQS +0.9%, Payden & Rygel +0.4% and T Rowe +0.2%.

Property and Infrastructure holdings also had a challenging month with Cromwell Phoenix -3.0% and Lazard Global Infrastructure -0.4% although you will note that we are underweight in this sector.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	$1.0501

Asset class ranges & current allocations[2]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	33%
Property	0% – 25%	2.7%
Equities	25% – 65%	46.1%
Alternatives	5% – 35%	18.1%

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. Ardea Inflation Plus

[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).

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January Performance Overview (continued)

The Investment Committee noted a pause in markets in January following a strong rally over the previous months with market participants re-assessing the direction and impact of recent events. The Investment Committee note a significant shift in market dynamics towards expected and actual Fiscal Policy particularly in the US in what is being termed "Trumponomics" away from the Central Bank driven markets of the recent past. We continue to closely monitor current macroeconomic conditions with a focus on capturing a good portion of the upside movements whilst limiting downside risk. To this end, we have recently introduced an active Global Listed Property Fund which we expect will improve the CVP's risk/return profile through the cycle.

Market Performance and Outlook

2017 opened with markets selling down the sentiment driven "reflation" trade which has driven them since Donald Trump won the election. The correction was far shallower in core equity markets and once again, bulls prevailed in January with strong performances in Stonehouse 'satellite' holdings for the period.

With many analysts forecasting a sustained pickup in inflation, Equities are receiving more inflows than nominal Bonds. Whilst US Equities remain expensive (Trailing P/E ~ 20), bullish investors are pointing to an earnings windfall from proposed corporate tax cuts and an overall rebound in economic activity to drive earnings higher (consensus estimates 10-15% EPS growth) and hence sustain or build on current index levels. We remain constructive on Equities with a tilt away from the US given market valuations with better returns on offer in Japan, Europe and Emerging Markets.

US Federal Reserve Chairwoman Janet Yellen recently noted that forecasters are loathe to price in much fiscal expansion given the constraints provided by the US budget deficit and US Government Debt to GDP. Here is where the Trump reflation trade may come undone, with far less fiscal expansion than anticipated. The US Federal Reserve has again indicated 2 or more rate hikes in 2017 which would bring the cash rate up over 1% to 1.25%. Elsewhere in Europe we note the increased political risk emerging particularly in light of a resurgence by Marine La Penne in France and a poor showing in polls for Angela Merkel in Germany.

China continues to support growth and employment through Credit expansion which is already a simmering problem. Given the resources and command of the centralised economy we expect this will continue to remain a longer term issue and hence see a stronger than expected Chinese economy also supportive of Global and Emerging Market growth in particular. The resurgence of Chinese demand has driven the entire commodity complex higher most notably Iron Ore and Coal with this another leg of support for Australian and other commodity producers. The Currency impact of markedly higher commodity prices has been muted and is also evident in AUD/USD, which hasn't broken above 80c. We expect this is due to other primary factors most notably Interest Rate differentials which are closing as the US Fed tightens.

The complexities of the current macroeconomic environment are a constant reminder to the Investment Committee of the need to retain appropriate defensive positions to help ensure the Absolute Return objectives of the CVP whilst more static 'satellite' allocations benefit from the momentum, albeit within fundamentally high quality assets.

*In local currency terms.