Stonehouse Core Value Portfolio

Monthly Update – January 2019

stonehouse

January Performance Overview

After a very difficult month in December, the Stonehouse Core Value Portfolio (CVP) generated a positive return of +1.68% for January. This was assisted by strong equity markets, with both the MSCI World Ex Australia Index (+4.1%) and Australian equity market (+4.0%) bouncing back.

Within the domestic equity component of the Portfolio, all managers provided positive returns led by Allan Gray Australia Equity (+6.0%) which outperformed the market thanks to its top holdings in gold, oil and energy. This was followed by the beta exposure held in the Macquarie Australian Shares True Index (+3.4%), IML Equity Income Fund (+2.7%) and the smaller cap exposure through SGH ICE (+2.4%).

All global equity managers rebounded strongly and provided positive returns in January led by Old Mutual World Equity* (+9.1%). This was followed by Platinum International (+3.2%), Northcape Emerging Markets (+1.8%) and Talaria Global Equity (+1.5%).

The exposure to Property and Infrastructure added to returns in January with all managers providing strong positive returns. The best performing strategy was the Resolution Global Property (+7.5%), followed by Lazard Global Infrastructure (+6.3%) and Cromwell Phoenix Property Securities (+4.9%).

The performance of Alternatives was mixed in January. The best performing strategy was the GMO SGM Major Markets Trust (+1.6%) followed by the Watermark Australian Market Neutral Fund (+0.2%). The remaining two managers posted negative returns, led by the Bennelong Long Short Equity (-3.5%) and followed by Ellerston Australian Market Neutral (-0.9%).

Within Fixed Income exposures the top performing manager was CQS Multi-Asset Credit (+1.4%) as credit markets recovered strongly in the month. This was followed by Payden & Rygel Global Income Opportunities Fund (+1.2%), Ardea Real Outcome (+0.6%) and YBR Smarter Money (+0.3%). Aquasia Enhanced Credit returned +0.5%, a healthy margin over its target return. T.Rowe Price Global Dynamic Bond detracted -0.8%, impacted by its short credit duration exposure.

*In local currency terms.

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Portfolio Summary

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Unit Price at 31 January 2019	$1.0656

Asset Class Ranges & Current Allocations[1]		Current Exposure
Cash & Fixed Interest	15% - 60%	45.2%
Property	0% - 25%	4.7%
Equities	25% - 65%	36.5%
Alternatives	5% - 35%	13.6%

[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.	Platinum International
2.	Old Mutual World Equity
3.	Talaria Global Equity
4.	Macquarie Australian Shares True Index
5.	T.Rowe Price Dynamic Global Bond
6.	Aquasia Enhanced Credit
7.	Ardea Real Outcome
8.	Payden & Rygel Global Income Opportunities
9.	Northcape Emerging Markets
10.	IML Equity Income

The markets bounced back strongly in January as fears about US monetary policy and a potential recession were alleviated by a mix of reasonable data and conciliatory statements from the US Federal Reserve. The markets now believe the Fed will underwrite US growth and that inflation is no threat to this outcome. Latest data around the world showed signs of slower growth from Europe to China and here in Australia. The prices of oil and iron ore rose sharply in January as supply conditions tightened. In the case of iron ore, this reflected disruptions caused by the mine disaster in Brazil. These higher commodity prices added support to the A$. The Australian equity market posted decent returns in January, but less than the offshore markets. This partly reflects the fact that our market held up very well in December and so did not need as big a correction rally. The Reserve Bank again left the cash rate unchanged at 1.5%, while speculation is mounting in the markets that the next move might be a rate cut rather than an increase.

Financial market sentiment has improved in recent weeks, but still remains vulnerable to competing developments in growth and inflation around the world. Markets will be happy with upside surprises to growth, but not to inflation. This applies particularly to the US because of what it means for the Fed and interest rates. For the moment, the mix of these variables seems quite favourable for bond and equity markets. Much of the excessive optimism in the equity markets seen at the start of 2018 has now been washed out, and equity valuations now appear closer to “fair value” levels. Of course, there are still some significant risks, including Brexit and the US/China trade dispute, which could disrupt markets from time to time. Volatility is likely to remain a feature of markets in the coming year. The Investment Committee will be exploring an additional allocation to domestic government bonds along with undertaking a review of some of its market neutral managers. This reflects a more benign environment for Australian interest rates, and offers some offset to the risk of further equity market volatility.