Stonehouse Core Value Portfolio

Monthly Update - July 2014

stonehouse
ASSET MANAGEMENT

Performance overview

Over the month of July the Stonehouse Core Value Portfolio (SCVP) rose +1.22% as markets continued to build upon the gains exhibited over the second quarter of this calendar year.

Positive performances over the month came from our ETF exposures S&P/ASX200 ETF (+3.95%), Blackrock iShares Global 100 ETF (+0.94%), Vanguard Australian High Yield ETF (+3.89%), and the FTSE Emerging Markets ETF (+1.37%). Our active manager exposures also benefitted from the buoyant market environment with Australian equities manager Perpetual Shares Plus recording a sizable gain (+4.56%), domestic property exposures Phoenix Property Securities (+4.50%) and SGH Property Income (+4.96%) recording good performance as well as domestic long/short equity manager Bennelong (+3.00%) making a welcome return back into positive territory.

Detractors to performance over the month came from defensive positions, Gold Bullion (-0.68%) and volatility trader 36 South (-1.69%) as well as some of our international funds – namely Epoch Global Equity Yield (-1.70%), international property manager Brookfield (-3.34%), Barwon Global Private Equity (-1.15%) and Lazard Global Infrastructure (-0.85%).

It is worth noting the international property manager Brookfield has had solid performance to date and this negative monthly number was unsurprising after a sustained period of good returns. Property stocks in North America (where the fund is most exposed) were relatively flat over the month, while Europe was slightly down. Looking forward, we continue to favour Brookfield's approach and do not see this particular month's performance as a detractor to this rationale.

We continue to look to invest our cash reserves in areas where we see opportunities whilst simultaneously ensuring our defensive positions are adequate to help minimise any losses to the Portfolio should the markets retreat.

Portfolio Summary[1]

	Stonehouse Core Value Portfolio
Unit price	$1.0253

Asset class ranges & current allocations[1]	Range (min)	Range (max)	Current exposure
Cash & Fixed Int.	15%	60%	31.8%
Property	5%	25%	5.5%
Equities	25%	65%	42.4%
Alternatives	5%	35%	18.8%

0% 20% 40% 60% 80% 100%

[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).

Top 10 investment holdings (ex cash)
1. S&P / ASX 200 Accumulation Index ETF
2. Ardea Australian Inflation Linked Bond Fund
3. Vanguard FTSE Emerging Market ETF
4. 36 South Kohinoor Core Fund
5. Schroders Fixed Income Fund
6. Kapstream Absolute Return Fund
7. Payden & Rygel Global Income Opportunities Fund
8. Bennelong Long Short Equity Fund
9. Platinum International Fund
10. Wingate Global Equity Income Fund

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Market Performance and Outlook

July remained a reasonably upbeat month for markets overall as further evidence materialised that the long awaited global economic recovery from the depths of the GFC recession continues to gather steam. A variety of economic indicators in the US, China and to a lesser extent the UK, Japan and Europe consolidated our view that the global economic recovery is slowing gathering momentum. We also see that we are nearing a point where most developed world central banks can start to consider embarking upon a path of normalising interest rates. These actions are most likely to be initiated at some point over 2015 – at least for the UK and US central banks with the EMU and Japan not following in step until much later.

This 'normalisation' process is likely to have a negative impact on longer dated fixed income assets given the negative relationship between bond prices and rising interest rates. It is for this reason that we mostly hold fixed income assets with short dated exposure as the returns on these holdings are less likely to be affected by rising interest rates.

One benefit of the global rising interest rate environment is that the Australian dollar is likely to slowly lose its value relative to other currencies. As stated previously, virtually every metric of 'fair-value' for the Australian dollar has it trading at levels considerably below those at which it presently resides today. As global interest rates once more begin to normalise we feel that this inconsistency will be corrected and therefore given this medium-term view, a significant portion of the Portfolio's international holdings remain unhedged. As the Portfolio remains weighted toward offshore equities, this long anticipated decline in the Australian dollar also stands to benefit the Portfolio's performance.

July was not all plain sailing. Geo-political risks intensified with an escalation of tensions in the Ukraine and Middle East. Markets largely took these developments in their stride but it must be said that a combination of rising geo-political risk and overstretched valuations in some pockets of the global equity market, fixed income market and property is a worrying backdrop. As a result we continued to monitor our exposure and the size of our exposure to these asset classes within the Portfolio. We carefully seek to maintain a degree of downside risk protection should the markets overall tip into an unexpected sizable downward readjustment.