Stonehouse Core Value Portfolio
Monthly Update - July 2015

stonehouse

Performance Overview

The Stonehouse Core Value Portfolio (CVP) rose +2.19% over July – an encouraging result given the volatility presently being displayed in financial markets. The low volatility profile of the CVP relative to that of the broader market has been a prevalent feature of the portfolio since its inception and as we often state, this coupled with strong relative performance, is a key objective of the Stonehouse Investment Committee.

Over the month, positive performances came from our Australian long/short equities manager Bennelong (+8.84%) as well as our domestic REITs managers SG Hiscock (+4.22%) and Phoenix Property Securities (+5.34%). International equities managers Wingate Global Equity Income (+2.86%) and Platinum International (+2.39%) also played a role in generating the CVP's overall positive performance.

Negative performances for the month came from our Emerging Markets ETF (-6.26%), global resources manager 90 West (-3.19%) and the remainder of our Gold Bullion position (-3.37%) prior to our exiting of the position.

In light of the recent underperformance of Gold Bullion and the fact that the asset class did not display its traditional defensive qualities during market turmoil over June, we decided to take profits from this long held position and exit the asset class entirely. The rationale behind our decision-making is not just for the reasons so far cited but we also feel we can get better defensive 'bang for our buck' by deploying capital elsewhere. Gold has traditionally been a safe haven in times of trouble (and by and large this continues to be the case) but in times of significant market stress we feel we can garner more substantive returns by deploying our capital to other defensive strategies such as volatility traders and trend followers (who have the ability to short the market). The returns from these managers typically far outstrip those of gold when markets take a decided turn for the worse so the decision was made that now was the time to sell to get even more defensive qualities into the CVP in anticipation of greater volatility ahead.

Portfolio Summary[1]

Stonehouse Core Value Portfolio	
Unit price	$1.0762

Asset class ranges & current allocations[1]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	29.7%
Property	0% – 25%	5.1%
Equities	25% – 65%	40.6%
Alternatives	5% – 35%	24.5%

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

[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).

AFSL: 292 469

Market Performance and Outlook

Markets regained some degree of normalcy over July after a substantive pullback in June but overall it appears markets remain in a heightened state of fragility. There are many reasons being put forward as to why this state of mind presently persists from structural weakness in the global economy to heightened valuations in certain asset classes. While bearing some merit, our overall thesis differs a little from these underlying causes in the sense that we see the present volatility as symbolic of the fact that we have now entered into a more mature stage of the investment cycle.

As investment cycles mature they tend to be punctuated by both more frequent and extreme bouts of volatility. What was previously taken as relatively benign information (such as the slow pace the US economic recovery or stretched valuations in income-producing assets) suddenly takes on a heightened degree of significance in investors' minds. One consequence of this heighted state of emotion is a more bi-polar outcome in overall market behaviour. This appears to explain why June market performance lagged so much and why July experienced such a substantial bounce-back with little to no change in the underlying information being presented to the market.

We see such behaviour as symbolic of the fact that the investment cycle has now entered its mature stage. Mature investment cycles are typified by stretched valuations, significant returns coupled with heightened volatility and generally a backdrop where central banks are raising rates. All but the latter pre-exists today - but the fact that the US Federal Reserve appears set to raise interest rates at some stage before calendar year end is to us a clarion call that the mature stage of the investment cycle is now upon us.

Our response? As intimated in our discussion above we have selectively examined our defensive positions to ensure we are getting the best 'bang for our buck' to preserve capital in the CVP. The trick to investing during the mature stage of the investment cycle is that while the returns can be substantive the volatility can also be unnerving. You therefore need the correct balance between capital preserving defensives to protect performance when the market takes a decided turn for the worse, while also maintaining sufficient market exposure to ride the upside when the market bounces back. It is this delicate balance that the Investment Committee seeks to maintain through the constant examination and, where necessary, adjustment of our positions as the investment conditions change.