Stonehouse Core Value Portfolio
Monthly Update - July 2016

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July Performance Overview

The Stonehouse Core Value Portfolio (CVP) rose +1.79% over July with a solid start to the new financial year.

Stand out performances were primarily generated by Equity holdings including the ASX 200 ETF +6.69%, JO Hambro[2] +6.61%, SGH ICE +5.97% and our new position in Japan High Dividend ETF[2] +4.39%. European exposure through Lansdowne[2] -0.26% and Emerging Market manager Northcape -0.49% were two Equity detractors for the month. The CVP's Fixed Income holdings, Ardea +1.25%, T Rowe +1.31%, CQS +1.56% and Payden +1.09% all delivered positive returns as high yield and loan markets in particular performed strongly.

The Portfolio's domestic Property investments also performed well for the month with SG Hiscock +5.38% and Cromwell +5.05% continuing their stellar run as investors have continued to clamour for yield; our global listed Infrastructure manager Lazard[2] +3.65% posted a strong return after a muted earlier period.

Alternatives managers were mixed with our tail risk exposure 36 South[2] -5.92% and Blackrock Absolute Return -1.15% giving ground. Bennelong +1.46%, Invesco +0.74% and AQR Managed Futures +0.15% contributed positively to the performance.

While the CVP has performed strongly this month, the Investment Committee is also cognisant of increasing market risks and has taken profits in markets which have performed strongly and purchased cheaply priced insurance over the expensive US Equity market. We remain opportunistic in identifying attractive investments and to this effect we have deployed an initial allocation to an active Global Equities manager focused on identifying attractively priced smaller growth companies which have lagged the recent strong run in Equity Markets.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	$1.0640

Asset class ranges & current allocations[1]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	34.2%
Property	0% – 25%	4.8%
Equities	25% – 65%	37.9%
Alternatives	5% – 35%	17.3%

Top 10 investment holdings (ex cash)
1. Statestreet S&P/ASX 200 ETF
2. Northcape Emerging Markets
3. AQR Managed Futures
4. Platinum International Class A
5. Wingate Global Equity Income
6. T Rowe Dynamic Global Bond Fund
7. Payden and Rygel Global Income Opportunities
8. Kapstream Absolute Return
9. Invesco GTR
10. J O Hambro Asia ex Japan

[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).

[2] In local currency terms.

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Market Performance and Outlook

Equity market prices rose once again in July and Bond yields fell even lower with the US 10 Year reaching 1.5%. There is clearly a wide disconnect between the concerns and forecasts of many respected investors/analysts and current market prices. The case for Equities continues to be supported by the historically strong relative dividend yield (4-5%) over Government Bond yields (0-1.5%), however we remain concerned about complacency in the market as stretched US Equity valuations have pushed the key US Equity Index (S&P 500) to all-time highs with volatility at very low levels.

With yields at record lows we see risks for long term investments in Bonds with gains only likely over shorter term durations, during market gyrations, or in extreme recessionary/deflationary scenarios. The CVP continues to actively avoid this exposure and has a dedicated opportunistic Fixed Income allocation. The US is still the world's best hope in terms of economic growth and whilst Chinese nominal and real growth remains high in relative terms, the downward trend is quite evident. As such the CVP continues to employ active Equity managers in the Asian and Emerging Market space.

The expected trend of lower rates in Australia lead us to view Australian Government Bonds, Property and Equities as attractive investments on a relative basis. Australia's Equity market has lagged overseas counterparts since the GFC but we remain conscious of risks emanating from several quarters and hence maintain a bias to more actively managed positions.