Stonehouse Core Value Portfolio
Monthly Update - July 2017

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July Performance Overview

The Stonehouse Core Value Portfolio began the new financial year slightly down (-0.18%), in a month that also saw the Australian share market finish flat. The MSCI World Index returned -1.2% in unhedged currency terms which spoke to a month where the Australian dollar had substantial consequences for the Australian investor, appreciating strongly (+3.7%) to be now 10% higher for the calendar year, hampering unhedged global asset returns. With respect to other Asset Classes, Australian bonds rose +0.3%, global credit markets also gained and Australian listed property was slightly negative (-0.1%).

The Portfolio's global equity managers were mixed for the month, with the major contributors including Old Mutual World Equity (+2.5%)[1], MSCI Japan High Dividend ETF (+1.8%)[1], Henderson Global Natural Resources (+3.6%) and Platinum (+1.1%), while detractors included Northcape Emerging Markets (-2.1%), Lazard Global Small Caps (-1.7%) and Wingate (-2.3%), with the latter particularly impacted by the strong rise in the Australian dollar.

Australian equity managers were also mixed, with positive performance from Allan Gray (+1.1%), while IML Equity Income (-1.8%) and SGH ICE (-1.4%) lagged due to their value bias and lack of exposure to resources and more cyclical industries. We remain confident in these managers/strategies as they have proven to add considerable value during most market cycles.

There were also mixed performances within the Portfolio's Property and Infrastructure positions with Lazard Global Listed Infrastructure recording a positive return for the month (+1.3%), whilst Cromwell Phoenix Property Securities (-0.7%) and Resolution Global Property Unhedged (-2.3%) detracted from performance. We have been generally under-allocated to this Asset Class, thus limiting the impact of these negative returns on the CVP's overall performance.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	$1.0567

Asset class ranges & current allocations[2]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	28.6%
Property	0% – 25%	3.8%
Equities	25% – 65%	46.1%
Alternatives	5% – 35%	19.4%

Top 10 investment holdings (ex cash)
1. Macquarie True Index Aus Shares
2. Wingate Global Equity Income
3. Old Mutual World Equity
4. Platinum International Class A
5. Northcape Emerging Markets
6. T Rowe Dynamic Global Bond
7. Invesco GTR
8. IML Equity Income
9. CQS Credit Multi Asset Fund
10. AQR Managed Futures

[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).

July Performance Overview (continued)

The CVP's Alternative managers experienced modest negative returns, including Bennelong Long Short (-1.4%), Invesco (-0.5%) and Blackrock (-0.9%); however these numbers were partially offset by strong gains from the JP Morgan Global Macro Fund (+3.4%).

Fixed Income positions performed well including CQS (+1.1%), Payden & Rygel (+0.4%) and Ardea (+0.1%) benefiting from the outperformance of credit and government bond yields continuing to fall (providing price increases for existing bond holders).

Entering a new financial year we are well placed to rebalance certain Asset Classes within the Portfolio and take advantage of pockets of value. The Investment Committee is continually reviewing the appropriateness of the Portfolio's Asset mix and is now particularly focused on the Alternatives managers with a view to extract better value wherever possible.

Market Performance and Outlook

Global share markets were mixed during July. The US was up for the fourth month in a row (S&P 500 Index gained +1.9%), supported by generally solid corporate earnings results and a weaker exchange rate (US Dollar Index -2.9%). Europe was mixed with the UK up modestly (FTSE 100 Index +0.5%) while equity markets in France and Germany fell. In Asia, Japan was down (Nikkei Index -0.5%) but the rest of Asia was quite strong (MSCI ex Japan Index +4.9%). The Australian share market closed at exactly the same level as at the beginning of the month, however, returns across sectors diverged significantly.

Global growth continues to accelerate at a moderate pace with a synchronised global expansion taking place. Capital expenditure appears likely to pick up over the next six months as businesses become more optimistic about the potential to grow revenues. This capex growth will focus mainly on productivity gains through technology and together with solid growth in consumer spending should add to the growth momentum over the next year or so assuming no major shocks to business and consumer confidence.

As stated in previous updates, at this stage, the biggest risk to financial markets remains synchronised tightening amongst the world's major central banks. The Federal Reserve (Fed) is expected to lead in this cycle and could make an announcement about balance sheet reduction as early as in September. The European Central Bank and UK bank may also start policy normalization this year. These will reduce the level of market liquidity putting pressure on the bond market and potentially equities.

While equity markets globally remain generally expensive, selective opportunities exist in Europe, Japan and Emerging Markets. Global Bond markets continue to be richly valued while the level of credit spreads is compressed thus not providing an attractive return given the risk involved.