Stonehouse Core Value Portfolio

Monthly Update – July 2019

July Performance Overview

The Stonehouse Core Value Portfolio (CVP) generated a return of +1.04% in July in a month which saw both the Australian equity market and the MSCI World Ex Australia Index post solid gains.

Within the domestic equity component of the Portfolio, the best performing strategies were the small cap exposure held through SGH ICE (+3.9%) as well as Allan Gray Australia Equity (+3.9%), both outperforming their indices. The remaining two Australian equity exposures, Macquarie Australian Share True Index (+3.0%) and the defensive, income focused strategy IML Equity Income (+1.1%), also provided positive returns.

Two new global equity positions were introduced to the portfolio during the month - Loomis Sayles Global Equity Fund and Lazard Global Equity Franchise Fund. Positions in Platinum International and Talaria Global Equity were lightened. Performance within the global equity strategies was mixed during July. The best performing fund was the new addition to the portfolio, Loomis Sayles Global Equity (+3.0%). This was followed by Platinum International (+2.4%) and the other new addition to the portfolio, Lazard Global Equity Franchise (+2.1%). The emerging markets exposure held through Northcape Emerging Markets (-1.7%) was the biggest detractor as the trade dispute between the US and China heated up. This was followed by Talaria Global Equity (-0.1%) which posted a small loss.

Within Alternatives, Bennelong Long Short Equity (+6.9%) was the best performing strategy, with the fund receivable a favourable balance of fundamental news during the month and as appetite for higher yield stocks moderated. GMO Major Markets (-0.5%) generated a small loss.

Within property and infrastructure, the best performing strategy was Cromwell Phoenix Property Securities (+3.5%). This was followed by Resolution Capital Global Property Securities (+2.3%), Lazard Global Listed Infrastructure (+1.3%) and AMP Capital Core Infrastructure (+1.2%). The position in Lazard Global Listed Infrastructure was increased slightly during the month.

Performance of the fixed income exposures was positive again in July. The best performing strategy was the new addition to the portfolio, Alexander Fixed Income (+0.8%) as well as the core holding in Franklin Templeton Australian Core Bond Plus (+0.8%). Following these strong performers the other funds all produced positive returns - Aquasia Enhanced Credit (+0.7%), Ardea Real Outcome (+0.6%), CQS Multi-Asset Credit (+0.6%), Smarter Money Active Cash (+0.5%) and Payden Global Income Opportunities (+0.1%).

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Portfolio Summary

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Unit Price at 31 July 2019	$1.0798

Asset Class Ranges & Current Allocations [1]		Current Exposure
Cash & Fixed Interest	15% - 60%	50.2%
Property	0% - 25%	10.0%
Equities	25% - 65%	32.7%
Alternatives	5% - 35%	7.0%

[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.	Franklin Templeton Australian Core Bond
2.	Platinum International
3.	Talaria Global Equity
4.	Macquarie Australian Shares True Index
5.	IML Equity Income
6.	Northcape Emerging Markets
7.	Aquasia Enhanced Credit
8.	Ardea Real Outcome
9.	Bennelong Long Short Equity
10.	Payden Global Income Opportunities

Market Performance and Outlook

July was all about interest rates, with the Reserve Bank and the Federal Reserve both cutting (0.5% in Australia and 0.25% in the US). Here in Australia, the cash rate and bond yields are at new record lows. The RBA said it will pause to assess the impact of its actions, but did not rule out more cuts, and also said the cash rate will stay low for a long time. These moves, combined with the passage of the Government's tax cuts, should provide some support for the economy as we move into 2020. However, inflation is still too low and the unemployment rate too high for the RBA to declare success.

The US Federal Reserve disappointed markets by not cutting as much as had been hoped, and by Chair Powell's clumsy press conference. This, plus new US tariffs on Chinese goods, pulled equity markets down at the end of the month, but not before both the ASX200 and the S&P500 had reached new record highs.

The ECB also said it is ready to cut interest rates and provide more QE if needed. In the UK, Boris Jonson has become PM and promises to deliver Brexit one way or another by 31 October. The UK political and economic outlook is becoming ever riskier and it is little surprise the markets are punishing Sterling.

Central bank policy developments are very important for how the investment landscape unfolds over the coming 12 - 18 months. The "lower for longer" interest rate and bond yield environment now looks to be entrenched, with little scope for rates to rise for quite some time. In this environment, equity market valuations can be well supported by the interest-rate structure, leaving earnings growth as the principal source of risk for equities. At this stage, we do not see earnings risk outweighing interest rate support, but will be closely monitoring this as events unfold.

We believe it is still appropriate to run well-diversified portfolios with risk asset allocations, although with defensive investments within those risk asset exposures. With returns on cash and bonds falling even lower, the Investment Committee will consider steps to reduce low returning bond strategies and redeploying the funds to more productive opportunities in fixed income.

As always, we will be monitoring equity markets very carefully for risks which may require us to scale back portfolio exposures. If a correction were to occur in equity markets, we would assess whether it is a potential buying opportunity.