Stonehouse Core Value Portfolio
Monthly Update - June 2014

stone|house ASSET MANAGEMENT

Performance overview

Over the June quarter the Stonehouse Core Value Portfolio (SCVP) performed well rising +1.26% as markets recovered slightly from a bumpy start to the year.

Positive performances over the quarter came from property exposures Brookfield Global Property (+10.34%), Phoenix Property Securities (+8.57%), and SGH Property Income (+8.34%). There was also solid performance from infrastructure holding Lazard Global Infrastructure (+6.49%) and equity exposures Barwon Global Private Equity (+3.37%), Platinum Japan (+5.02%), Platinum International (+2.17%) and Epoch Global Equity Yield (+5.55%).

Detractors to performance over the quarter mostly came from defensive positions in Gold Bullion (-0.47%), volatility trader 36 South Kohinoor (-3.25%) and Bennelong Long/Short Equity (-6.14%). We continue to support these holdings within the SCVP as their focus is primarily one of capital preservation. Should markets take a turn for the worse, the positive performances for these defensive positions will help to offset losses elsewhere.

Recently we have allocated cash to new entry equity managers, the UBS Preferred Australian Share ETF and the iShares Global 100 ETF. We have also increased the size of the Portfolio's Brookfield Global Property holding. We feel that this rebalancing of the SCVP to gain greater market exposure better positions the Portfolio while we continue to seek opportunities in areas of the market where we see significant value arising.

Portfolio Summary[1]

	Stonehouse Core Value Portfolio
Unit price ~	$1.0130
December distribution (CPU)^	0.03c

Asset class ranges & current allocations[1]	Range (min)	Range (max)	Current exposure
Cash & Fixed Int.	15%	60%	35.5%
Property	5%	25%	6.4%
Equities	25%	65%	38.7%
Alternatives	5%	35%	18.2%

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

~Unit price stated is ex 30 June 2014 distributions.

^(CPU) refers to cents per unit.

[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. 36 South Kohinoor Core Fund
3. Bennelong Long Short Equity Fund
4. Ardea Australian Inflation Linked Bond Fund
5. Vanguard FTSE Emerging Market ETF
6. Schroders Fixed Income Fund
7. Kapstream Absolute Return Fund
8. Payden & Rygel Global Income Opportunities Fund
9. Wingate Global Equity Income Fund
10. Platinum International Fund

Market Performance and Outlook

The June quarter certainly represented a turning point for global equity markets after a strong 2013 forced a degree of consolidation during the first part of the year. Investors became more optimistic that the global economic recovery remains on a firm footing after cold weather effects in the US dissipated during April and May. Japan and the UK too remain on the economic recovery path with Japan in particular benefitting from its aggressive fiscal / monetary policy setting - and the hint of significant structural reforms to come. If anything, the pace of the economic recovery in the UK remains a little too strong and concerns are starting to mount that the Bank of England may soon need to raise interest rates. Conversely, Europe continues to struggle and this has forced yet another round of monetary stimulus by the European Central Bank (ECB). It appears the structural rigidities bedevilling the European economy are hindering the pace of its recovery. Finally, China continues to post moderate growth, thus underpinning rising global demand. It is with this economic tailwind that global equity markets recovered from their March quarter unease.

Looking forward, we expect to see the global economic recovery gathering momentum and therefore have a positive view on equities. That said, we also harbour concerns about valuations in some pockets of the global equity market in particular, US equities and most income-orientated assets. With this in mind we also have a less optimistic view about valuations for fixed income with the threat of rising yields as central banks gradually remove their accommodative monetary stance. In light of this, we have positioned the Portfolio accordingly with minimal exposure to fixed income duration and steering clear of those pockets of the global equity market that we consider to be overbought.

The Australian dollar remains a bugbear. Virtually every metric of ‘fair-value’ has it trading at levels considerably below those at which it presently resides today. As global yields once more begin to normalise we feel that this inconsistency will be corrected and therefore given this medium- term purview, a significant portion of our SCVP international holdings remain unhedged. Given this, and the fact that the SCVP remains weighted toward offshore equities, any subsequent decline in the Australian dollar will stand to further benefit the Portfolio’s performance.