Stonehouse Core Value Portfolio
Monthly Update - June 2017

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June Performance Overview

The Stonehouse Core Value Portfolio ended June slightly negative -0.17% in what proved to be a volatile month. On a positive note, the Portfolio ended the April – June quarter up +2.1%, building on gains from the previous quarter.

Our Australian equity managers continued to do well and to outperform the index, with SGH ICE (+2.0%), Allan Gray (+0.4%), LHC (+0.7%) and IML Equity Income (+0.5%). Within our global equity exposure, the standout was Lansdowne (+6.7%)[1] with both their long and short exposures bearing fruit during the month. The MSCI Japan ETF (+1.3%)[1] and Old Mutual also posted positive returns (+0.4%)[1], while Platinum (-1.9%) and Wingate (-0.4%) detracted from performance and were impacted by the strong Australian dollar. However, our specialist managers Northcape Emerging Markets (-2.3%), Lazard Global Small Caps (-2.2%) and Henderson Global Natural Resources (-3.3%) all struggled through the month.

Our property and infrastructure exposures detracted from performance with Lazard (-2.7%), Resolution (-2.1%) and Cromwell Phoenix (-3.0%).

Within our Alternatives exposures we saw varied results. Blackrock (+2.4%), Bennelong (+1.2%) and JP Morgan (+2.0%) provided solid returns for the month, while Invesco (-0.2%), AQR (-3.8%) and Acadian (-0.7%) posted negative performance.

Our fixed income managers delivered subdued and mixed performance with CQS (+0.3%) and Payden & Rygel (+0.1%) posting small positive gains, while Ardea (+0.2%) and T Rowe (-0.3%) slightly detracted from returns.

Activity within the Portfolio included increasing our exposure to Lansdowne European Equity and the MSCI Japan High Dividend ETF at the end of May, with both positions performing well during the month of June. We also took our Lazard Global Listed Infrastructure exposure back to our target allocation after a stellar 12 month performance run. During the month we completely exited our holding in the Kapstream Absolute Return Fund noting we had been slowly lightening our holding throughout the quarter to decrease exposure to the Fixed Income asset class.

The Portfolio, while positioned to continue to take advantage of stronger equity market returns maintains caution in the face of recent subdued levels of volatility.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	$1.0927

Asset class ranges & current allocations[2]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	30.8%
Property	0% – 25%	3.8%
Equities	25% – 65%	44.1%
Alternatives	5% – 35%	18.9%

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

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Market Performance and Outlook

Global equity markets were predominantly positive in June with the MSCI World Unhedged (+0.4%) and Emerging Markets index (+0.5%) posting similar returns in USD terms. US Equity markets (+0.6%) gained despite mixed economic data, while the ASX 200 (+0.2%) also finished the month slightly higher despite a weak ending.

The Australian dollar ended the month sharply higher (+3.1%), causing the above mentioned global indices to deliver negative performances in Australian dollar terms, while Australian REITs (-4.4%) ended the month markedly lower due to weakness amongst Retail REITs.

Government Bond Markets in general were negative, with credit continuing to perform well. Commodity market performance was mixed with Oil prices declining -4.8% over the month while Copper prices (+5.1%) remained resilient.

The performance of the broader global economy is expected to improve in the second half of the year on the back of a cyclical upswing, however structural themes such as excessive debt, poor demographics and waning productivity headwinds remain.

Equity markets globally are at the higher end of their valuation range, with selective opportunities existing in Europe and Emerging Markets. Global Bond markets continue to be richly valued while credit spreads provide asymmetric return profiles at these levels.

The biggest risk to financial markets remains synchronised tightening amongst the world's major central banks, with the potential reduction in central bank balance sheets set to drain global liquidity. At this stage the Federal Reserve is the only major central bank to begin a tightening cycle but the potential exists for both the Bank of England and the European Central Bank to begin tightening and/or reducing the level of market liquidity, conditions that global equity and bond markets haven't been accustomed to in recent years.