Stonehouse Core Value Portfolio

Monthly Update – June 2019

June Performance Overview

The Stonehouse Core Value Portfolio (CVP) generated a return of +1.98% in June. Equity markets bounced back during the month with the MSCI World Ex Australia Index posting a gain of +5.3% and the Australian equity market +3.2%.

Within the domestic equity component of the Portfolio, the best performing strategy was the exposure held through Macquarie Australian Share True Index (+3.6%). This was followed by Allan Gray Australian Equity (+2.9%) and IML Equity Income (+1.2%). The smaller cap exposure held through SGH ICE (-0.4%) generated a small negative return.

All global equity strategies generated strong positive returns in June, led by the emerging markets exposure held in Northcape Emerging Markets (+4.9%). This was followed by Platinum International (+3.8%) and Talaria Global Equity (+3.6%). The position in Merian Global Equity was exited at the end of the month with the intention of rotating into two favoured global equity positions in the coming weeks.

There were mixed results in Alternatives, but it was pleasing to see Bennelong Long Short Equity positing a positive (+3.0%) for the month after a difficult 12 months. GMO Major Markets (-0.6%) generated a small loss.

Within property and infrastructure, the best performing strategy was the Lazard Global Listed Infrastructure (+3.5%) and we have made a small increased allocation to this manager who continues to deliver. This was followed by Cromwell Phoenix Property Securities (+2.6%) and AMP Capital Core Infrastructure (+1.4%). The global property exposure held through Resolution Capital Global Property (-0.2%) posted a small loss.

Performance from all the fixed income exposures was positive again in June. The best performing strategies were the Portfolio's core exposure to Franklin Templeton Australian Core Bond Plus (+1.1%) as well as Ardea Real Outcome (+1.1%). This was followed by Payden Global Income Opportunities (+0.7%), CQS Multi-Asset Credit (+0.7%), Aquasia Enhanced Credit (+0.4%) and YBR Smarter Money Active Cash (+0.3%).

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Portfolio Summary

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Unit Price at 30 June 2019	$1.1226

Asset Class Ranges & Current Allocations[1]		Current Exposure
Cash & Fixed Interest	15% - 60%	53.7%
Property	0% - 25%	9.3%
Equities	25% - 65%	30.0%
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.	Talaria Global Equity
3.	Platinum International
4.	IML Equity Income
5.	Macquarie Australian Shares True Index
6.	Northcape Emerging Markets
7.	Aquasia Enhanced Credit
8.	Ardea Real Outcome
9.	Payden Global Income Opportunities
10.	SGH ICE

Market Performance and Outlook

June closed out 2018/19 on a positive note with equities, bonds and commodities all generating positive returns. The catalyst for this was central banks moving further down the path of easing monetary policy to support growth. In the US, this has so far been limited to accommodative statements from the Federal Reserve, while in Australia and India it's been backed by actual reductions in cash rates. At its June meeting, the Board of the Reserve Bank of Australia cut the cash rate to a new record low of 1.25% (in advance of a further 25bps cut in July to 1%). Subsequently, Governor Phil Lowe made it clear that more rate cuts are on the way. Financial markets are expecting the Australian cash rate to fall to 0.75% by the end of 2019, and potentially to 0.50% in 2020.

These developments prompted a rally in equity markets in June. After what has proved to be a very turbulent year, the S&P 500 reached new record highs in June, while the ASX 200 rose past the 6600 level. Bonds also rallied further in June, with yields in Australia falling to new record lows. For 2018/19 as a whole, bond markets performed very well.

Despite significant gains in the price of oil and iron ore, the A$/US$ exchange rate rose only slightly in June, largely in response to the impact of expected interest rate cuts in the US. The prospect of lower US interest rates, combined with Iran tensions, helped push up the price of gold.

Financial markets are still very aware of some significant risks, including the US/China trade dispute, further slowing of the global economy, Brexit, and tensions in the Middle East. As we move into 2019/20, these issues will continue to impact markets from time to time.

The central bank policy developments in June are very important for how the investment landscape might unfold over the coming 12 to 18 months. The 'lower for longer' interest rate and bond yield environment now looks to be entrenched even further, with little scope for rates to rise meaningfully any time soon. 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 reasonable equity allocations. As always, we will be monitoring those markets very carefully for risks which may require us to scale back portfolio exposures. If volatility or a correction were to occur in equity markets, we are also in the fortunate position to assess and take advantage of potential buying opportunities that emerge.