Stonehouse Core Value Portfolio
Monthly Update - March 2017

March Performance Overview

The Stonehouse Core Value Portfolio (CVP) rose +1.05% for the month of March, consolidating gains of +1.47% for the quarter.

Within our equity exposures, solid performers were found amongst our active Global equity managers Platinum (+3.3%) and Wingate (+2.1%). Our Australian equity holdings Allan Gray (+3.9%) and IML Equity Income (+2.8%) showed strong gains along with managers in the smaller cap space, LHC (+3.1%) and SGH ICE (+3.2%). Our emerging market manager Northcape (+4.2%), also performed well for the month and presented a solid return above the benchmark. Detractors over the month included Henderson Global Resources (-0.6%) and Lansdowne European Equities (-0.7%)[1].

Within our property holdings Cromwell Phoenix (+1.7%) produced positive performance and Lazard Global Infrastructure returned an impressive +5.9%, contributing strong gains of +14.9% over the last 6 months, as the search for yield continues to be in favour by the market.

The month of March produced mixed results for our Alternatives holdings, with our Multi Asset manager Invesco (+1.1%) and Global Macro Manager JP Morgan (+2.5%) showing positive returns, whilst 36 South Kohinoor (-3.7%)[1], Blackrock (-1.8%) and AQR Managed Futures (-5.1%) were the main detractors.

Performance amongst our fixed interest holdings was subdued but predominantly positive with CQS (+0.4%), Ardea (+1.2%) and Kapstream (+0.4%) contributing to the performance, and only T Rowe (-0.8%) detracting from returns.

We remain cautiously positioned with a large proportion of low beta equity managers that we believe will partially mitigate any increase in equity market volatility. The CVP also maintains a high exposure to alternative managers which should benefit from more volatile market conditions and solid cash levels which can be used to increase market exposure opportunistically.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	$1.0700

Asset class ranges & current allocations[2]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	32.6%
Property	0% – 25%	3.6%
Equities	25% – 65%	45.0%
Alternatives	5% – 35%	18.4%

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. AQR Managed Futures
8. Kapstream Absolute Return
9. IML Equity Income
10. Invesco GTR

[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).

AFSL: 292 469

1300 778 663 | www.stonehousegroup.com.au | info@stonehousegroup.com.au

stone|house

Market Performance and Outlook

In line with market expectations, on March the 15th, the US Federal Reserve raised interest rates for the second time in three months. The overnight interest rate was hiked by 0.25% to 1.00%. The rate increase was driven by steady economic growth, a robust labour market and confidence that inflation is rising to the central bank's 2-3% target.

The Fed's policy-setting committee did not flag any plan to accelerate the pace of monetary tightening. However, the big surprise for the market was talk of reducing the bloated Fed balance sheet which has been a major factor driving rates and debt markets since 2008.

While volatile during the month, Equities were supported by a decline in US Long Term Bond Yields. The 10 year traded down to 2.25% and is now well below the recent peak of just over 2.6%, adding weight to questions over the direction of Bond yields. This recent fall should ease funding cost pressures on the economy; however the reversal in bond yields has stalled the big rally in Financial stocks which is partly predicated on a steeper yield curve.

Given the increases in equity prices experienced since the beginning of the year, institutional investors are increasingly concerned over Equity valuations in Developed Markets (notably the US). The reflationary trade appears to have lost some momentum as investors struggle to find areas of value in developed markets and therefore take profits. The recent pause in the rise of the US Dollar should provide some reprieve for global companies, although any revenue and earnings upgrades may disappoint analyst expectations. Inflation readings remain elevated relative to six months ago; however on the whole price increases have flattened from the end of 2016 as the growth in input prices such as Commodities has trailed off. Iron Ore has settled below US$70 and many, including major producers expect a softer market for the remainder of the year. This may put more downward pressure on the Australian Dollar which failed to break-out of a fairly tight range even with the strong surge in Coal and Ore prices over the last 6 months.

US Fiscal policy is also under scrutiny as the Trump driven euphoria has given way to the reality of passing legislation through Congress and the Senate. Health care stocks have been big beneficiaries of the Trump win and are a current focus, with Health reforms hitting a roadblock with the right-wing factions of the Republican Party.

Elsewhere growth appears to be gaining traction; the Euro zone economy is expanding but the region faces a barrage of political tests which will keep the ECB on hold.

Equities have experienced a good run over the last 12 months and odds of a correction, however limited, also appear to be rising. As such we are maintaining a well-diversified portfolio with a sizeable alternatives and defensive exposure. Emerging markets remain cheap as compared to developed markets; however their relative risk is quite high.