Stonehouse Core Value Portfolio
Monthly Update - March 2018

March Performance Overview

The Stonehouse Core Value Portfolio (CVP) returned -0.55% in March, holding up very well in a month where all major equity markets registered significant falls.

The equities sector detracted from performance as investors globally reduced their exposure. JO Hambro fell (-5.6%)[1], Macquarie True index followed the ASX200 down (-3.7%), and Old Mutual also finished the month lower (-3.1%)[1]. Bright spots however included Lazard Global Small Caps (+1.7%), Lansdowne Europe (+0.9%), and Wingate Global Equity Income (+0.8%).

Our alternatives sector recorded mixed results in March, as JP Morgan Global Macro (-3.2%) and AQR Managed Futures (-1.6%) both registered losses, while Acadian Diversified Alpha (+1.3%) and Bennelong Long Short Equity (+0.9%) contributed positively to the portfolio return.

With interest rates on government debt securities falling in March, our Property and Infrastructure sector bounced back, with impressive returns from Resolution Global Property (+3.3%) and Lazard Global Infrastructure (+1.2%).

Fixed Income managers again had a mixed month. In a reversal of last month's performance, Ardea Real Outcome (+1.6%) contributed while T Rowe Global Bond (-0.5%) detracted.

In March the CVP initiated a position in the Smarter Money Active Cash Fund, an active fixed income fund, as we look to optimise the return on our defensive positions. With a net return of 3.0% per annum for the three years to the end of February 2018, we believe that this low risk fund offers a more attractive return proposition than holding cash at this point in the cycle.

Given the current market volatility and uncertainly around geo-political events we remain cautious and happy to hold an elevated level of defensive assets within the Portfolio as we wait for better risk reward opportunities to present themselves.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	$1.1077

Asset class ranges & current allocations[2]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	33.7%
Property	0% – 25%	4.3%
Equities	25% – 65%	43.2%
Alternatives	5% – 35%	18.1%

Top 10 investment holdings (ex cash)
1. Northcape Emerging Markets
2. Old Mutual World Equity
3. Wingate Global Equity Income
4. Macquarie True Index Aus Shares
5. Invesco GTR
6. T Rowe Dynamic Global Bond
7. Platinum International Class A
8. Payden and Rygel Global Income Opportunities
9. Ardea Inflation Plus
10. SGH ICE

[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

Equity market volatility remained elevated in March as negative sentiment took hold in asset markets, a clear shift from the rosy outlook seen throughout 2017. A number of issues caused concern for investors, with the probability of a recession-inducing trade war the number one catalyst for sharp market gyrations.

Within Fixed Income, risk aversion saw government bonds yields retreat across the globe while credit spreads widened. The US and Australian 10-year government bond yields finished the month at 2.74% and 2.60%, down from 2.86% and 2.81% at the end of February, respectively. Global Credit indices fell 1.2% (hedged to AUD).

The ASX200 Accumulation Index lost 3.8% for the month, while the MSCI World (AUD Hedged) closed down 2.3%, the S&P500 Index (USD) fell 2.5% and the MSCI Emerging Markets Index (AUD Hedged) finished the month 3.5% lower. With markets in 'risk off' mode, the AUD again lost ground against the majors, falling 1.6% against the US Dollar and 2.4% against the Japanese Yen.

Within Australia, all of the major market sectors registered negative returns, with Telecomms (-6.1%) and Financials (-5.8%) falling furthest.

As we enter April 2018, volatility across markets remains elevated, as retaliatory tariffs announced by China have been met with an announcement by Trump that further, larger tariffs could now be imposed by the US. Despite the immateriality of the tariffs ($100 billion in potential tariffs versus a $75 trillion global economy), the tit-for-tat, escalating responses are a legitimate concern for investors that a real and material trade war could develop from here.

Against this cautious backdrop, there remain positives. Globally GDP growth remains positive and there is little sign of recession in the next 6-9 months, US tax cuts are set to increase company earnings, Chinese growth remains upbeat and market commentators have discussed the prospect of global tax cuts.

For investors feeling confident enough to add to exposures at current market levels, they must deem the talk of a trade war as purely short-term market noise to be seen through. However, given the uncertainty surrounding Trump and the entire situation, as mentioned, we feel deploying capital at this juncture would be imprudent and prefer instead to patiently wait for better risk-reward opportunities.