Stonehouse Core Value Portfolio
Monthly Update - May 2017

May Performance Overview

The Stonehouse Core Value Portfolio maintained its positive momentum for the year returning +0.87% in May and is now up +5.1% over the last 6 months, a welcome result given the difficult period experienced through late 2016.

For the month, the Australian share market fell -2.8%, significantly underperforming the MSCI World (in USD Terms) which rose +2.2%.

Our active Australian equity managers were subdued but all continued to deliver alpha and outperformed the market with Allan Gray (-0.1%), IML Equity Income (-0.2%) and LHC High Conviction (-1.9%) posting negative returns while SGH ICE was flat for the month.

Our global equity managers delivered predominantly positive returns for the month, with the major contributors including our Emerging Market manager Northcape (+6.3%) and our global equity managers Platinum (+4.1%) and Wingate (+0.6%). Our Global Small Cap manager Lazard (+1.7%) also performed well along with our regional positions in Lansdowne European Equity (+1.4%)[1] and the MSCI Japan High Dividend ETF (+2.4%)[1].

Alternative managers produced mixed performance over the month. Bennelong generated another strong return (+2.9%), while Acadian (+2.0%), Invesco (+0.6%) and JP Morgan (+2.4%) were also positive contributors. AQR Managed Futures (-1.1%) and Blackrock (-0.8%) were the key detractors in this space.

Within our Property and Infrastructure holdings, Lazard Global Infrastructure continued its very strong run, returning +5.6% for the month (12 month returns are now running at +29.6%). Global property via Resolution was positive (+2.3%) whilst Australian property via Cromwell Phoenix produced a negative return of -0.8%.

All of our Fixed Income holdings were positive for the month: CQS (+1.0%), Payden & Rygel (+0.6%), Kapstream (+0.4%), T Rowe (+0.1%) and Ardea (+0.8%). The asset class was buoyed by credit outperforming and government bond yields continuing to fall.

Portfolio Summary

	Stonehouse Core Value Portfolio
Unit price	$1.0946

Asset class ranges & current allocations[2]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	29.6%
Property	0% – 25%	3.8%
Equities	25% – 65%	45.4%
Alternatives	5% – 35%	18.6%

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

[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

Stonehouse Core Value Portfolio
Monthly Update - May 2017

stone|house

Market Performance and Outlook

Geopolitical risks eased during May and equity markets ended the month broadly positive, in spite of the so-called reflation trade (or 'Trump trade') cooling off.

While all major regions posted gains, Asia ex-Japan and Japan stood out delivering returns of +4.1% and +2.4% respectively. In Europe, equity markets rallied as the centrist Emmanuel Macron won the French presidential election. However, the Australian equity market declined by -2.8% on the back of a large fall in the banking sector (-11.5%). The financials sector was impacted by the proposed bank tax included in the Australian Federal Government's 2017 budget. The implications of ongoing regulatory capital requirements as well as exposure to the housing market seem to be undermining investor sentiment toward the banking sector at this time.

During May, most commodities sold off, with iron ore and coking coal falling sharply and crude oil ending the month slightly lower. Globally, recent inflation figures continued to point to a lack of inflationary pressure (e.g. US core inflation slipped back to just +1.5% Y/Y in April), which in combination with softer commodity prices caused bond prices to rally.

Global growth expectations seem to have deflated somewhat as the gap between hard (based on actual numbers) and soft data (based on surveys) failed to close. The US first quarter GDP figure was revised upward but many forward looking activity indicators continue to disappoint. In China, the early 2016 credit-induced stimulus and accelerated supply-side reforms are now peaking and should cool over the remainder of 2017. Economic statistics from Europe, however, continue to be robust with the Eurozone composite PMI holding steady at a six-year high and the unemployment rate continuing to decrease.

The Australian economy remains challenged in spite of the positive yet weak GDP growth in the March quarter. Weak wages growth, the soft trend in employment combined with high levels of debt and the overheated housing market are areas of concern. Nonetheless, the RBA remains upbeat on the business sector and expects economic growth to pick up to 3% toward the end of the year.

As expected, the Fed raised the federal funds rate for the third time in seven months at the FOMC meeting on 14 June and announced plans for reducing its balance sheet. While the market expects a gradual tightening cycle, a hint of more aggressive tightening in the future could rattle markets.

Our view remains unchanged that some Developed Markets, especially the US, remain expensive with selective opportunities in Japan, Europe and Emerging Markets. We also recognise that risks are somewhat elevated and have the potential to provide a shock to markets which many commentators believe are "priced for perfection".