Stonehouse Core Value Portfolio
Monthly Update - November 2015

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November Performance Overview

The Stonehouse Core Value Portfolio (CVP) fell -0.25% over the month of November as markets failed to gain traction in light of considerable headwinds from declining resource prices and concerns about an imminent increase in the US Federal Reserve Funds rate by the US central bank.

Over the month, positive performances came from our defensive holdings volatility managers 36 South (+3.41%), as well as trend followers AQR Managed Futures (+2.91%) and Cantab (+3.67%). Encouragingly, domestic long/short equity managers Bennelong (+0.65%) and Blackrock (+1.32%) also recorded positive results.

Negative performances came from domestic property exposures SG Hiscock (-1.85%) and Phoenix Property Securities (-2.03%) as well as international equities manager Platinum International (-1.59%).

What are we doing in response to the present market turmoil? We are continuing to 'average in' to what we feel are oversold positions in areas where we see the value proposition as compelling. Further, we continue to seek to add to our ASX 200 ETF position if –as may be the case – the market becomes distressed and the ASX 200 becomes grossly oversold. Longer term we feel global financial markets will regain their footing and (with the benefit of hindsight) the oversold levels of late 2015 will be looked upon as a good buying opportunity.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	$1.0592

Asset class ranges & current allocations[1]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	28.3%
Property	0% – 25%	4.3%
Equities	25% – 65%	44.7%
Alternatives	5% – 35%	22.7%

Top 10 investment holdings (ex cash)
1. Statestreet S&P/ASX 200 ETF
2. Bennelong Long Short Equity
3. 36 South Kohinoor Core Fund
4. Northcape Emerging Markets
5. Payden and Rygel Global Income Opportunities
6. Kapstream Absolute Return
7. Ardea Inflation Plus
8. Wingate Global Equity Income
9. Platinum International Class A
10. J O Hambro Asia ex Japan

[1] 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

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Market Performance and Outlook

As of the time of writing, our 'strong start, soft in the middle, then strong finish' thesis for global financial markets over calendar 2015 appears to be in jeopardy. We may yet get the profile of performance right but the uptick in financial markets may not come until early /mid 2016 – as opposed to the 'Santa Claus rally' we earlier anticipated.

Why have financial markets suddenly become so bereft of optimism? That's a good question. Widely cited concerns include the recent increase in the US Federal Reserve Funds rate – but this has been widely anticipated for some time. Likewise, overvalued US equities have also been blamed for the sudden downside – but again, this is hardly new information and as our analysis has illustrated the wider sphere of global equities as a whole still remains reasonably 'fair-value'.

An additional 'concern' said to be troubling global financial markets at the present time is falling commodity prices. Sure, this affects equity market leadership in the sense that resource stocks like BHP and Rio Tinto have a tendency to drag market indices (especially our own ASX 200) down, but longer term this should be seen to be a positive. Why? Well, most developed nations are energy/resource importers so falling commodity prices bodes well for a stronger developed nation economies (and therefore a stronger global economy) in 2016.

Having experienced such market 'dislocations' before we are confident that - while painful - the present market turmoil is likely to be short-lived. As investors enter 2016 we feel they will once more regain a renewed sense to optimism as they look at the raft of present negatives with a 'glass half full' mentality rather than a 'glass half empty'.

For example, the US central bank finally raising rates is likely to remove a pall of uncertainty that has been bedevilling global financial markets for some time. Likewise, the sudden retraction in global equity prices is likely to invoke some compelling buying opportunities outside the US (some of which we have been recently availing ourselves of). Finally, as mentioned above, falling commodity prices are a positive for earnings projections for most developed nations (with the obvious exception of resource related stocks) and when market participants come to realise this we feel they will finally embrace our long anticipated upswing from the present lows.

That said, even with further downside likely to come before year end we anticipate the CVP will produce a positive 2015 calendar year performance. This should be looked upon as an encouraging result given that most equity markets are likely to record outcomes firmly in the red for 2015. While this may be mildly heartening as we approach year end we would have preferred a better finish for 2015. One guesses that it would be too much to ask from Santa for a decisive upswing in global equity markets before year end. For our regular readers, have a safe and happy Christmas break and we look forward to better times in 2016.