Stonehouse Core Value Portfolio
Monthly Update - November 2017

November Performance Overview

The Stonehouse Core Value Portfolio (CVP) continued it's positive momentum in November, returning +0.87% in a strong month for equities that saw the Australian share market gain +1.6% and the MSCI World Index up +1.7% (in AUD Hedged terms). The Australian dollar (-1.2%) continued to weaken while Australian bonds were up (+1.0%) during the month.

All CVP Equity investments (Australian, Global and Regional) produced positive, albeit more subdued returns compared to the previous month. The strongest performance came from Wingate Global Equity Income (+3.1%) and Lazard Global Small Caps (+3.0%). The portfolio's largest exposures via Old Mutual (+0.9%)[1] and Platinum International (+1.0%) both continued their impressive run for 2017. Regional standouts were Northcape Emerging Markets (+2.2%) and JO Hambro Asia ex Japan (+1.5%)[1] while Australian active managers Allan Gray (+2.3%) and SGH ICE (+1.9%) both outperformed the index and the more defensive holding via IML Equity Income (+1.0%) continued to provide steady positive returns.

The performance within the Fixed Interest sector was mixed with CQS, Kapsteam and Ardea delivering small positive returns whilst T Rowe Dynamic Global Fund was flat for the month.

Property was the standout sector in Australia with the Cromwell Phoenix Property Securities Fund delivering an impressive +4.4% through November. The international exposure via Resolution (+3.2%) also performed well alongside Lazard Global Infrastructure (+1.3%).

Within the Alternative holdings, AQR Managed Futures and Acadian were up +2.2% and +0.4% respectively; JP Morgan Global Macro (-1.4%), Blackrock Absolute Return (-1.4%) and Bennelong Long Short (-1.1%) detracted from the fund's performance. Our core exposure through Invesco GTR was flat during the month.

During the month positions in SGH ICE and J O Hambro Asia were topped up to their targets and cash levels remain sufficient to take advantage of market opportunities as they arise. There is an expectation that markets will continue in a steady fashion over Christmas and the beginning of the New Year. The Investment Committee will continue to monitor the Portfolio through this period.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	$1.1080

Asset class ranges & current allocations[2]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	27.5%
Property	0% – 25%	4.4%
Equities	25% – 65%	48.1%
Alternatives	5% – 35%	18.3%

Top 10 investment holdings (ex cash)
1. Old Mutual World Equity
2. Macquarie True Index Aus Shares
3. Platinum International Class A
4. Northcape Emerging Markets
5. Wingate Global Equity Income
6. Invesco GTR
7. iShares MSCI Japan High Dividend ETF
8. T Rowe Dynamic Global Bond
9. IML Equity Income
10. CQS Credit Multi Asset Fund

[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

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Market Performance and Outlook

Investor sentiment remained upbeat in November amid continued evidence of expanding economic activity and improving outlook for profits. Overall, however, November was a mixed month.

The US equity market managed yet another solid gain of +3.1% (S&P 500 Index), with equity indices boosted by progress on the US administration's corporate tax plan. The UK market was down (FTSE 100 Index -2.2%) and so was the rest of Europe (MSCI Europe Index -2.2%). Profit taking combined with the faltering of coalition talks in Germany weighted on European equity markets. The MSCI Emerging Markets index posted a slight gain but underperformed the MSCI World. Asia was mixed too, with gains in Japan (Nikkei Index +3.2%) and Hong Kong (Hang Seng Index +3.3%) whereas China (Shanghai Composite Index -2.2%) and Korea (Korea 200 Index -2.5%) declined.

The Australian share market rose +1.6% (ASX/S&P 200 Index) despite a sizeable sell-off across the banks and a fall in Telstra. The energy sector was up strongly on a firmer oil price (crude +6%) and corporate activity, while companies with offshore earnings exposure received a boost from a weaker Australian dollar. The latter depreciated by -1.2% against the US dollar, in spite of iron ore gaining +16.4% over the month.

Economic statistics from major countries continue to be broadly positive. In the US the annual growth rate reached a three year high in the September quarter while in Germany, the growth locomotive of Europe, gross domestic product (GDP) expanded at an annualised rate of 3.3% in Q3. A continued soft tone in Australian economic data released during November saw Aussie bond yields falling to 2.50% by the end of the month. Bond yields were generally lower in the Eurozone too, while in the US the yield curve flattened with long bond yields increasing by less than yields at the shorter end of the curve.

Jerome Powell was confirmed as President Trump's nominee for the next Chair of the Fed. Powell seems to be fully committed to the Fed's announced plan for gradual monetary policy and balance sheet normalisation. To this effect, the market has factored in a third Fed fund rate rise this year at the upcoming meeting.

With global equity valuations being stretched we continue to believe that investors will benefit from a selective approach to investing in global equities with Emerging Markets, Japan and Europe offering a more attractive risk/return proposition relative to other markets. With Global Bond markets also continuing to be richly valued, we are looking to source return outcomes from a range of different Asset Classes.