Stonehouse Core Value Portfolio

Monthly Update – November 2019

November Performance Overview

The Stonehouse Core Value Portfolio (CVP) generated a return of +1.42% in November. Performance of equity markets was strong during the month with the Australian equity market and MSCI World Equity Index both posting gains of +3.1% and +3.6% respectively.

Within the domestic equity allocation, all funds in the portfolio produced positive returns. The best preforming strategy was the Firetrail Australian High Conviction Fund (+5.6%), followed by Allan Gray Australian Equity (+4.7%). Both funds outperformed the index strongly as shown by the return of our beta exposure in Macquarie Australian Shares True Index (+3.2%) and the position was trimmed during the month to take profits after a strong calendar year from the Australian market. SGH ICE (+3.1%) also produced a positive return as did IML Equity Income (+1.5%), however not as strong as other managers given its more defensive characteristics.

Global equity managers all produced strong numbers during the month. The best performing strategies were the more recent additions to the Portfolio, Loomis Sayles Global Equity which returned an impressive +6.2%, followed by Lazard Global Equity Franchise (+4.2%). Talaria Global Equity (+3.4%), Platinum International (+1.6%) and Northcape Emerging Markets (+0.7%) all contributed positive returns.

Within the Alternatives allocation, Bennelong Long Short Equity (+2.9%) continues its recent solid run but Partners Group Global Multi-Asset (-0.04%) was flat. The BetaShares Gold Bullion ETF (-3.4%) was added to the Portfolio to provide a hedge against increased economic and geopolitical risks going forward.

The performance of the Property and Infrastructure managers was mixed in November. Cromwell Phoenix Property Securities (+1.9%) was the best performing strategy, followed by Resolution Capital Global Property (+1.1%). Both Lazard Global Listed Infrastructure (-1.3%) and AMP Capital Core Infrastructure (-0.8%) were detractors from the portfolio.

Performance of all fixed income exposures was positive in November as the markets experienced some positive tailwinds. The best performing strategy was Franklin Templeton Australian Core Bond Plus (+0.7%) followed by Aquasia Enhanced Credit (+0.4%), CQS Credit Multi-Asset (+0.3%) Alexander Fixed Income (+0.2%), Ardea Real Outcome (+0.2%) and Payden Global Income Opportunities (+0.1%). Positions within the Fixed Income sector were also adjusted during the month, with increases to Aquasia, Alexander and Ardea's strategies and a decrease in CQS to reduce credit risk leading into 2020.

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Portfolio Summary

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Unit Price at 30 November 2019	$1.1088

Asset Class Ranges & Current Allocations [1]		Current Exposure
Cash & Fixed Interest	15% - 60%	40.2%
Property	0% - 25%	11.6%
Equities	25% - 65%	37.1%
Alternatives	5% - 35%	11.1%

[1] The total exposure may not sum to 100% due to any direct derivative investments (such as options and futures).

Top 10 Investment Holdings (ex cash)	
1.	Aquasia Enhanced Credit
2.	Alexander Fixed Income
3.	Franklin Templeton Australian Core Bond
4.	Ardea Real Outcome
5.	Talaria Global Equity
6.	IML Equity
7.	Platinum International
8.	Lazard Global Equity Franchise
9.	Loomis Sayles Global Equity
10.	Northcape Emerging Markets

Market Performance and Outlook

November was a good month for equity markets as the broad risk-on theme continued. Both the local and US equity markets reached new highs. In contrast, the performance of bond markets was mixed, especially for the global bond markets where expectations of further interest rate cuts have diminished. However, the Australian bond market posted positive returns amid speculation of more RBA rate cuts and possible QE. The A$ fell in response, unwinding its gains in the previous month. The price of gold fell as markets unwound expectations of further rates cuts by the US Federal Reserve.

Signs of tentative stabilisation in global growth, especially in manufacturing sectors, were welcomed by the equity markets, but it is still too soon to sound the all clear on how growth will evolve in the coming year. Markets expect recovery rather than more slowdown, but the leading indicators do not support the idea of a robust recovery. In particular, it seems increasingly likely China will not resort to a major stimulus program as it has in previous slowdowns.

Furthermore, the markets' optimism about the US-China trade dispute may yet prove a little premature as the two sides jockey for position ahead of the delayed signing of the Phase 1 deal. In other geopolitical developments, Boris Johnson looks like remaining PM with a workable majority and in the US, Michael Bloomberg has finally nominated for President, pitching himself as a moderate in the middle of the Democrat field. Violence continued in Hong Kong and erupted in Iran after the government hiked petrol prices.

We are cautious about whether the current risk-on sentiment in markets is the start of a longer, sustained trend that would see equity markets continue to rally through 2020. The basis of our caution is that our analysis and the leading indicators do not signal a robust recovery in global growth in the coming year. Without that it is hard to see enough growth in corporate cash flows to keep driving equity markets higher. Also, there is very little room for more interest rate cuts to support higher equity valuations. The one market where there is some scope for that is the US, but the Federal Reserve has said they will not cut unless the data makes it clear they have to. That is, things have to get worse in the US before the Fed will cut, but the risk is that such a move would be too late.

We are inclined to see the current moves in markets as an unwinding of the excessive pessimism associated with the recession scenario we have not been subscribing to this year. The markets are now moving closer to the trend growth outlook we have been using, but because we do not see much upside for returns on risk assets from here, we are happy to sell into rallies as appropriate. We have started that process and will do more as conditions warrant. We are aware that rallies can run for longer than expected, so we will be prudent about it when we make further adjustments to the Portfolio.