Stonehouse Core Value Portfolio
Monthly Update - October 2015

October Performance Overview

The Stonehouse Core Value Portfolio (CVP) rose +2.06% over the month of October as global financial markets regained their footing after a tumultuous September quarter. Our 'strong start, soft in the middle, then strong finish' thesis for global financial markets over calendar 2015 appears to be coming to pass – although much still needs to happen by year end before we can claim total victory. That said, all going well, we anticipate global equity markets will record a reasonable result for this calendar year – and the CVP to do likewise.

Over the month, positive performances came from our domestic small caps equities exposures IML Future Leaders (+5.68%) and SGH ICE (+4.79%), the latter being a fairly new entrant to the CVP. Equity managers with significant resources exposure such as 90 West (+7.08%) and Allan Gray (+4.08%) also had a good month.

Negative performances for the month came from our defensive holdings 36 South (-10.63%) and the remainder of our Triple 333 (-2.92%) position as 36 South in particular gave up a portion of the substantive gains it made over the volatility prone September quarter. Trend following manager AQR Managed Futures (-5.01%) also gave up some of its September quarter gains as significant reversals in commodity markets impinged on its investment style.

As markets have regained their confidence over the past month we have gradually put our heightened cash levels back to work. We have been 'averaging in' to positions where we see attractive entry points – notably oversold segments of the equities market and some positions in the alternatives space. We envisage continuing to pursue this behaviour as opportunities arise and as cash levels are made available from the exit of our Triple 333 position. We saw the September quarter as a good test of Triple 333's volatility trading strategy. While initially paying dividends, we felt the defensive strategy did not meet our expectations of a high payoff in August and September and have therefore decided to exit the holding. As we evaluate alternative defensive options we are however finding opportunities elsewhere to put this cash to work where we see the markets as significantly oversold.

Portfolio Summary

	Stonehouse Core Value Portfolio
Unit price	$1.0619

Asset class ranges & current allocations[1]		Current exposure
Cash & Fixed Int.	15% – 60%	31.5%
Property	0% – 25%	3.8%
Equities	25% – 65%	41.5%
Alternatives	5% – 35%	23.2%

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

Market Performance and Outlook

The October hoodoo did not eventuate and rather than continuing on with the volatility theme of the September quarter, value-orientated buyers (such as ourselves) gradually came out of hibernation and supported the market. As a consequence, October proved to be a fairly strong month for global equities.

Will the optimism continue and will global equity markets continue to rally toward year end? Alas, that is the proverbial 'million dollar question'. We feel that the end of 2015 and early 2016 could be a good period for equity markets in general – although with the necessary caveat that we are at a mature phase of the investment cycle. Looking at the economic backdrop gives us some cause for optimism with the pace of global economic activity projected to accelerate next calendar year. Even Australia's economic growth pulse is expected to pick up in tempo next calendar year - although considerable uncertainty surrounds this outlook given the anticipated continuation of a slowdown in China's economic growth (with China being Australia's major trading partner).

As equity markets typically look forward 6 – 9 months, the improvement in the macroeconomic outlook - coupled with reasonable valuations in many segments of global equity markets - gives us optimism that the run-up toward calendar year end should prove positive. The only foreseeable hurdle in our way is the much anticipated 'lift-off' in the Fed Funds Rate by the US Federal Reserve in December. The fact that this move has been so widely telegraphed to the market (market pundits have been talking about it for nearly 18 months now) provides us with some hope that this necessary adjustment in US cash rates should proceed with little overall disruption.

As always however, even given this relatively optimistic outlook, we are cognisant of the need to keep our defensive reserves topped up should any unforeseen shock arise. As mentioned earlier, we are quite late into the present investment cycle and such junctures are typified with a heightened volatility profile (similar to what we witnessed over the September quarter). As a consequence, we continue to ensure that the defensive elements of the Portfolio are at full capacity to meet any such unforeseen shocks should they occur.