Stonehouse Core Value Portfolio
Monthly Update - October 2016

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October Performance Overview

The Stonehouse Core Value Portfolio was down -1.26% in October, a difficult month where both global equities and bonds fell, with the Australian share market in particular falling -2.2%.

Equity Managers were predominantly negative over the month, LHC Australian High Conviction -4.5%, SG Hiscock ICE -3.7%, IML Equity Income -3.0% and Northcape Emerging Markets -2.5% with the standout positive performers being the MSCI Japan High Dividend ETF returning +6.25% and Lansdowne European* +2.1%.

We remain heavily underweight the Listed Infrastructure and Property Sector which continues to have a poor run following increases in global bond yields with Cromwell -6.64%, SG Hiscock -6.14% and Lazard GLIF -1.83% all negative for the month.

Alternative managers were also predominantly negative in October, with detractors including AQR Managed Futures -6.0%, 36 South Kohinoor* -3.4% and Bennelong Long Short -1.8%, though a positive performance came from Invesco +0.6%. Whilst some of these managers have struggled in current conditions recent research undertaken by the Investment Committee has provided confidence that their investment mandates suit the CVP given current conditions.

Fixed Income managers were predominantly positive with CQS +0.4%, Ardea +0.6% and T Rowe +0.6% all contributing positively for the month in difficult fixed income markets.

At time of writing soon after the US Elections, the Investment Committee continues to monitor developments in Global Markets with a heightened degree of focus. The Investment Committee positioned the CVP defensively coming into the US Elections via equity market protection, elevated cash levels, and less market sensitive growth assets (such as Alternatives and long short funds) which we expect will serve the CVP well going forward. Risk and scenario analysis performed by the Investment Committee continue to highlight the CVP's resilience across a broad spectrum of scenarios.

Portfolio Summary

	Stonehouse Core Value Portfolio
Unit price	$1.0449

Asset class ranges & current allocations[2]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	31.9%
Property	0% – 25%	4.0%
Equities	25% – 65%	40.7%
Alternatives	5% – 35%	18.8%

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

[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

The world is somewhat in shock following Donald Trump's "against the polls" win in the US Election. The media and pundits that got this election result so wrong were obsessed with the personalities and clearly missed this point. We believe this election result is a continued manifestation of the growing populist pressures and voter discontent in many western countries which reflects some real economic issues and inequalities that need to be addressed.

In the short term, despite high volatility and considerable confusion across most financial markets, the overall impact has been contained and the US share market actually rallied over 1% post-election despite steep losses in futures trading of more than 5% the prior evening. This market reaction appears to be due to a combination of Trump's measured acceptance speech and a leap of faith that his "pro-business and growth" policies will be market supportive, despite being unfunded and increasing the budget deficit. In response, long term interest rates surged higher and gold remained only slightly elevated after earlier spiking by more than $US50.

However, we are cautious about seeing this as a repeat of Brexit where initial sharp market losses were quickly recovered and sustainably built upon. The level of uncertainty about the global implications of a Trump presidency given stretched valuations and vulnerable markets imply downside risks for a range of asset classes, yet these risks may take more time to play out than expected.

With a Republican Congress, Senate and Presidency the likelihood of large policy shifts is very high. If Trump succeeds in passing fiscal expansion this may equate to issuing up to $1 trillion in Infrastructure-oriented Bonds. Whilst higher interest rates are supportive of the US Dollar, a targeted exchange rate policy isn't out of the question. Hence we are bearish longer term Bonds in the US Treasury market and this may well spill over into other bond markets including our own. Our bearish view of long term US Government Bonds has increased with Absolute return exposures preferred in Fixed Income along with Floating Rate Credit which should buffer us from a sharp re-pricing of yields.

We have been well diversified and defensively positioned in the CVP and this has helped reduce the impact of the volatility in markets so far. This includes portfolio hedges, a range of alternative assets/strategies and cash holdings to complement the core mainstream growth and defensive asset exposures.

We believe likely forthcoming market weakness or dips may provide attractive opportunities to deploy cash and selectively add exposure to some increasingly attractive asset classes and sectors. The Investment Committee took advantage of relatively strong weakness in the Japanese market which was sold-off -5.4%* on the day of the US Election to increase the CVP's exposure to this attractive market. We are also monitoring the impacts of President-Elect Trump's policy to identify sectors that will benefit from his policies.

We will be patient in taking advantage of better value over time and in discerning the real longer term winners and losers in response to this unprecedented change.