Stonehouse Core Value Portfolio
Monthly Update - September 2015

September Performance Overview

The Stonehouse Core Value Portfolio (CVP) fell -0.86% over September, a month which again proved trying for many investment markets. We believe the CVP held up reasonably well over this recent July – September Quarter by recording a -1.20% result, given the ASX200 Price Index fell by a much more considerable -8.01% over this period. As we have said in the past, strong relative performance coupled with a stable pattern of returns is a key objective of the CVP Investment Committee.

Over the month, positive performances came from our domestic long/short equities managers Bennelong (+5.19%) and Blackrock Absolute Return (+2.18%). Trend following managers AQR Managed Futures (+3.67%) and Cantab (+0.64%) also had a good month. Interestingly, emerging markets manager Northcape (+1.68%) also performed well and what is particularly encouraging about this outcome is that they did so against a backdrop where the emerging markets index which fell (-1.88% in AUD terms) as fears of a looming China slowdown took hold. This demonstrates our favourability of active investment managers for their ability to find quality assets in difficult market conditions.

Negative performances over the month came from Barwon Global Private Equity (-7.74%), international property manager Brookfield (-2.08%) as well as domestic equities manager Allan Gray (-2.32%).

Having weathered some difficult months we are gradually putting our built-up cash levels back to work in areas where we feel the value proposition is compelling. Recently we made an opportunistic purchase of the ASX 200 ETF when the index breached below 5000 as we felt as though the Australian market appeared oversold. Furthermore, we have been topping up allocations to funds in areas where we believe there is a strong value opportunity – but always with an eye to the fact that we may not have seen the absolute bottom of the market just yet. Such 'averaging in' as it is known is a worthwhile investment strategy when dealing with oversold markets - you may not pick the absolute bottom but your average price entry point over several 'buys' can turn out to be favourable. This is especially the case when taking a 3 – 6 month purview of the market outlook in an environment where the global economy - while in the midst of a 'soft-spot' - is still a long way off the dramatic slowdown being factored into some asset markets over recent months.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	$1.0405

Asset class ranges & current allocations[1]		Current exposure
Cash & Fixed Int.	15% – 60%	32.8%
Property	0% – 25%	4.0%
Equities	25% – 65%	39.4%
Alternatives	5% – 35%	23.8%

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

[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

The September quarter proved to be a particularly difficult period for equity markets. Uncertainties surrounding the global economic growth outlook – particularly China – concurrent volatility in commodity prices, mixed signals from the US Federal Reserve as to the timing of the long anticipated 'lift-off' in the US cash rate and even corporate concerns about the financial solvency of the key commodity trader Glencore all came together to produce significant headwinds for equities and the commodities complex.

As of the time of writing, things are starting to look better (albeit tentatively). This is somewhat paradoxical as October is traditionally a difficult month for markets as well. What has changed? Ironically, not much in terms of initial drivers of the downturn. Rather, many investors – including ourselves – are seeing value opportunities materialise in some pockets of an oversold market and are 'averaging in' accordingly.

What could go wrong with our thesis? Well with the US earnings season presently underway any surprise on the downside in terms of earnings guidance could put equity markets into another tailspin. Certainly investor nerves appear fragile enough. Another factor could be more downside surprise – or the perception thereof – emanating out of China. Our assessment is that while slowing, China's economy is hardly entering a recession and much of the fear of a China 'hard landing' in 2015 appears overdone. Likewise, we believe the US economy while undergoing a 'soft-spot' at present (thanks to $US headwinds) will eventually regain its footing as we move closer toward 2016.

Still, this is no time to have your defences down and – as always – we are keeping a close eye on our defensive players to ensure the CVP is adequately protected on the downside should the worst happen and our base case market/economic outlook does not come to fruition.