Stonehouse Core Value Portfolio
Monthly Update - September 2017

September Performance Overview

The Stonehouse Core Value Portfolio (CVP) rose +1.0% in September, in a month that saw the Australian share market finish slightly down (-0.02%) while the MSCI World Index delivered a solid positive return of +2.4% (in AUD Hedged terms). The Australian dollar (-0.8%) continued to weaken and Australian bonds also fell (-0.3%) during the month.

The Portfolio's International Equity managers had a strong September, with major contributors including Lazard Global Small Caps (+6.6%), Old Mutual (+3.0%)[1], Platinum (+2.5%) and Wingate (+2.4%). We increased the holdings in specific regional exposures where we see compelling relative value available, namely via the iShares Japan High Dividend ETF (+3.9%)[1] and Lansdowne European Equity (+2.7%)[1] who also performed well for the month. The Janus-Henderson Global Natural Resources Fund returned an impressive +4.2% for the month and the decision was made to redeem from the manager to take advantage of the strong run in performance and re-allocate to more diversified equity exposures.

Australian equity managers were mixed for the month, with contributors including IML Equity Income (+0.8%) and strong outperformance over the index from LHC High Conviction (+1.6%) and SGH ICE (+1.3%). Allan Gray (-1.4%) detracted from returns.

All of the CVP's Property and Infrastructure holdings across Australian and International exposures were positive for September, including Cromwell Phoenix (+0.6%), Resolution (+0.3%) and Lazard Global Listed Infrastructure (+0.5%).

Alternative managers delivered mixed results with the strongest contributor, Bennelong Long Short (+3.9%), partially recovering from a weak August result. The other positive return came from Blackrock Absolute Return (+0.2%). Negative performance was delivered from Invesco (-0.8%), Acadian (-1.9%), AQR Managed Futures (-1.2%) and JP Morgan Global Macro (-2.3%).

Portfolio Summary

	Stonehouse Core Value Portfolio
Unit price	$1.0720

Asset class ranges & current allocations[2]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	27.0%
Property	0% – 25%	4.3%
Equities	25% – 65%	47.0%
Alternatives	5% – 35%	18.7%

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

[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).

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September Performance Overview (continued)

All Fixed Income managers including T Rowe (+0.3%), Ardea (+0.5%) and Payden & Rygel (+0.1%) posted solid gains with the global credit manager CQS the standout, returning +0.7% for the month.

The Investment Committee continues to allocate opportunistically to Equity exposures to take advantage of the continuing market rally whilst at the same time maintaining heightened awareness of the global market environment and valuations which continue to stretch.

Market Performance and Outlook

"Risk on" sentiment prevailed in September as investors shrugged off ongoing geopolitical tensions in the Korean peninsula and focused instead on ongoing signs of improving economic conditions.

Equities around the world rose in September (MSCI World +2.4% in hedged AUD) with gains across most major markets. The US managed a solid rise of +1.9%; Europe was strong with France +4.8% and Germany +6.4%; although the UK was down -0.8% on Brexit commentary and a higher GBP. Asian markets were mixed with Japan and South Korea up modestly, but China and Singapore were down.

The Australian share market continued to lag offshore markets with a return of -0.02%. The ASX 200 has failed to achieve any price appreciation in the year to September 2017, which stands in contrast to all other major offshore markets where price indices are up in local currency between +7% (Europe, Japan) and +20% (US Nasdaq Index, HK Hang Seng Index). This poor relative performance is in large part a reflection of the market's concentrated composition in which oversized sectors and stocks (namely the 4 major banks, Telstra, Wesfarmers and Woolworths) are struggling either to grow or maintain their competitive position.

As mentioned above, recent economic news continued to be positive. All major economies are now growing simultaneously for the first time in years and consensus growth forecasts are being revised upwards. The IMF expects world GDP to expand at 3.6% in 2018, up from 3.5% in 2017 and 3.1% in 2016.

Yet, there are no signs of rising consumer prices with core inflation rates in major developed economies staying below 2%. This may complicate the job of the US Central Bank (Fed) which after its September meeting communicated to the markets its resolve to tighten monetary policy in spite of the lack of evidence of higher inflation. The Fed finds low inflation a "mystery" but intends to start reducing its balance sheet in October, resume interest rate rises in December and has confirmed intentions to raise rates three times in 2018.

While global equity valuations remain stretched, especially in the US, solid growth in corporate earnings coupled with low bond yields is expected to continue to support equity markets. Nonetheless, we continue to believe that investors would 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.