

## Monthly Update – September 2019

### September Performance Overview

The Stonehouse Core Value Portfolio (CVP) generated a return of +0.98%, in a month that saw equity markets reverse August losses with the Australian equity market and MSCI World Equity Index (in AUD terms) both up +2.1%.

Within the domestic equity component of the Portfolio, all managers posted positive returns. The best performing strategy was Allan Gray Australian Equity (+3.2%). This was followed by SGH ICE (+2.0%), Macquarie True Index Australian Share (+1.9%) and IML Equity Income (+1.3%). Firetrail Australian High Conviction Fund is a new addition to the Portfolio and was also up for September (+0.8%).

The global equity strategies performed well in September led by Lazard Global Equity Franchise (+6.3%) which rebounded strongly after last month. This was followed by Platinum International (+2.6%), Talaria Global Equity (+2.4%), Northcape Emerging Markets (+1.2%) and Loomis Sayles Global Equity (+0.5%).

Within Alternatives, all three strategies posted gains, led by GMO SGM Major Markets (+1.3%) and Bennelong Long Short Equity (+0.7%). Partners Group Global Multi-Asset Fund (+0.5%) is also a new entrant to the Portfolio, providing diversified exposure to private markets in both listed and unlisted assets.

Property and Infrastructure exposures provided mixed results in September. The best performing strategy was Lazard Global Listed Infrastructure (+2.5%), followed by Resolution Capital Global Property (+1.3%) and AMP Capital Core Infrastructure (+0.5%). The domestic property exposure held in Cromwell Phoenix Property Securities (-1.9%) was the only detractor.

While bond yields rose throughout September, the performance of the fixed income exposures was generally positive. The best performing strategy was Aquasia Enhanced Credit (+0.4%), followed by CQS Credit Multi-Asset (+0.3%), Ardea Real Outcome (+0.3%) and Alexander Fixed Income (+0.3%). The biggest detractor was Franklin Templeton Australian Core Bond Plus (-0.5%), due to its duration exposure but this position had been reduced in anticipation of lower return expectations in the coming months. The Payden & Rygel Global Income Opportunities (-0.02%) strategy generated a very small loss.

# Stonehouse Core Value Portfolio

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### Portfolio Summary

#### Stonehouse Core Value Portfolio

Unit Price at 30 September 2019 \$1.0894

Asset Class	Asset Class Ranges & Current Allocations <sup>1</sup>	Current Exposure
Cash & Fixed Interest	15% - 60%	38.6%
Property	0% - 25%	10.5%
Equities	25% - 65%	40.3%
Alternatives	5% - 35%	10.6%

<sup>1</sup> 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)

- Franklin Templeton Australian Core Bond
- Northcape Emerging Markets
- Macquarie Australian Shares True Index
- IML Equity Income
- Talaria Global Equity
- Platinum International
- Aquasia Enhanced Credit
- Alexander Fixed Income
- Lazard Global Equity Franchise
- Ardea Real Outcome

### Market Performance and Outlook

September's market action was in clear contrast to the previous month. August's concerns about global growth, trade wars and geo-politics gave way to a somewhat more optimistic mood in which the relative performance of key asset classes was reversed. In particular, equities rallied while bonds and gold sold off in September.

The seasonal thinness of markets improved in September as investors returned to work in time to take advantage of a more balanced news flow compared with the general negativity of the previous month. On the positive side, there were signs of a more conciliatory approach by both the US and China to the trade dispute, central banks around the world eased monetary policy, and the US economy posted more good data on employment and household spending. On the negative side, manufacturing activity around the world slipped further, adding to fears of recession, while a drone attack on Saudi oil fields caused a sharp, but transitory, spike in the price of oil.

At the end of the day, much of the price action between August and September simply cancelled itself out, leaving a bout of volatility in its wake. However, there is more to this than meets the eye, because the volatility reflects uncertainty, of which there is plenty in the world at the moment, and not just on economic developments. Geopolitical developments including Brexit, the move to impeach Trump, and increasingly violent protest in Hong Kong all contributed to the uncertainty.

In the current environment of global investor uncertainty and caution, we are likely to see more bouts of volatility. However, it still seems that the notion of imminent global recession, while a significant concern, is not a central scenario for the majority of global investors. If it was, then equity markets would be a lot lower than they are now. Coming weeks and months will provide clarity on this, especially how the US Federal Reserve manages further cuts to its cash rate.

In these circumstances it is important to maintain our disciplined approach to running well-diversified portfolios with defensive investments within the risk asset exposures. The exposures in selected unlisted investments in global private equity and real assets we recently added are proving their worth by generating positive returns independent of market volatility.

As always, we will be monitoring the economic situation and its implication for markets very carefully for signals which may require us to scale back exposures to equities. If a correction were to occur in equity markets, we would assess whether it is a potential buying opportunity.

