

Stonehouse Core Value Portfolio

Monthly Update - April 2014



Performance overview

April 2014 proved yet another testing month for markets overall with the highly volatile and choppy trading conditions witnessed since the start of 2014 continuing to prevail. Still, the Stonehouse Core Value Portfolio (SCVP) recorded a +0.12% rise over the month.

Markets by and large continue to be driven by momentum rather than fundamentals with high valuation stocks benefiting at the expense of deeper value exposures. We reiterate that proven research illustrates that the gains from such momentum plays are short lived and enduring long term performance is best achieved by having a distinct 'value' bias in your portfolio. Consequently, the SCVP with care and persistence has sought to avoid the pitfalls of chasing returns in expensive markets (and the inherent risk that goes 'hand-in-glove' with this approach). For this reason the SCVP should be well positioned going forward.

Positive performances in the period for the SCVP were reported for the Phoenix Property Securities (+5.17%), SG Hiscock Property income (+5.26%), Perpetual Shares Plus (+3.04%), Brookfield Global Property (+1.35%) and Epoch Global Equity hedged (+2.62%).

Detractors to the SCVP's performance over April were Platinum Japan (-0.90%), Platinum International (-1.26%), Bennelong Long/Short Equity (-4.97%) and Barwon Global Private Equity (-0.64%). We are confident that as global equity markets overcome their recent bout of volatility, these positions will stand to benefit considerably. The SCVP's positions in emerging markets and in Platinum particularly are well placed given their significant valuation advantage with an improvement in performance already materialising in our emerging market positions over the month of May.

We are capitalising on this present volatile market environment to continue to seek opportunities to put our heightened cash levels to work. These cash levels were put in place in anticipation of greater market volatility, a reality that now seems to be upon us. We anticipate putting this cash to work once we become confident that market volatility is starting to abate and/or valuations in certain segments of the market have become even more compelling.

Portfolio Summary

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Unit price	\$1.0328		
Asset class ranges & current allocations ¹			Current exposure
Cash & Fixed	15% 	60%	37.0%
Property	5% 	25%	6.9%
Equities	25% 	65%	34.3%
Alternatives	5% 	35%	18.5%
0% 20% 40% 60% 80% 100%			

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).

Top 10 investment holdings (ex cash)
1. S&P / ASX 200 Accumulation Index ETF
2. Payden & Rygel Global Income Opportunities Fund
3. Vanguard FTSE Emerging Market ETF
4. Bennelong Long Short Equity Fund
5. 36 South Kohinoor Core Fund
6. Ardea Australian Inflation Linked Bond Fund
7. Kapstream Absolute Return Fund
8. Schroders Fixed Interest Fund
9. Wingate Global Equity Income Fund
10. Platinum International Fund

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Market Performance and Outlook

April continued to be a bumpy period for markets due to a continuation of concerns that US centric equity market valuations have become overly stretched and on-going tensions persist in Ukraine. So far, the start of 2014 has been far from smooth overall, especially considering the stellar returns investors achieved throughout 2013. To some extent, this pull back was to be expected and it was for this reason (combined with concerns as to heightened volatility overall) that 'put' options on the S&P500 were implemented along with heightened cash reserves. Right now we believe some segments of the global equity market are well positioned for a rebound, especially those trading at attractive valuations such as emerging markets and Japan. However, in the near term we are comfortable with our decision to bolster our downside protection strategies to help mitigate volatility yet to come.

Given our relative outlook for the Australian economy compared to other major developed nations, we continue to anticipate a decline in the \$A and so are maintaining a significant portion of international holdings as unhedged. As the SCVP remains weighted toward offshore equities, any decline in the \$A will subsequently benefit portfolio performance.

In terms of fixed income, we continue to harbour concerns as to the long term performance of this asset class. Bond yields continue to press toward historic lows in response to central bank policy leaving little avenue for further gains except under the prospect of global deflation. This is not consistent with our view and indeed is not consistent with recent economic evidence for most of the developed world (with the exception, at the margin, of Europe). Consistent with this view, our exposure to fixed income remains one of short/neutral duration.

Important Information

This monthly report does not take into account any particular person's objectives, financial situation or needs. Investors should seek professional advice before making investment decisions. A product disclosure statement (PDS) for the offer is available free of charge from Stonehouse's website at www.stonehousegroup.com.au or by contacting Stonehouse. The PDS is issued by Select Asset Management Ltd and should be considered before deciding to acquire, or continue to hold an investment in the Portfolio. Applications can only be made on the basis of an application form attached to the current PDS. Figures include GST unless stated otherwise. Stonehouse Financial Services Pty Ltd ABN 81 112 548 419, AFSL No. 292469.