Stonehouse Core Value Portfolio
Monthly Update - April 2015

Performance overview

After a strong run in investment markets since the beginning of 2015, April proved to be much more difficult with Australian equities (ASX 200) down -1.70% and Australian listed property down -1.10% for the month. The Stonehouse Core Value Portfolio (SCVP) was also affected by these conditions, sustaining its first negative monthly performance in over 6 months for April, returning -0.65%. While somewhat disappointing this result markedly outperformed several of our key benchmarks in an environment which we had anticipated would experience a heightened level of volatility.

For the month, positive performances came from an eclectic mix of international equities – Platinum International (+1.25%), Epoch Global Equity Yield (+1.25%) and Wingate Global Equity Income (+1.83%), as well as emerging market equities via JO Hambro (+1.78%), and global listed infrastructure manager Lazard (+1.41%). It was encouraging that a relatively new entrant into the SCVP, the 90 West Global Natural Resources Fund, also made a healthy positive contribution (+2.70%) as international energy prices experienced a sharp upward reversal. In December last year, as international energy prices were plummeting, we initiated the 90 West position in anticipation of such an outcome.

Detractions over the month came from our Gold Bullion ETF (-2.74%) as well as volatility traders 36 South (-5.88%) and Triple 333 (-0.32%) as the volatility profile of the market whipsawed their performance. AQR Managed Futures also recorded a loss (-5.03%) as there was a sharp reorientation of a number of significant trends in the marketplace.

In anticipation of a heightened level of volatility we built up cash reserves in the earlier part of the year by taking profits on some of the better performing assets and we continue to seek value opportunities in the market in order to prudently deploy them – although, given the market's present volatile state, we will not do so hastily. A recurrent theme for 2015 (that we have highlighted in past commentaries) is the 'Sell in May and Go Away' principle. We anticipated that elevated valuations in equity markets and an unsustainable run from the start of calendar 2015 increased the probability of a pullback in performance around the mid stages of this calendar year – much like the calendar 2013 equity market performance profile. Now that this forecast is being realised, we are hesitant to rush back into the market as it could take some time for the present volatile performance pattern to stabilise.

Portfolio Summary[1]

	Stonehouse Core Value Portfolio
Unit price	$1.1017

Asset class ranges & current allocations[1]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	34.6%
Property	5% – 25%	5.2%
Equities	25% – 65%	38.7%
Alternatives	5% – 35%	21.5%
	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. Ardea Inflation Plus Fund
2. Payden & Rygel Global Income Opportunities Fund
3. Kapstream Absolute Return Fund
4. Northcape Global Emerging Markets Fund
5. 36 South Kohinoor Core Fund
6. Bennelong Long Short Equity Fund
7. Wingate Global Equity Income Fund
8. Platinum International Fund
9. S&P/ASX 200 Accumulation Index ETF
10. J O Hambro Asia ex Japan Fund

Market Performance and Outlook

What is driving the current volatile performance of markets? We believe it to be combination of concerns that the US Federal Reserve may raise interest rates this calendar year, a re-emergence of concerns that Greece may exit the Eurozone, and (somewhat associated) a reversal of a number of 'crowded trades' that have been significant performance drivers over recent months. These factors have seen yields on 10 year government bonds rise +0.70% in some instances – causing substantial negative price returns in this traditionally defensive asset class which we successfully avoided for SCVP investors.

The bond market sell-off has had knock-on effects for equity markets as investors have become concerned that as bond yields rise, valuation flaws in equities will become exposed. The contagion has also extended to the property sector with the recent strong run in Australian listed property coming to an end.

At this stage we do not expect to see a reversal of these conditions until some clarity around the underlying drivers is obtained – either a resolution to the Greece situation or when the US Federal Reserve telegraphs to the market its clear intention to raise rates this calendar year or not. Markets dislike uncertainty and at present there is a considerable degree of ambiguity surrounding several key macroeconomic forces. Until this situation is resolved we continue to anticipate increased volatility and are therefore happy to sit on heightened cash reserves as we await more favourable entry opportunities.