

Stonehouse Core Value Portfolio

Monthly Update - August 2013



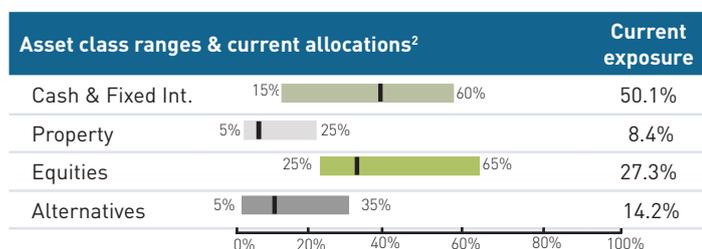
Equity markets experienced mixed results during August as fears of US Federal Reserve tapering became heightened. Domestically equity markets performed reasonably well whereas offshore markets struggled. This was particularly the case for emerging markets where fears of an imminent end to 'cheap and easy' finance from developed country's central banks marked a turning point in investor sentiment towards these assets.

Under these conditions the Stonehouse Core Value Portfolio performed well, rising 0.15% over August and contributing to a strong relative performance quarter-to-date. Positive performances have continued to accrue in months marked by significant volatility.

From an asset allocation perspective, we remain cautious on equity markets over the coming months as several catalysts could prove unsettling for investors including adjustments in central bank monetary policy (especially the US), discussions over the US debt ceiling, geopolitical risks in the middle-east (Syria, Egypt) and an uncertain global economy.

We expect to become more constructive on equity markets should they get through these risks unscathed or if depressed valuations stemming from any significant market selloffs present particular buying opportunities. Emerging markets for example are being monitored closely for potential opportunistic positioning should they be sold down aggressively.

The downside momentum in the Australian Dollar has reduced and a modest rally has occurred in recent weeks. However we believe medium term risks remain to the downside so we continue to be unhedged for currency movement for the bulk of the portfolio's overseas exposure.



Top 10 investment holdings (ex cash)
1. Kapstream Absolute Return Fund
2. DFA 5 year Diversified Fixed Interest Trust
3. Payden & Rygel Global Income Opportunities Fund
4. Ardea Australian Inflation Linked Bond Fund
5. 36 South Kohinoor Core Fund
6. AQR DELTA Fund
7. Lazard Global Listed Infrastructure Fund
8. Vanguard Australian Share High Yield ETF
9. Gold Bullion ETF
10. IML Future Leaders Fund

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Individual Country Macro Views:

US: August US payrolls disappointed on the downside, yet again. These are crucial in forming an outlook for the US economy as they are watched for signs of the Fed's willingness to back up its tapering rhetoric with action. Will Bernanke now back away from the much anticipated reduction in bond purchases come the Sep 17 – 18 Fed meeting? This is unlikely, however he may reduce the quantum of the tapering amount. Other economic indicators for the US performed largely as expected over July / August as is consistent with a gradually recovering US economy. The odd man out was the revision to the second quarter GDP numbers which surprised all with a considerable upgrade.

Australia: Now with the outcome of the election known it's pretty much a non-event for financial markets. That said, the implications for the Australian economy are very clear, there is likely to be fiscal austerity to repair a budgetary black hole for the new government's first year of its first term. The July / August economic numbers continued to look weak so some form of additional stimulus appears warranted.

EMU: Eurozone economic figures surprised on the upside during August. The all-important PMI series eked into expansion territory. It must be said that the EMU economy is gradually improving, if only it has stopped contracting at a rapid rate. This will need to be watched as any signs of life in the Eurozone should demonstrably improve the world's economic outlook come 2014.

Japan: The upward march in Japan's CPI figures illustrate that the Abenomics experiment appears to be working. Year on year CPI measures have gone from substantively negative in April, to slightly negative in May and slightly positive in June. Now July has illustrated even more of a positive acceleration. At this stage, the 2014 year end forecast of 2.0% yoy inflation (that most in the market scoffed at when announced) looks to be in the bag. Yet again, this will benefit the world's 2014 growth projections considerably.

UK: The UK economy appears in good shape at present. Key PMI series are at or near 60 levels; illustrating unsustainable growth. At this rate the new BoE Governor Mark Carney looks to have his work cut out for him. It appears that the BoE may be the first developed world central bank to set a decidedly hawkish tone for 2014. This could elevate Britain to the centre stage of the global financial market's attention as up until recent the UK had been pigeon-holed (along with the Eurozone) in the recession/sluggish growth camp. This purview now appears to be rapidly changing and the UK has firmly broken its shackles to a lethargic Eurozone economy.

China: China is still achieving its muddling along 'not too hot; not too cold' growth outcome. This is what we have come to expect for 2013 and indeed, it appears we should come to expect this type of result for 2014 as well. This will be supportive of a better growth outcome for the world economy come 2014 but unlike Japan, the US and the UK, China will not be a net contributor to a stronger global growth result in 2014.

¹The current exposures include the underlying asset allocations of each investment. The current exposures include the underlying asset allocations of each investment. 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.