

Stonehouse Core Value Portfolio

Monthly Update - December 2013



Performance overview

Over the December quarter the Stonehouse Core Value Portfolio (SCVP) performed well recording a +3.08% performance return for the quarter. To contrast, the ASX All Ordinaries Index rose +3.42% but had a demonstrably more volatile monthly performance profile. Such an outcome is consistent with the objectives of the SCVP – delivering solid performance but with considerably lower volatility than equity markets. To date this strategy is working well.

For the quarter the investments Wingate (+9.72%), Platinum International (+12.43%), Platinum Japan (+12.66%), Northcape (+7.65%) and Barwon Global Private Equity (+9.91%) were all strong performers. Note that all of these funds are internationally oriented and reflected the better fortunes of international equities vis-à-vis their domestic counterparts over the quarter.

To contrast, some of our defensive positions including Gold Bullion (-6.64%) and volatility trader 36 South (-3.61%) struggled over the quarter reflecting the buoyant view on global equity markets. Despite this, we continue to support exposure to such assets given their ability to cushion falls in the performance of the SCVP when global equity markets inevitably turn sour.

Similarly our fixed income exposures also maintain a capital preservation focus by remaining short duration to minimise downside risk to the SCVP should global yield curves steepen further. Kapstream (+1.13%), Payden & Rygel (+1.95%) and inflation-indexed bond manager Ardea (+1.87%) all made solid returns for the quarter even though global yield curves steepened considerably in response to US Federal Reserve tapering fears.

Looking forward, we continue to search for relative value opportunities across the various asset classes having recently committed further to emerging market equities after their sell down in quarter 3 as well as opportunistically looking to increase resources exposure within the portfolio. We have also taken some profits on sectors that have run hard, namely domestic listed property, global infrastructure exposures and Australian equity managers with an income focus.

Portfolio Summary¹

Stonehouse Core Value Portfolio	
Unit price ~	\$1.0387
December distribution (CPU) [^]	0.50c

Asset class ranges & current allocations ¹	Current exposure
Cash & Fixed Int. 15% 60%	36.5%
Property 5% 25%	8.5%
Equities 25% 65%	36.1%
Alternatives 5% 35%	18.9%

~Unit price stated is ex 31 Dec 2013 distributions.

[^](CPU) refers to cents per unit.

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. Bennelong Long Short Equity Fund
3. Ardea Australian Inflation Linked Bond Fund
4. Vanguard FTSE Emerging Market ETF
5. Kapstream Absolute Return Fund
6. Payden & Rygel Global Income Opportunities Fund
7. Schroders Fixed Interest Fund
8. 36 South Kohinoor Core Fund
9. Platinum International Fund
10. AQR DELTA Fund

Market Performance and Outlook

Local exchanges considerably underperformed offshore equities over the quarter. As mentioned above, the ASX All Ordinaries Index rose +3.42% over the quarter but this pales in comparison to the +10.51% rise in the US based S&P500 or the +12.70% rise in the Japan based Nikkei 225. As a result, the SCVP remains disproportionately weighted toward offshore equities given our view that the Australian economy is slowing while the US, UK, Japan and even Europe are all in expansion mode. This preference for offshore positioning in equities paid off handsomely over the quarter.

In terms of fixed income markets, we maintain our concern that bonds may not provide the 'safe harbour' capital preservation attributes that they traditionally have over past market downturns. As a consequence, our exposure to the alternatives sector remains relatively high at 19% of the overall portfolio. The reason for our pessimistic assessment on fixed income remains that developed world governments have been issuing considerable amounts of debt since the GFC and the damaging effects of this behaviour have been masked by their accommodative monetary policies. Now that tapering has taken hold, developed world yield curves have steepened (and stand to steepen even further) with investors in long duration fixed income assets suffering capital losses as a consequence. Given our fixed income positioning, the SCVP was insulated from such losses.

Finally in terms of the Australian dollar, we continue to anticipate a further softening from its present levels as we progress into 2014 - given the outlook for the Australian and global economies. In this vein, our present hedging stance remains one of maintaining the bulk of our overseas exposure as 'unhedged' so any weakening of the Australian dollar stands to benefit SCVP investors.

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.