Stonehouse Core Value Portfolio
Monthly Update - December 2014

stonehouse ASSET MANAGEMENT

Performance overview

The Stonehouse Core Value Portfolio (SCVP) performed well through December posting +1.52% for the month adding to a strong October to December quarter with total gains of +3.95%. Over the same period the Australian All Ordinaries index rose by a lesser figure of +2.58%. Furthermore the SCVP demonstrated a fairly stable positive monthly performance profile. In contrast the All Ordinaries recorded a substantive loss in November in what proved to be a very volatile quarterly performance pattern. A strong relative performance coupled with a stable pattern of returns is a key objective of the SCVP Investment Committee.

For the quarter, positive performances came from our domestic small caps exposure IML Future Leaders (+6.96%), our international equities managers Platinum International (+5.16%) and Platinum Japan (+7.77%) as well as our domestic property exposures Phoenix Property Securities (+10.11%) and SG Hiscock (+8.80%). Interestingly, some of our alternative asset managers also performed well with volatility traders 36 South (+15.17%) and trend following manager AQR Managed Futures (+17.96%) both recording substantive results given the high levels of market volatility and (associated) fall in oil prices. These managers can make good returns from such market activity and represent a key feature of the SCVP in its objective of preserving capital in difficult market conditions.

Detractions over the quarter came from our emerging markets ETF (-4.05%), our international long/short property manager Brookfield (-3.79%) and US equity market focused volatility trader Triple 333 (-0.26%).

In light of the sizable returns, we opted to take profits on Platinum Japan. This manager which made up approximately 2% of the overall Portfolio ran particularly hard over a short period of time. We have been averaging out of this position using sequentially higher exit levels and crystallising returns around the 25-30% mark for a position held around 12-15 months. As this cash comes in, we continue to look for value opportunities to put this cash back to work and see the present market selloff – especially with regard to commodities – as a potential buying opportunity. In this vein, we have been reviewing active managers in the commodities area with a reputation for conservatively managing risk while generating substantive returns and hope to make an allocation to this area in the months ahead.

Portfolio Summary[1]

	Stonehouse Core Value Portfolio
Unit price	$1.0577

Asset class ranges & current allocations[1]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	30.9%
Property	5% – 25%	6.2%
Equities	25% – 65%	38.9%
Alternatives	5% – 35%	23.9%

0% 20% 40% 60% 80% 100%

Top 10 investment holdings (ex cash)
1. S&P / ASX 200 Accumulation Index ETF
2. 36 South Kohinoor Core Fund
3. Bennelong Long Short Equity Fund
4. Northcape Global Emerging Markets Fund
5. Kapstream Absolute Return Fund
6. Ardea Inflation Plus Fund
7. Payden & Rygel Global Income Opportunities Fund
8. Platinum International Fund
9. Wingate Global Equity Income Fund
10. AQR Delta Fund

[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).

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Market Performance and Outlook

Like the September quarter that preceded it, the December quarter proved to be one of stark contrast. November and December represented a return to some degree of normalcy for global financial markets after a tumultuous October. Some equity markets – notably our own – suffered demonstrably in November even as hopes emerged that the economic fundamentals of the rapidly improving US economy look increasingly sound. Interestingly, the weaker Japanese and European economic outlooks also buoyed global markets as it raised the prospect of further central bank support in these regions.

This disparate array of asset and economic performances across regions is we feel likely to become an even more endemic feature of the financial landscape as we head further into 2015. The prospect of the US Federal Reserve raising rates is to us illustrative of the fact that we have now entered the mature stage of the investment cycle. As a consequence, the prospect of greater volatility both across asset markets and across regional economic performances looms large.

Commensurately, we are constantly checking the adequacy of our defensive positions within the SCVP and have been pleasantly reassured by the performance of some of these positions – notably 36 South and AQR Managed Futures – over the volatility 'test run' that we experienced during the December quarter. Likewise, we have kept an eye on raising cash levels when times are good by selling down hard run assets and putting this cash to work when the pall of gloom and doom descends on global financial markets – once value opportunities again begin to present themselves.