

# Stonehouse Core Value Portfolio

## Monthly Update - February 2014



### Performance overview

Over the month of February 2014 the Stonehouse Core Value Portfolio (SCVP) rose +0.83% as markets rebounded from what proved to be a tough January. By way of comparison, the ASX200 Index increased more considerably over the month after recording a substantive fall in January, however the more moderate smoother growth profile of the SCVP over January and February is consistent with our objectives - delivering solid performance with less volatility, or the significant downside experienced in equity markets.

Major contributors to the SCVP's positive performance over the month were Gold Bullion (+4.55%), Lazard Global Infrastructure (+5.72%), Barwon Global Private Equity (+3.81%) and the Vanguard Australian High Yield ETF (+3.95%). Also property play's Brookfield (+3.61%), Phoenix (+4.33%) and SG Hiscock (+4.02%) performed well.

Detractors were Platinum Japan (-1.54%), AQR Managed Futures (-1.20%) and 36 South (-1.87%). Our options on the S&P500, which can allow us to benefit from substantive falls in the US equity prices, also fell as the value of these assets operate inversely with the performance of equity markets generally. These options are implemented as a strategy to help protect the SCVP from a significant fall in the S&P500 between now and 19th December 2014.

The costs associated with these protections are largely paid at the point of purchase and as such these costs (although not material) have reduced February's performance. If the worst were to happen and equity markets record a sizable fall, we anticipate these strategies should pay off handsomely and so protect the SCVP from considerable downside.

Looking forward, we continue to seek opportunities to put our heightened cash levels (put in place in anticipation of greater market volatility), to work once the degree of market volatility abates. Better value opportunities are already beginning to materialise in specific sectors, namely, emerging market equities and Asia ex-Japan. We have also been active in taking profits in sectors that have run hard, recently lowering our exposure to domestic listed property and deploying capital to global equity manager Wingate which represents a more compelling value proposition and lower volatility profile.

### Portfolio Summary

Stonehouse Core Value Portfolio			
Unit price	\$1.0416		
Asset class ranges & current allocations <sup>1</sup>			Current exposure
Cash & Fixed	15% 	60%	37.1%
Property	5% 	25%	8.5%
Equities	25% 	65%	30.5%
Alternatives	5% 	35%	18.9%
0% 20% 40% 60% 80% 100%			

<sup>1</sup> 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. 36 South Kohinoor Core Fund
3. Bennelong Long Short Equity Fund
4. Ardea Australian Inflation Linked Bond Fund
5. Schroders Fixed Interest Fund
6. Payden & Rygel Global Income Opportunities Fund
7. Kapstream Absolute Return Fund
8. Vanguard FTSE Emerging Market ETF
9. Platinum International Fund
10. AQR Delta Fund

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### Market Performance and Outlook

Even though the ASX200 has recently outperformed most international exchanges, especially in \$A terms, we continue to favour international over domestic equities. This is given the relative outlook for the Australia economy compared to its major developed nation counterparts. Already there are signs the Australian economy is slowing, the recent 4th Quarter Capital Expenditure numbers being a case in point, while the US, UK, Japan and even Europe are all in expansion mode. As a consequence, the SCVP remains disproportionately weighted toward offshore equities.

In terms of fixed income markets, we continue to maintain our concern that these markets may not provide the 'safe harbour' capital preservation attributes that they traditionally have. As we have stated previously, most developed world governments are issuing considerable amounts of debt and the damaging effects of this behaviour on bond markets overall has been masked by accommodative monetary policies. Now that these accommodative monetary policies are gradually being removed, developed world yield curves are set to steepen, with investors in long duration fixed income assets suffering capital losses as a consequence. Consistent with this theme, our exposure to fixed income remains one of short/neutral duration and we maintain a relatively high 19% weighting to the alternatives asset class as a substitute means of defence for the SCVP.

### 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](http://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.