Stonehouse Core Value Portfolio
Monthly Update - February 2015

stonehouse ASSET MANAGEMENT

Performance overview

The Stonehouse Core Value Portfolio (SCVP) recorded another good result over the month of February rising +1.32%. This follows on from a particularly strong period since November last year. In recognising these positive results we are however conscious of the fact that equity markets have generated unsustainably strong returns of late and have therefore continued to take profits from sectors where we see valuations being particularly stretched.

For the month, positive performances came from our domestic ETF exposures – the Statestreet ASX200 ETF (+6.95%) and the Vanguard Australian High Yield ETF (+6.50%) – as well as Australian small companies active manager IML Future Leaders (+6.11%). International equities managers also played their part with both Platinum International (+3.39%) and new entrant into the SCVP 90 West (+5.01%) both having a good February monthly result.

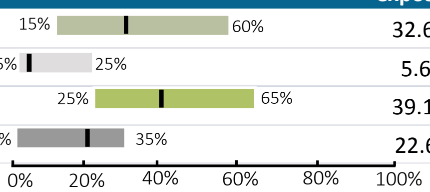
Detractions over the month came from our Gold Bullion exposure (-4.32%) after a particularly strong January result and other defensive positions – volatility traders 36 South (-4.46%) and Triple 333 (-1.99%) as well as managed futures trader AQR Managed Futures (-1.62%). We have no doubt however that the defensive qualities of these assets will prove beneficial for the SCVP when markets take a turn for the worse.

At a recent Investment Committee meeting we assessed the prospect of lowering the SCVP mandate to allow for a further reduction in our Property and Infrastructure exposures due the fact that we believe these sectors are becoming increasingly over-valued. Furthermore to maintain vigilance in managing the Portfolio, we also discussed the potential for the $A to fall further and agreed to revisit a currency hedging decision if the $A holds at the $US0.75 mark for a period of time with a view to hedging another 5% of the SCVP international currency exposure.

Portfolio Summary[1]

	Stonehouse Core Value Portfolio
Unit price	$1.1009

Asset class ranges & current allocations[1]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	32.6%
Property	5% – 25%	5.6%
Equities	25% – 65%	39.1%
Alternatives	5% – 35%	22.6%



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

Market Performance and Outlook

Two years ago we published an article titled 'Sell in May and Go Away'. The trade worked. The ASX200 sold off significantly during the mid-stages of 2013 before rebounding again to post around a 15% price return for the year overall. We feel that this pattern may again arise as equity markets have run hard over the past 5-6 months and are believed to have now become ahead of themselves. Subsequently we have been diligently taking profits with a view to favouring more attractively priced assets before reloading more opportunistically should market conditions weaken.

Indeed, the correlation in equity market performance between the start of 2013 and the start of 2015 is unnerving. In both instances the ASX200 was up around 10% by February's end. In 2013 the ASX200 then see-sawed a little over March/April before plummeting back to a calendar year performance of 0% by mid-year. Thankfully, the market then rebounded to cap off a very good year-end outcome. This type of strong early / weak middle / strong end calendar year seasonal pattern is all too familiar. It is encompassed in the market adage 'Sell in May and go away'.

The theories behind this irregular seasonal phenomenon are mixed. Some say it has to do with the results of the US second quarter earnings season where a disproportionate amount of negative guidance is typically released. Others say it is due to the Northern Hemisphere summer with investment managers taking profits before going on summer leave. No matter what the cause, every now and then global equity markets appear to follow just such a seasonal pattern.

This year we anticipate a high probability of such a seasonal pattern re-emerging. Surely the monthly performances recorded over January/February are unsustainable – hence our conservatism. That said, we have been surprised in the past and will no doubt be surprised in the future so we remain invested but are ever more vigilant in recognising and reacting to changing conditions.