

Stonehouse Core Value Portfolio

Monthly Update - January 2014



Performance overview

Over the month of January 2014 the Stonehouse Core Value Portfolio (SCVP) returned -0.55% in what proved to be a difficult month for investment markets. By way of comparison, the ASX200 Index fell -3.03% over the same period. Such an outcome is consistent with the objectives of the SCVP – participating in the upside of rising investment markets but protecting investors from the worst of the downside when investment markets take a turn for the worse.

While alternative investments such as 36 South (+1.52%), Gold Bullion ETF (+5.72%), Lazard Global Infrastructure (+1.17%) and fixed income exposures Kapstream (+0.57%), Ardea (+0.55%) and Payden & Rygel (+0.66%) all recorded positive performances, these were not sufficient to offset losses elsewhere within the Portfolio. Encouragingly, new investment Brookfield recorded a positive (+0.98%) performance in what proved to be a difficult market backdrop for global property investments - benefiting from its ability to short sell into a falling global listed property market.

On the downside, Platinum International (-1.27%) and Platinum Japan (-1.47%) both recorded sizable losses over the month as did our emerging market exposures Northcape (-2.94%) and the Vanguard Emerging Markets ETF (-8.43%). We believe these investments are still sound and are likely to record a bounce to the upside once market confidence restores.

In some respects we anticipated the recent bout of market volatility, and took measures within the SCVP accordingly. In this vein we raised cash levels and bought options on the S&P500 which would allow us to benefit from substantive falls in equity prices. These options expire in December 2014 and should help to protect the Portfolio from some of the downside risk to equity markets for much of the remainder of the calendar year.

Looking forward, we seek to put the heightened cash levels to work once volatility abates and better value opportunities materialise in specific sectors. Furthermore, we will continue to take profits on sectors that have run hard, namely domestic listed property, and at this early stage are looking to deploy capital to global equity exposures that are somewhat defensive in nature given the better entry levels now being presented in this area.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit price	\$1.0330

Asset class ranges & current allocations ¹	Current exposure
Cash & Fixed Int. 15% 60%	35.2%
Property 5% 25%	8.8%
Equities 25% 65%	28.8%
Alternatives 5% 35%	19.5%

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. 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

Market Performance and Outlook

Even though the ASX200 fell by less than most international exchanges over January, we continue to favour international over domestic equities given the relative outlook for the Australia economy versus its major developed nation counterparts. The ASX200 fell by -3.03% over January while the US based S&P500 fell by -3.46% and Japan's MSCI 225 fell by a sizable -6.72%. This partly reversed the relative outperformance of offshore over local equities experienced over 2013.

We do not see this reversal in relative fortunes between domestic and international equity markets continuing given the Australian economy is slowing while the US, UK, Japan and even Europe are all in expansion mode. As a consequence, the Portfolio remains weighted toward offshore equities and as stated above we are looking to further extend this positioning by adding to global equity exposures that are somewhat defensive in nature.

In terms of fixed income markets, even though bonds experienced a broad based rally over January we continue to maintain concerns that these markets may not provide the 'safe harbour' capital preservation attributes that they traditionally have. The reason for this is that most developed world governments are issuing considerable amounts of debt and the damaging effects of this behaviour since the GFC have been masked by accommodative monetary policies. Now that tapering has taken hold, developed world yield curves are set to steepen even further - 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 'alternatives' assets.

Finally in terms of the Australian dollar, even though it has recently rallied to the \$US0.90 cent range we continue to anticipate a degree of softening through the course of 2014 – stemming from our view of the Australian economy underperforming its developed nation counterparts. Our hedging stance therefore remains one of maintaining the bulk of our overseas exposure as 'unhedged' so any weakening of the Australian dollar from present levels 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.