

Stonehouse Core Value Portfolio

Monthly Update - January 2015



Performance overview

The Stonehouse Core Value Portfolio (SCVP) performed exceptionally well over the month of January rising +2.78%. This follows on from a particularly strong December quarter result. Pleasingly the SCVP has demonstrated a stable performance profile even though the start of this calendar year has been hallmarked by considerable volatility. As we have said in the past, strong performance coupled with a stable pattern of returns is a key objective of the SCVP Investment Committee.

For the month, positive performances came from our Gold Bullion ETF (+10.49%), our domestic property exposures Phoenix Property Securities (+5.93%) and SG Hiscock (+6.64%), emerging market equities manager Northcape (+4.71%) and our international equities exposure Platinum International (+4.71%). Interestingly, some of our alternative asset managers continued to perform well with trend following manager AQR Managed Futures (+8.17%) recording yet another strong monthly performance after an exceptional December quarter result.

Detractions over the month came from our emerging markets ETF (-0.20%) and our absolute return equity manager Blackrock (-0.02%).

In light of sizable returns, we continued to take profits on Platinum Japan and have now exited the position. We have also lowered our exposure to Australian equities and put funds to work by initiating a new position in commodities focused manager '90 West'. This manager has a reputation for conservatively managing risk while generating substantive returns in commodity markets. Given the recent market selloff in this area we saw an opportunity to enter this segment of the market at quite attractive levels.

Portfolio Summary¹

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Unit price	\$1.0871

Asset class ranges & current allocations ¹	Current exposure
Cash & Fixed Int. 15% 60%	33.0%
Property 5% 25%	5.5%
Equities 25% 65%	37.6%
Alternatives 5% 35%	23.9%

Top 10 investment holdings (ex cash)
1. S&P / ASX 200 Accumulation Index ETF
2. 36 South Kohinoor Core Fund
3. Northcape Global Emerging Markets Fund
4. Bennelong Long Short Equity Fund
5. Ardea Inflation Plus Fund
6. Kapstream Absolute Return 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

2015 started the year with a bout of considerable volatility for financial markets. Concerns about the US corporate earnings season, the prospect of the US Federal Reserve raising rates, falling oil prices and even a re-emergence of 'GREXIT' fears all culminated in a tumultuous month. Overall equities generally finished higher for the month but not before a period of considerable weakness.

We see this pattern of escalating volatility continuing into the foreseeable future. More mature stages of the investment cycle are often characterised by central banks looking to raise interest rates – as the US Federal Reserve is presently doing – and heightened levels of overall market volatility. We believe we have now entered this mature stage and have positioned the Portfolio accordingly.

Related to these two events, January saw the \$A continue its downward trend over the month. We have been well positioned to take advantage of this fall – given that our international equity positions were unhedged – and the performance of the SCVP benefitted commensurately. We have subsequently locked in a portion of these profits by hedging some of our international equity exposure back into \$A terms and continue to keep a keen watch for the opportunity to lock-in further profits should the \$A fall further in the months ahead.

As a final point, in light of what we envisage to be a heightened volatility environment let us reassure our investors that we remain cognisant of the need to constantly check the adequacy of our defensive positions within the SCVP. Our positions in volatility traders 36 South and Triple 3 have insulated the Portfolio's performance during past bouts of market turmoil – as have positions in Gold Bullion and AQR Managed Futures. As 2015 progresses we envisage further bolstering these defences by the inclusion of another defensive manager as well as including more long/short managers in both property, infrastructure and equities. Opportunistically, we have also raised cash levels recently – both to protect portfolio performance and with an eye at putting cash to work at favourable entry points should global financial markets take a turn for the worse.

We feel that adopting such an active approach toward investment management is necessary in our endeavour to maintain a pattern of strong stable returns in what is shaping up to be a challenging market environment as we head further into 2015.