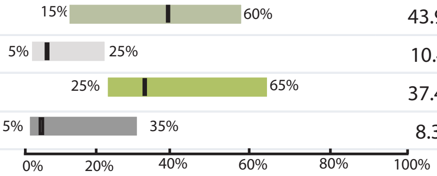
Stonehouse Core Value Portfolio Monthly Update - June 2013

Financial markets experienced a significant pullback in June 2013. That said, from a relative standpoint the Core Value Portfolio performed well, falling only -0.53% compared with, for example, the -2.6% fall in the All Ordinaries Index. Since then markets have rallied and so too has the Portfolio. Still, we are adopting a reasonably conservative stance as valuations in some markets - particularly some facets of fixed income and global equity markets - remain, in our opinion, stretched.

Essentially, we are cautious on the outlook for financial markets overall and expect volatility in the coming months. This is in response to greater uncertainty about the global economic environment and the level of monetary stimulus central banks are willing to provide. A possible 'witching hour' for this nervousness to crystallise could be the traditionally volatile September / October period. Our response is that we have been building a defensive cash reserve buffer in anticipation of a potential pullback in global equity markets. Should this occur, we are looking to put some of this cash reserve to work in asset classes that already appear 'unloved', such as emerging market equities. Valuations in this asset class are nowhere near as stretched as those for developed market equities and could represent a good buying opportunity in the near future.

Likewise, we are looking to increase our exposure in what we label as 'insurance' asset classes; those that traditionally perform well when other areas of financial markets falter. Long / short equity managers that have displayed a talent to return positive results when the overall equity market declines and volatility traders that make money as financial markets gyrate are currently under our watch. We are also reviewing our exposures in some asset classes that have proven highly volatile in recent months – the small holding of gold mining stocks were punished in early June but have since performed well by moving back into the black - but we are nevertheless looking to lighten here. Similarly, some of our energy exposures are currently under review and likely to lighten.

As for the Australian dollar, we continue to hold a significant unhedged exposure on our international holdings. Even though we would not be surprised to see a short covering rally in the Australian dollar, given recent weakness, we expect this to be short-lived and to have more chance of printing lower in the coming months than returning back to parity.



Asset class ranges & current allocations[2]		Current exposure
Cash & Fixed Int.	15% 60%	43.9%
Property	5% 25%	10.4%
Equities	25% 65%	37.4%
Alternatives	5% 35%	8.3%

Top 10 investment holdings (ex cash)

1. ARDEA Australian Inflation Linked Bond Fund
2. Platinum International Fund
3. Payden & Rygel Global Income Opportunities Fund
4. Wingate Global Equity Income Fund
5. Kapstream Absolute Return Fund
6. DFA 5 year Diversified Interest Trust
7. Lazard Global Listed Infrastructure Fund
8. SG Hiscock Property Income Fund
9. Phoenix Property Securities Fund
10. Vanguard Australian High Yield ETF

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[1] Inception is 18 April 2013. Past performance is calculated pre-tax and after fees and expenses, assumes distribution reinvestment but does not take into account inflation. Neither past performance nor volatility is a reliable indicator of what may happen in the future. Neither capital nor returns are guaranteed. [2] The current exposures include the underlying asset allocations of each investment. 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. Select Investment Partners Limited is the Asset Consultant to the Stonehouse Core Value Portfolio ARSN 162 396 885 (the Portfolio). 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 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. Select Asset Management Limited ABN 94 101 103 011 and AFSL No. 223271.

Individual Country Macro Views:

US: Our concerns about an apparent disconnect between recent US equity market performance and the underlying performance of the US economy continues. It's not a case of generating some form of economic upswing that is problematic for the US, it's generating a recovery that matches the presently (overoptimistic) market expectations. The recent performance of key indicators of Non-Farm Payrolls and Institute of Supply (ISM) Manufacturing is indicative of a 'mild to moderate' recovery at best (to quote US Federal Reserve Chairman Ben Bernanke). Likewise, US housing figures continue to struggle and are nowhere near pre GFC highs. This appears small cause for justification of nearly a 20% rally in US equity markets year to date. We anticipate some form of realisation from markets that their overly optimistic expectations will not be met before year end. That said, even if there is some form of correction in markets we envisage our 'bubble thesis' remains intact over the longer term. In response to a substantive pullback we anticipate central bankers are likely to step in and reaffirm their willingness to commit copious amounts of liquidity through Quantitative Easing.

Australia: The economic numbers continue to appear weak and irrespective of recent RBA minutes we anticipate at least one more cut to the official cash rate before the year end. The softening of the $A has helped ease monetary conditions. Traditional weightings of monetary conditions indicators accord a 1/3 weighting to the exchange rate and a 2/3 weighting to the official cash rate. Further, the Australian dollar has fallen more versus the US dollar than it has against the other currencies. On this basis, monetary conditions have eased only 3% due to this recent fall.. To put this into context, if the RBA were to cut the official cash rate by another 25bpts to 2.50%, then monetary conditions would ease 6% (around double what has been achieved to date via the exchange rate). For the Australian dollar to offset the need for such a cut, it would have to fall to around $US 0.76; a fall we envisage as highly unlikely.

EMU: Overall the economic results still appear weak, but not as weak as they were a year ago. Europe is setting the foundations for a begrudgingly slow economic recovery but each time the light appears at the end of the tunnel politics rears its ugly head yet again. This time it has been trouble with maintaining a ruling majority in Portugal and a backlash against perceived corruption in Spain. The commitment to austerity is waning and it appears it won't be long before the populist movement in the periphery countries starts to raise the counterargument 'Why do we want to be in the Euro anyway?' When this occurs European (and possibly global markets) will experience a period of heighted volatility.

Japan: So far the 'monetary experiment' appears to be working. Japan printed a -0.3% year over year CPI in May, still deflationary but much better than the -0.7% figure for April. Other indicators too are moving in the right direction with retail trade, industrial production and housing starts all up strongly. This is good not only for Japan but also for the World economy given its present weakened state.

UK: Like Japan, things are looking up in the UK. The key Purchasing Managers Index (PMI) series are all in expansion mode and Services PMI is particularly strong indicating that the City of London is doing well. At this rate, the new Bank of England Governor - Mark Carney will need to embrace a more hawkish tone.

China: The goldilocks economy continues. Key policy-makers targeted a 7.5% GDP growth outcome for 2013 and guess what? When the June quarter GDP figures were released they recorded a 7.5% outcome. Still, the numbers seem realistic enough when compared to underlying indicators such as steel production and electricity demand. We should expect this 'not too hot / not too cold' goldilocks growth trajectory to continue for the foreseeable future.