Stonehouse Core Value Portfolio
Monthly Update - June 2015

June Performance Overview (focusing on the March to June Quarter)

The Stonehouse Core Value Portfolio (CVP) fell -2.10% over the June quarter to record a 2014/15 total financial year performance of +8.19%. While disappointing, the June quarter performance needs to be viewed in light of the considerable financial market turmoil experienced as the onset of the Greece Financial Crisis took hold. To put our results in context, the ASX 200 index fell by a considerably larger -6.55% over the June quarter and recorded a smaller financial year performance of +5.68%. As has been mentioned in the past, strong relative performance for the CVP coupled with a reasonably smooth pattern of returns is a key objective of the Stonehouse Investment Committee.

For the quarter, positive performances came from our Australian long/short equities managers Bennelong (+2.88%) and the Blackrock Absolute Return Fund (+0.11%), as well as our international equities managers Wingate Global Equity Income (+3.07%) and Platinum International (+0.84%).

Negative performances for the quarter came from Gold Bullion (-1.09%), emerging markets manager Northcape (-2.56%) domestic property equities managers SG Hiscock (-1.77%) and Phoenix Property Securities (-3.01%). It is interesting to note that we took profits on these property managers some time ago after a stellar run but have since markedly lightened our exposure to this sector as our analysis had viewed this sector as being overvalued.

In light of the significant pullback experienced in global equity markets over the June quarter - and given we had considerable cash reserves put in place after taking profits following our strong March quarter performance - we have been slowly averaging back into the market now that better value-based opportunities have presented themselves. Without question the Greece Crisis continues to provide some uncertainty to markets but we envisage the wider implications of this crisis to be relatively transitory. Certainly we don't believe the present juncture is consistent with the onset of the next global bear market – rather we view this as somewhat of a necessary market correction. We are therefore happy to put our cash reserves back to work from a long term investment standpoint at entry levels that have now become more attractive.

Portfolio Summary[1]

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Unit price	$1.0531
Distribution ex Jun 30 2015	3.25c

Asset class ranges & current allocations[1]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	34.1%
Property	0% – 25%	5.6%
Equities	25% – 65%	37.6%
Alternatives	5% – 35%	22.7%

Top 10 investment holdings (ex cash)
1. 36 South Kohinoor Core Fund
2. Bennelong Long Short Equity Fund
3. Northcape Emerging Markets
4. Ardea Inflation Plus Fund
5. Payden and Rygel Global Income Opportunities
6. Kapstream Absolute Return
7. Wingate Global Equity Income Fund
8. J O Hambro Asia ex Japan Fund
9. Platinum International Class A
10. Statestreet S&P/ASX 200 ETF

[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).

AFSL: 292 469

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Market Performance and Outlook

Our investment thesis for calendar 2015 has always been one of a strong start, soft in the middle and then strong again towards year end. Erstwhile known as our 'Sell in May and Go Away' viewpoint, the markets (so far at least) appear to be adhering to this pattern of performance – much like they did for the calendar 2013 equity market performance profile. Although we didn't anticipate the scope of the recent pull-back, we do believe equity markets were long overdue for some form of correction.

So where to from here? Greece continues to dominate the headlines and more recently even China's overstretched equity market appears to have gotten itself into trouble. Is now the time to be deploying our cash reserves built up earlier in the year or is the Greece Financial Crisis a harbinger to something far more sinister? We don't believe so. While global central banks remain supportive we don't purview the present market volatility as a signal that the next global bear market is just around the corner. Rather this is a correction that we 'had to have' - considering that equity market valuations appeared to have gotten far ahead of themselves at the start of the year (which was a catalyst for us to take profits within the CVP).

To be sure, we believe this unfortunate Greek tragedy will continue for some time yet and maybe the worst is yet to come both in terms of market impact and the brewing social / humanitarian crisis. Still, we feel that over the coming weeks and months the pall of negativity surrounding Greece will gradually diminish as the key driver for market dynamics and attention will once more focus on the fundamentals of a gradually improving global economy (Greece contributes less than 1% to global GDP). Also the improved valuation outlook - now that excessive equity market valuations have to some extent been corrected – is another long term investment positive. Subsequently, we believe now is a good time to start 'averaging in' to the market at favourable entry points in putting our excess cash reserves to work.

Still, one thing the Greek Crisis (and concurrent weakness in China's equity market) has done is bring the $A back to more realistic levels. This is especially the case considering Australia's present commodity price outlook and the relative positioning of our economic cycle vis-à-vis our major trading partners. This favourable currency movement has implications for the currency hedging within the CVP.

To date we have been substantive beneficiaries of having a considerable proportion of our offshore exposures within the CVP as unhedged (as a falling $A offsets the negative valuation effect of declining international equity markets within the portfolio). Now that the $A has come back to more acceptable levels, we envisage locking in at least a degree of these profits by removing a portion of this unhedged exposure.

In doing so however, we remain cognisant of the fact that having at least some portion of the CVP's international exposures as unhedged does act as a significant risk mitigator in the event of a major global financial market meltdown. Subsequently, any decision to remove a degree of our unhedged exposure will not be taken lightly and will be done so on the basis of weighing up the relative merits of locking in profits now versus insulating the CVP from any future foreseen (or unforeseen) global financial market downturn and volatility.