

# Stonehouse Core Value Portfolio

## Monthly Update - March 2014



### Performance overview

In what proved to be highly volatile and choppy trading conditions for markets overall, the Stonehouse Core Value Portfolio (SCVP) fell -0.96% over the month of March consequently edging the Portfolio into the red for the first time over a quarterly period with a -0.68% return.

Times such as these can affect performance, particularly in markets that are driven by momentum rather than fundamentals as we firmly believe to be the case. This was true of the SCVP's performance over March where these momentum driven, high valuation stocks benefitted at the expense of deeper value exposures with sustainable earnings. Proven research illustrates that the gains from momentum plays are short lived and enduring long term performance is best achieved by having a distinct valuation bias which recognises the inherent risk in expensive markets. It is for this reason that we maintain the SCVP is well positioned going forward.

Detractors to the SCVP's performance in March were Platinum Japan (-4.98%), Platinum International (-4.47%), AQR Managed Futures (-3.33%), and Northcape Emerging Markets (-2.81%). We are confident that as global equity markets overcome their recent bout of volatility, these positions will stand to benefit considerably. The SCVP's positions in emerging markets and Platinum in particular are well placed given their significant valuation advantage with an improvement in performance already materialising in some positions for the month of April to date.

Positive performances in the period for the SCVP were reported for the Vanguard Emerging Markets ETF (+4.62%), Brookfield Global Property (+1.81%), Epoch Global Equity hedged (+1.61%) and Lazard Global Infrastructure (+1.29%). We are capitalising on this present volatile market environment to continue to seek opportunities to put our heightened cash levels to work. These cash levels were put in place in anticipation of greater market volatility, a reality that now seems to be upon us. We anticipate putting this cash to work once we become confident that market volatility is starting to abate and / or valuations in certain segments of the market have become even more compelling.

### Portfolio Summary

Stonehouse Core Value Portfolio			
Unit price	\$1.0316		
Asset class ranges & current allocations <sup>1</sup>			Current exposure
Cash & Fixed	15%	60%	36.6%
Property	5%	25%	6.8%
Equities	25%	65%	33.6%
Alternatives	5%	35%	18.9%

<sup>1</sup> 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. Vanguard FTSE Emerging Market ETF
3. Bennelong Long Short Equity Fund
4. Ardea Australian Inflation Linked Bond Fund
5. Kapstream Absolute Return Fund
6. Schroders Fixed Interest Fund
7. 36 South Kohinoor Core Fund
8. Payden & Rygel Global Income Opportunities Fund
9. Wingate Global Equity Income Fund
10. Platinum International Fund

### Market Performance and Outlook

March was a bumpy period for markets due to the realisation that US centric equity market valuations were overly stretched and on concerns over the impact of tensions in Ukraine. The first quarter of 2014 was far from a smooth start for markets overall, especially considering the stellar returns investors achieved throughout 2013. To some extent, some form of pull back was to be expected and it was for this reason (combined with concerns as to heightened volatility overall) that 'put' options on the S&P500 were implemented along with heightened cash reserves. Right now we believe some segments of the global equity market are well positioned for a rebound, especially those trading at attractive valuations such as emerging markets and Japan. However, in the near term we are comfortable with our decision to bolster our downside protection strategies to help mitigate volatility yet to come.

Given our relative outlook for the Australian economy compared to other major developed nations, we continue to anticipate a decline in the \$A over coming quarters and so are maintaining a significant portion of international holdings as unhedged. As the SCVP remains weighted toward offshore equities, any decline in the \$A will subsequently benefit portfolio performance.

In terms of fixed income markets, we maintain our concern that these markets will not provide the 'safe harbour' capital preservation attributes that they traditionally have. As we have stated previously, most developed world governments are issuing considerable amounts of debt and the damaging effect of this behaviour on bond markets has been masked by accommodative monetary policies. Now that these accommodative monetary policies are gradually being removed, developed world yield curves are set to steepen, 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.

#### Important Information

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](http://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.