Stonehouse Core Value Portfolio
Monthly Update - March 2015

Performance overview

The Stonehouse Core Value Portfolio (SCVP) performed strongly over the March quarter rising +4.84%. Relative to some of our key equities indices, this period saw the SCVP underperform the All Ordinaries by -5.37% but outperform US equities by 3.89%. It is however important to observe that for the financial year to date the SCVP near matches the overall performance of the All Ordinaries index with a much smoother quarterly performance profile.

For the quarter, positive performances came from our domestic small caps exposure the IML Future Leaders Fund (+12.44%), our international equities manager Platinum International (+9.45%) as well as our domestic property exposures Phoenix Property Securities (+8.51%) and SG Hiscock Property Income (+8.43%). Interestingly, one of our defensive holdings - trend following manager AQR Managed Futures - was our strongest performer over the quarter being up (+14.72%) due to them successfully trading oil on its downward trajectory over the past 9 months. One of the features of this SCVP's alternative asset holding is its ability to take advantage of shorter term market trends to bolster returns and/or protect against downward market swings.

Detractions over the quarter came from our Australian equities exposure BlackRock Absolute Return (-3.43%) and US equity market focused volatility trader Triple 333 (-0.67%).

In light of the positive returns for most of the portfolio holdings, we continue to opt to take profits on certain positions that have run particularly hard over a short period of time. We have also been conscious of harvesting profits on positions where substantive market movements have resulted in various portfolio weightings drifting upwards. This opportunistic approach has resulted in a gradual build-up in our overall cash holdings and we will continue to look for value-based positions worthy of buying into.

Portfolio Summary[1]

	Stonehouse Core Value Portfolio
Unit price	$1.1089

Asset class ranges & current allocations[1]	Range (0%–100%)	Current exposure
Cash & Fixed Int.	15% – 60%	32.2%
Property	5% – 25%	5.5%
Equities	25% – 65%	39.2%
Alternatives	5% – 35%	23.1%

[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. 36 South Kohinoor Core Fund
2. Northcape Global Emerging Markets Fund
3. Ardea Inflation Plus Fund
4. Payden & Rygel Global Income Opportunities Fund
5. Kapstream Absolute Return Fund
6. Bennelong Long Short Equity Fund
7. Platinum International Fund
8. S&P/ASX 200 Accumulation Index ETF
9. Wingate Global Equity Income Fund
10. AQR Delta Fund

Market Performance and Outlook

Without question, most equity markets performed well over the March quarter. This was particularly the case for our own domestic equity market, Japan's equity market and the European equity market where some degree of catch-up to the stunning 2013/14 performance for US equities was warranted. We believe however that this upward adjustment has occurred too far, too fast and some degree of consolidation is likely. As a consequence, we are happy to keep some of our cash holdings available to take advantage of value-based opportunities to put this cash back to work when expected adjustments in markets occur.

What could the catalyst for such a move? Certainly all eyes are presently turning toward the US Federal Reserve and the timing of the much-anticipated increase in the US Fed Funds Rate. Market expectations were initially centred on a mid-year rate hike but gradually this has ebbed and flowed between a mid-2015 to late 2015/early 2016 standpoint. Our expectation at this juncture remains one of a mid-2015 lift off – but the timing of such a move still remains very data dependent.

Should a mid-2015 start point eventuate, we anticipate a repeat of the type of market profile that occurred during the 2013 'taper-tantrum' when investors sold down equities in light of the US Federal Reserve announcing a gradual phase out of its bond purchasing program. Such a downward adjustment in equities might present a signal for us to re-enter the market as while the 2013 performance profile for equity markets was undoubtedly volatile, overall equity markets did perform quite well over the calendar year as a whole.

What gives us such confidence in this assessment is that we believe the global economic recovery – led by the US – remains on track. Sure, there are odd pockets weakness here and there (notably China and in some respects Europe) but as the US recovers it will gradually drag these economies up to speed. Indeed, this is the typical pattern of global economic recovery – the US leading the way and through its increased demand, helping others to recover also.

This belief also colours our view as to currency hedging for the SCVP with a stronger US economy implying a stronger $US. Unfortunately Australia's growth is presently unsynchronised with that of the US economic recovery and it is for this reason that a considerable portion of our offshore exposures within the SCVP remain unhedged as we anticipate lower levels for the $A exchange rate in the months to come.