

Stonehouse Core Value Portfolio

Monthly Update - May 2014



Performance overview

Over the month of May 2014 the Stonehouse Core Value Portfolio (SCVP) performed well rising +0.76%. Markets returned to some degree of normality after a very choppy and momentum driven start to the year.

The most substantial positive performances over the month came from Brookfield Global Property (+5.80%), Lazard Global Infrastructure (+3.86%), and the Ardea Inflation Linked Bonds (+3.37%). Detractors to performance over the month were Gold Bullion (-2.89%), volatility trader 36 South (-1.96%) and Bennelong Long/Short Australian Equities (-0.80%). Not surprisingly, these encompass somewhat defensive alternative positions within the SCVP. In a period where both fixed income and equity markets rallied it stands to reason that the performance of these defensive positions would suffer. Longer term we continue to support these holdings as should markets take a turn for the worse, the positive performances recorded for these defensive positions should help to offset losses elsewhere.

The SCVP recently put some of its heightened cash levels to work by purchasing a term deposit - constituting around 3.5% of overall SCVP assets. We also continue to seek opportunities to invest into areas where we see significant value materialising. In this vein, we have undertaken a range of portfolio modelling scenarios to garner greater market exposure for the SCVP, now that the market's focus has returned to one of value-orientation. Subject to acceptable entry points, we anticipate putting more cash to work in the coming months.

Market Performance and Outlook

May represented a return to a more optimistic assessment on markets overall. Part of this had to do with the on-going US economic recovery but part also has to do with speculation of yet another round of monetary stimulus by the European Central Bank (ECB) and on-going policy reform in both Japan and China. The 'sell in May and go away' adage obviously failed to apply with both fixed income and equity markets rallying strongly.

In the medium term we have a constructive view on the equity market outlook (although we do harbour some concerns about the overbought US equity market) but are far less optimistic on fixed income. Bond yields remain at or near all-time lows and for all intents and purposes this latest round of monetary stimulus by the European Central Bank looks to be the last. From here, yields look set to rise – especially from a medium term perspective – and we have positioned the portfolio accordingly.

The Australian dollar remains stubbornly above levels which we'd consider 'fair-value' and consequently a significant portion of the Portfolio's international holdings remain unhedged. The timing of the Australian dollar tracking down to more reasonable values remains frustratingly slow. One would anticipate that as central banks withdraw from on-going monetary accommodation and international yields once more begin to normalise, then the Australian dollar too will gravitate toward more 'normal' levels. As the SCVP remains weighted toward offshore equities, any subsequent decline in the Australian dollar will then benefit portfolio performance.

Portfolio Summary

Stonehouse Core Value Portfolio			
Unit price	\$1.0406		
Asset class ranges & current allocations ¹			Current exposure
Cash & Fixed Int.	15%	60%	37.8%
Property	5%	25%	6.3%
Equities	25%	65%	35.4%
Alternatives	5%	35%	18.2%

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. S&P / ASX 200 Accumulation Index ETF
2. Ardea Australian Inflation Linked Bond Fund
3. Kapstream Absolute Return Fund
4. Schroders Fixed Interest Fund
5. Bennelong Long Short Equity Fund
6. 36 South Kohinoor Core Fund
7. Vanguard FTSE Emerging Market ETF
8. Payden & Rygel Global Income Opportunities Fund
9. Platinum International Fund
10. Wingate Global Equity Income Fund