Stonehouse Core Value Portfolio
Monthly Update - May 2015

stonehouse

Performance Overview

The Stonehouse Core Value Portfolio (CVP) rose +0.69% over May – an encouraging result given the considerable volatility in financial markets over recent weeks. In many respects we had expected this volatility and had built up cash reserves within the CVP accordingly. Our 'Sell in May and Go Away' thesis for 2015, outlined in our commentaries at the start of the year, appears to be playing out. At the time of putting pen to paper the ASX 200 has fallen back to a nearly flat overall performance for 2015 - after being up in excess of 10% at the end of February 2015 alone.

In the very near term we do not expect this market volatility to abate. Concerns about Greece exiting the Eurozone and the US Federal Reserve raising interest rates at some point in 2015 are playing havoc with market sentiment. Still, at some point we anticipate putting our excess cash back to work (at more favourable entry levels) once markets begin to stabilise. Hopefully this will be as soon as the early stages of the new financial year when greater clarity on the US Federal Reserve's intentions and (possibly) a final resolution to the Greece issue is made clear.

For the month, positive performances came from our international equities exposures Platinum International (+3.69%) and Wingate Global Equity Income (+2.61%) as well as domestic equities manager Allan Gray (+3.25%). Relatively new entrant into the Portfolio, 90 West Global Natural Resources, continued its good form recording a strong (+2.12%) for the month.

Detractions came from our international property manager Brookfield (-3.72%) as well as domestic long/short equities managers Bennelong (-1.77%) and the Blackrock Absolute Return Fund (-0.43%). Volatility traders 36 South also recorded a small loss (-0.65%) as the volatility profile of the market did not suit their deeper cash preservation strategy.

Apart from the prospect of putting our orheightened cash reserves back to work, a number of other interesting issues are confronting the Stonehouse Investment Committee at the present time. Not least amongst these is our $A hedging policy for our international exposures. With the $A near touching the $US0.75 cents level we are considering the merits of hedging yet another portion of the CVP's international exposures - and by doing so locking in some considerable profits made on the $A's recent depreciation.

Portfolio Summary[1]

Stonehouse Core Value Portfolio	
Unit price	$1.0979

Asset class ranges & current allocations[1]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	34.5%
Property	0% – 25%	5.4%
Equities	25% – 65%	38.2%
Alternatives	5% – 35%	21.9%

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

[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

Performance Overview (Cont.)

Counterbalancing the desire to lock in even more profits are the capital preservation advantages of having at least some portion of the Portfolio's international exposures unhedged. If the worst were to happen and global financial markets took a major tumble, having a portion of our international exposure as unhedged proves beneficial as $A weakness tends to develop when global financial markets implode. In short, what we may lose on the international exposure 'swings' we gain on the $A depreciation 'roundabouts' and so having at least a portion of the CVP's international exposures as unhedged helps preserve capital. Subsequently, our $A hedging policy is not a decision taken lightly and it is for this reason that the Stonehouse Investment Committee is actively debating the merits of the issue.

Market Performance and Outlook

What a difference a few months make. March quarter this year was resoundingly strong in terms of market performance across almost all investment categories. Fast-forward to the end of June quarter and the near opposite is true. The difference? Surprisingly not so much in the way of fundamentals – the market largely expected at the start of the year the US Federal Reserve would raise rates at some point in 2015 and the Greece problem has a been a hardy perennial for financial markets for some years now.

No, rather the difference seems to be investor confidence. In true historical fashion it waxes and wanes over time. At the start of the year it seemed investors were way too confident (and we took profits on some hard running positions to build up cash reserves). Now it seems investors are becoming too pessimistic and it is this environment that fosters the emergence of opportunities to put our excess cash reserves to work. Such is the daily grind of investment decision-making. Indeed, the Stonehouse Investment Committee is constantly confronted by not only the fundamentals of market performance but also the human emotion in response to these fundamentals.

At times investors appear to act irrationally. When this is the case we are called into action by either taking profits (and building up cash reserves) or putting heightened cash levels back to work. We are confronting precisely such a situation at the present time and while being patient we are also ready to respond accordingly as market valuations once again become more compelling.