Stonehouse Core Value Portfolio
Monthly Update - November 2013

Performance overview

During November the Stonehouse Core Value Portfolio performed well recording a +0.61% performance return for the month. To contrast, the ASX All Ordinaries Index fell -1.4% over the same period. In short, our more defensively positioned asset allocation paid off. The portfolio is positioned toward achieving moderate returns with low volatility and aims to preserve capital in the face of a downswing in equity markets. To date this strategy is working well.

Through November the investments in Wingate (+5.1%), Platinum International (+5.4%), and Platinum Japan (+7.7%) were all star performers. All of these funds are internationally oriented and reflect the better fortunes of international equities vis-à-vis their domestic counterparts. In this vein, our domestic equity exposures struggled with domestic property in particular lagging. Both Phoenix (-1.9%) and SG Hiscock (-1.8%) fell and this underperformance supports our view as explained last month to take profits on what has been to date a hard running domestic property sector. Acting on these concerns we recently invested in the Brookfield Global Property Fund to benefit from both its worldwide scope and ability to sell short, thereby enhancing the Portfolio's ability to cushion falls when the property sector turns downward.

Our fixed income exposures remain short duration to minimise downside risk should global yield curves steepen demonstrably once the US Federal Reserve decides to taper its bond purchasing program. Both Kapstream (+0.4%) and Payden & Rygel (+0.5%) made solid returns for the month in light of this positioning, however inflation-indexed bond manager Ardea disappointed with a -0.5% performance. Still, we believe should the threat of inflation manifest once central banks break out of their monetary accommodation mode, this holding has the potential to deliver handsome returns.

Market Performance and Outlook

Interestingly, over the month local exchanges suffered while most offshore equities achieved moderate gains. Again, this outcome is consistent with our asset allocation as we anticipate offshore equity exposures to perform relatively better than domestic equities given that the Australian economy is slowing while the US, UK, Japan and even Europe are all in expansion mode (albeit in some instances off a very low base). Consistent with this outlook the Portfolio remains more heavily weighted toward offshore equities, with the benefits of this positioning paying off over November.

In terms of fixed income markets, we continue to harbour concerns that bonds may not provide the 'safe harbour' capital preservation attributes that they traditionally have over past market downturns. As a consequence, our exposure to the alternatives sector remains relatively high at 19% of the overall portfolio. The reason for our pessimistic assessment on fixed income is that developed world governments have been issuing considerable amounts of debt since the GFC and the rising yield aspects of this behaviour have been somewhat masked by central bank buying via their monetary accommodation policies. Once tapering takes hold, which looks likely in the next few months, developed world yield curves stand to steepen even further and investors in long duration fixed income assets could suffer capital losses.

In terms of the Australian dollar, we continue to anticipate a further softening from its present levels as we progress further into 2014, given the respective outlook for the Australian and global economies. Short-term there may be some strength as tapering could be interpreted as 'global reflation' by currency traders and thereby providing a strong bid for the local currency. In the medium term, we expect this short-run upside momentum to fade and as a consequence we continue to maintain the bulk of our overseas exposure as 'unhedged'. This stands to benefit the portfolio should (as we expect) the $A move down against its US counterpart over the course of 2014.

Asset class ranges & current allocations[1]	Range	Current exposure
Cash & Fixed Int.	15% – 60%	37.8%
Property	5% – 25%	9.2%
Equities	25% – 65%	33.1%
Alternatives	5% – 35%	19.8%

[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. Kapstream Absolute Return Fund
3. Bennelong Long Short Equity Fund
4. Ardea Australian Inflation Linked Bond Fund
5. Payden & Rygel Global Income Opportunities Fund
6. Schroders Fixed Interest Fund
7. Vanguard FTSE Emerging Market ETF
8. DFA 5 year Diversified Fixed Interest Trust
9. Platinum International Fund
10. AQR DELTA Fund

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