

Stonehouse Core Value Portfolio

Monthly Update - November 2014



Performance overview

The Stonehouse Core Value Portfolio (SCVP) rose +1.89% over the month of November – a good result considering the ASX 200 fell -3.25% over the same period. It appears the penny has finally dropped that Australia’s economic growth prospects are not as buoyant as those offshore and this aided the SCVP as our strategic tilt toward unhedged international equities paid off handsomely.

For the month, positive performances came from our international equities exposures – Platinum Japan (+5.5%), Platinum International (+5.2%), Wingate Global Equity Income (+3.2%) and Epoch Global Equity Yield (+3.0%). It was also pleasing to see strong performances from some of our defensive positions such as 36 South (+9.0%), AQR Managed Futures (+12.7%) and an encouraging return into the black for Bennelong (+3.1%).

Detractions came from our domestic equities exposures – namely the Vanguard High Yield ETF (-3.0%), the State Street ASX200 ETF (-3.3%), and Perpetual Shares Plus (-2.1%).

As international markets continue to rally we are looking to take profits on some of our better performing investments. Furthermore, as the recent market turmoil abated the Investment Committee put cash to work in selective sectors where we felt the sell down was overdone and these investments too are starting to perform well. As we step into 2015 we will continue to have an eye for participating in the market in a measured way – always doing so with a focus on capital preservation and portfolio risk rather than simply chasing returns in what some examples appear to be overbought sectors of the market.

Portfolio Summary¹

Stonehouse Core Value Portfolio	
Unit price	\$1.0616

Asset class ranges & current allocations ¹	Current exposure
Cash & Fixed Int. 15% 60%	33.2%
Property 5% 25%	5.5%
Equities 25% 65%	39.8%
Alternatives 5% 35%	21.4%

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

Market Performance and Outlook

November represented a return to some degree of normalcy for global financial markets after a tumultuous October. Investors once more began to focus on the economic fundamentals of a rapidly improving US economy and this certainly helped US stocks. Ironically, weaker Japanese and European economic outlooks also buoyed global markets as it raised the prospect of further central bank support in those regions.

Our concerns as to valuations in some sectors of the market remain – especially across income-orientated areas such as fixed income, dividend yielding stocks including listed property and Australian banks, as well as infrastructure. As a consequence, we remain relatively cautious given that we believe we have entered the mature stage of the investment cycle and the prospect of greater volatility in the short-medium term looms.

That said, it is not all gloom and doom. There are some pockets of global financial markets where we feel value still predominates – emerging markets, Asian equities and to a lesser extent Australian small caps are all cases in point. During the October market sell down we actively participated in opportunistically topping up our allocations to these sectors at quite attractive entry points.

Interestingly, the most recent market upheaval also brought with it a crystallisation of value for some of our long-standing positions. Additional monetary stimulus in Japan has given a significant boost to that market and has necessitated a consideration of taking sizable profits on our Platinum Japan exposure. Furthermore, the steady decline in the \$A in response to diverging economic growth outlooks was given another degree of impetuous thanks to the market turmoil and this too enabled us to benefit from what has been a long-standing portfolio position.

Looking into 2015 we continue to see the global economy and financial markets improving but note there will be significant divergences in performance between constituent economies/markets. From an economic perspective, the US economy's strength stands in stark contrast to that of Europe, Japan and our own and this will continue to colour our view in terms of asset allocation. From a markets perspective, some areas of the equity market and most of the fixed income market remain richly priced and the best way to benefit from an improving US economy may not be to buy large cap US equities but instead to buy presently undervalued areas of market that will indirectly benefit from a more buoyant US economic outlook – emerging market equities for instance.

Without question 2015 will throw up even more investment challenges for the SCVP's Investment Committee and the need to remain vigilant and active across the portfolio remains paramount. Investors should rest assured that we are looking forward to the task as we enter the New Year and we wish all of our investors a safe and happy holiday season and look forward to what 2015 will bring.