Stonehouse Core Value Portfolio

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Monthly Update – June 2018

June Performance Overview

The Stonehouse Core Value Portfolio (CVP) returned +0.55% in June 2018 and +5.91% for the 2017/18 financial year - a pleasing result that exceeded our stated performance objective of cash +3.5%. The primary drivers of performance for the year were domestic and international equity markets, however given our aim to provide investors greater downside protection, the returns generated by the Portfolio were achieved with significantly less volatility.

The domestic component of the Portfolio's equity investments performed well in June, with Allan Gray (+2.6%) again the strongest performer, closely followed by IML Equity Income (+2.2%) and SGH ICE (+1.2%) continuing as a solid performer. The best international equity components included Wingate Global Income (+4.1%), which had a strong month, followed by Lazard Global Small Caps (+2.1%). Northcape Emerging Markets (+1.7%) significantly outperformed Emerging Market indices, demonstrating the quality of their strategy. Main detractors within equities were Platinum International (-1.8%), Blackrock iShares Japan High Dividend ETF* (-1.8%) and J O Hambro Asia ex Japan* (-4.4%).

Performance within the alternatives sector was mixed with Acadian Diversified Alpha the best performer (+1.8%). Invesco GTR (+0.3%) and Bennelong Long Short (+0.1%) produced subdued returns and JP Morgan Global Macro was the worst performer for the month (-2.1%).

In the Property and Infrastructure sector, Cromwell Phoenix Property Securities (+1.8%), Lazard Global Infrastructure (+3.0%) and Resolution Global Property (+3.3%) all made solid positive contributions to portfolio returns.

Both domestic and global fixed income had a subdued month, neither contributing to or detracting from performance in a meaningful fashion.

*In local currency terms.

Portfolio Summary

Stonehouse Core Value Portfolio	
Unit Price at 30 June 2018	$1.1212

Asset Class Ranges & Current Allocations[1]		Current Exposure
Cash & Fixed Interest	15% - 60%	32.2%
Property	0% - 25%	4.6%
Equities	25% - 65%	44.3%
Alternatives	5% - 35%	17.8%

[1] 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.	Macquarie Australian Shares True Index
2.	Old Mutual World Equity
3.	Wingate Global Equity Income
4.	Northcape Emerging Markets
5.	Invesco Global Targeted Returns
6.	T.Rowe Price Dynamic Global Bond
7.	Platinum International
8.	Payden & Rygel Global Income Opportunities
9.	Ardea Real Outcome
10.	SGH ICE

Market Performance and Outlook

June was another challenging month for the world's financial markets, with emerging market assets hardest hit. Australian equities performed quite well relative to their global peers, partly reflecting higher oil and iron ore prices as well as the lower A$. Economic statistics around the world in June were not too bad, with further signs of firm growth in the US, in particular. The US economy added another 220,000 jobs and the unemployment rate fell to 3.8%; core inflation picked up a bit more and now stands at 2.25% compared with 1.75% at the start of the year. Elsewhere in the world, there were signs of slower growth in Europe and China while here in Australia some key indicators of economic activity slipped back a little.

A key driver of global investor sentiment in June was concerns about "trade wars" triggered by the policies of the US administration and, in particular, their impact on China. This also contributed to worries about prospects for the emerging market economies, where asset markets were already under pressure from higher US interest rates and the rising US dollar. As the cost of financing these country's US dollar-denominated debt has increased in recent months, their currencies have declined, leading some, notably Argentina, Turkey and Mexico, to respond by lifting interest rates. The weakness of emerging market equities and bonds is a clear sign of the risk-off mood now gripping global investors. The price of oil rose sharply as OPEC reached a new agreement on global oil supplies in the wake of the US Administration's renewed sanctions on Iran.

The Reserve Bank of Australia left the cash rate at 1.5%, while the Federal Reserve lifted the US cash rate by 25 basis points to 1.90% and the Bank of Canada indicated that it would be lifting its cash rate soon.

Our core investment themes of slower global growth and rising US inflation and interest rates are coming to pass and will become clearer as the year unfolds. This is likely to induce more of the volatility we have seen so far in 2018. Expensive equity markets may be particularly at risk as bond yields move higher than the markets currently seem to expect.

Under these conditions it is appropriate to focus on protecting investor's capital rather than simply chasing returns in increasingly vulnerable markets. Capital protection requires well-diversified portfolios with appropriate management of equity market risks. In the CVP we have done this by reducing outright equity allocations and by increasing allocations to cash, short duration fixed income, foreign currencies, high-alpha active managers and selected absolute return strategies. We feel these are prudent measures to take in these circumstances.