

## Monthly Update – March 2019

### March Performance Overview

The Stonehouse Core Value Portfolio (CVP) generated a positive return of +0.72% for the month of March. The Australian equity market was flat for the month (+0.1%) whilst global equity markets continued to push higher with the MSCI World Ex Australia Index (+1.5% unhedged) posting gains.

Within the domestic equity component of the Portfolio, the smaller company exposure held through SGH ICE (+1.4%) was the best performing strategy. This was followed by IML Equity Income (+1.2%) and Macquarie Australian Shares True Index (+0.7%). Allan Gray Australian Equity (-0.8%) posted a small negative return for the month.

The performance of the global equity managers was mixed during the month. The best performing strategy was Northcape Emerging Markets (+2.3%) which was positive in both absolute and relative terms. Solid profits results of the companies in the portfolio have underpinned performance over both February and March. This was followed by Platinum International (+0.8%). The remaining two strategies posted modest negative returns led by Merian World Equity\* (-0.8%) and followed by Talaria Global Equity (-0.3%).

The performance of Alternatives was also mixed in March with GMO Major Markets Trust up +0.6% but Bennelong Long Short Equity (-0.8%) detracting from portfolio returns.

Property and Infrastructure exposures all contributed positively to portfolio returns again in March. The best performing strategy was Cromwell Phoenix Property Securities (+5.7%) with ARIET's the best performing sector in the Australian market for the month. This was followed by Resolution Global Property (+3.4%) and Lazard Global Infrastructure (+0.8%). The Investment Committee is looking to add an additional exposure to this sector in the coming weeks.

Performance of the domestic and global bond managers was mostly positive in March. The top performing manager was the recently added core holding in Franklin Templeton Australian Core Bond Plus (+2.1%). This was followed by Payden Global Income Opportunities (+0.6%), CQS Multi-Asset Credit (+0.5%), Aquasia Enhanced Credit (0.5%), YBR Smarter Money Active Cash (+0.4%) and T.Rowe Price Dynamic Global Bond (+0.1%). The remaining manager, Ardea Real Outcome (-0.2%), posted a small negative return.

\*In local currency terms.

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### Portfolio Summary

#### Stonehouse Core Value Portfolio

Unit Price at 31 March 2019 \$1.0936

Asset Class	Ranges & Current Allocations <sup>1</sup>	Current Exposure
Cash & Fixed Interest	15% - 60%	48.3%
Property	0% - 25%	6.0%
Equities	25% - 65%	38.7%
Alternatives	5% - 35%	6.9%

<sup>1</sup> 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)

- Franklin Templeton Australian Core Bond
- Merian World Equity
- Platinum International
- Talaria Global Equity
- IML Equity Income
- Macquarie Australian Shares True Index
- Aquasia Enhanced Credit
- Ardea Real Outcome
- Payden Global Income Opportunities
- Northcape Emerging Markets

### Market Performance and Outlook

In March, the world’s financial markets continued trying to come to grips with the nature and implications of the sudden slowdown in global growth in recent months. Data for the manufacturing sector in several major countries confirmed the slowdown and, in particular, the impact of the US-China trade dispute. However, service sector activity has held up well, offsetting some of the concerns about potential recession.

Central banks around the world responded swiftly, shelving planned interest rate increases and re-focussing on liquidity support for banking systems. In both the US and Australia, markets are now expecting interest rate cuts this year and next. This pushed bond yields down even further, with the Australian 10 year government bond yield hitting an all-time low of 1.7%. In turn, this boosted the interest rate sensitive AREIT stocks, which outperformed the rest of the equity market in March. The underperformance of small cap equities compared with large cap equities, both here and overseas, is consistent with concerns about the pace of growth. Expectations of rate cuts also pushed the A\$ down, despite higher iron ore and oil prices.

Prospective financial market conditions in the coming year look challenging for portfolios. Expected returns are low by historic standards, while uncertainty about the path of the global economy and events like Brexit have the potential to cause bouts of volatility from time to time. In these conditions we need to maintain well-diversified portfolios and judiciously seek opportunities to enhance portfolio returns while still managing potential risks.

