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9 November 2015

## A note from the Chairman

Sentiment in share markets improved in October although the rebound in Australian shares in the month was not as pronounced compared to the recovery of share markets in the US, Europe and Japan.

Looking back to the beginning of the year, three features in investment markets stand out:

First, on average, investment returns have been modest, even negligible. The Accumulation Index for Australian shares, which takes into account both share prices and dividends, is almost back to the level at the beginning of 2015. Over the 10 months, returns on bonds have been skinny and interest rates paid by cash trusts have been trimmed from around 2.5% down to about 2%.

Second, volatility in share markets has heightened, both here and abroad.

Third, with sluggish sales growth and most of the cost cutting measures already in place, profits for many companies have been fairly lacklustre while earnings have been extremely uneven. As a result, prices and dividend payouts of individual shares have diverged more than usual and stock selection has become the key determinant of returns to investors.

In the next 6-12 months, investors will be looking out for any signs of the “green shoots of recovery” in the Australian economy, particularly given the recent assessment of the Reserve Bank Board that “prospects for an improvement in economic conditions had firmed a little over recent months”.

In my view, the investment style developed and successfully implemented over many years by Investors Mutual Limited, the manager of QV Equities’ portfolio of assets, is well-suited to the current and prospective conditions in the Australian economy and investment markets.

A handwritten signature in black ink, appearing to read 'Don Stammer'.

**Don Stammer**  
**QV Equities Chairman**

**For further up to date information on the company and its investment philosophy, please go to: [www.qvequities.com](http://www.qvequities.com)**

# Investment Update & Net Tangible Assets Report

OCTOBER 2015

NET TANGIBLE ASSETS (NTA)	Pre Option Dilution	Diluted for QVE Options
NTA before tax	\$1.0647*	\$1.0351**
NTA after tax	\$1.0398*	\$1.0216**

\*The NTA per share is the ex price as at 31 Oct 2015. The before and after tax numbers relate to the provision for deferred tax on the unrealised gains in the Company's investment portfolio. The Company is a long term investor and does not intend disposing of its total portfolio. Under current Accounting standards, the Company is required to provide for tax on any gains that might arise on such a theoretical disposal, after utilisation of brought forward losses. \*\*This NTA per share is calculated allowing for the dilution effect assuming all outstanding options are exercised.

QV EQUITIES	
ASX Code	QVE
Option Code	QVEO
Listed	22 Aug 14
Shares on issue	200.2 mil
Options Exercised	15.6 mill
Options Outstanding	169 mil

#### Benchmark

S&P/ASX 300 Ex20 Accumulation

#### Number of Stocks

20 – 50 ASX listed securities which fall outside the S&P/ASX 20 Index

#### Suggested investment time frame

5+ Years

#### Dividend Frequency

Half-Yearly

#### Options expiry

15 March 2016

#### Investment Objective

To provide a rate of return which exceeds the return of its benchmark on a rolling 4 year basis

PERFORMANCE	QVE's NTA after tax	BENCHMARK
1 Month	+3.6%	+6.4%
3 Months	+0.5%	-0.6%
6 Months	+1.0%	-1.1%
1 Year	+7.6%	+9.1%
Since Inception p.a. (22 Aug 14)	+8.9%	+5.9%

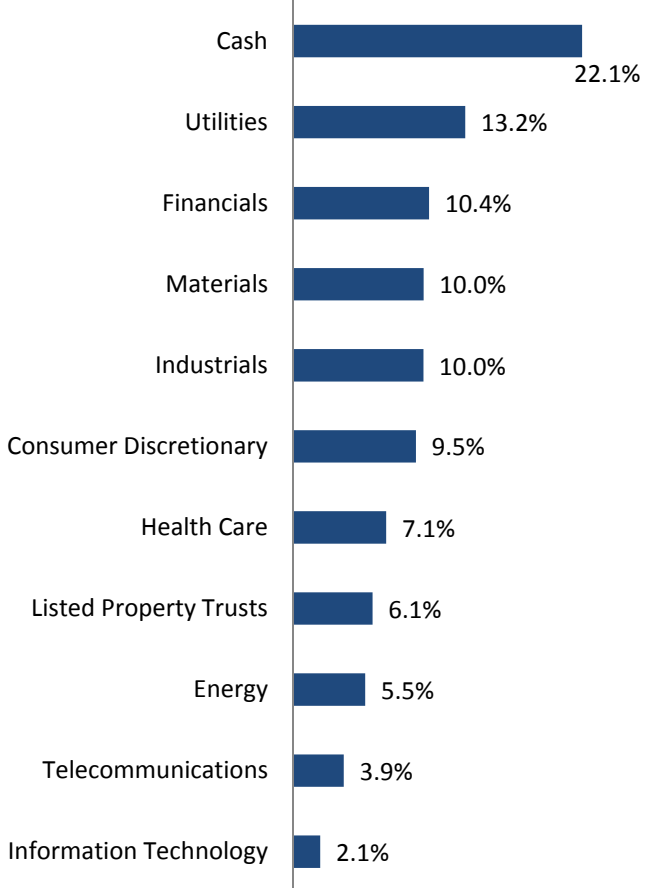
The above returns assumes all declared dividends are reinvested

- Global equities rebounded strongly in October following the dismal performances in August and September. The MSCI World Index returned +8% for the month with the US S&P 500 bouncing +9%, the Euro Stoxx 50 and the Nikkei jumping about +10%. The MSCI Emerging Markets Index also enjoyed its first positive month since April this year, gaining +7%.
- In line with global markets, the Australian ASX 300 also had a positive month returning +4.4%. The rally was broad based, although the Telco sector lagged on renewed concerns over increased competition, particularly regarding Telstra. After substantial losses in the previous quarter, the Energy sector rebounded +8% during October following a surprise takeover bid for Santos.
- The ex-20 sector of the market had a very good month posting a strong +6.4% over the month in the main thanks to a strong rebound in cyclical sectors with discretionary retail, mining and the mining services companies leading the way. The QVE portfolio had a reasonable month returning 3.6% and thereby more than regaining its falls from the previous two months. The portfolio had good performances from stocks such as Sky City, Fletcher Building, Chorus and Amaysim.
- Over the month we added a holding in Link Administration Group (LNK) to the portfolio. Link administers financial ownership data for over 2,300 clients, servicing millions of superannuation accounts and individual shareholders. The prospects for LNK look strong in the years ahead thanks to its strong competitive and scale advantages, its predictable cash-flows and its ability to achieve low single digit organic revenue growth and sizeable cost-out opportunities following the acquisition of Superpartners. LNK has a very capable management team who have proven their ability to acquire businesses and integrate them effectively.
- Over the month, we also took advantage of price weakness to top up on some of our existing companies. This included building products manufacturer, Fletcher Building, global pathology company, Sonic Healthcare and freight operator Aurizon. These companies are all well managed, long established businesses that we believe can grow their earnings in the next few years thanks to restructuring, acquisitions or cost out opportunities respectively.
- In our view, continued economic uncertainty in many parts of the world point to further volatility in stock markets in the months ahead. Whilst this scenario persists, we will continue to hold a high weighting in cash and continue to focus on looking for opportune times to buy good quality companies when they are attractively priced.



KEY EQUITY INVESTMENTS	P/E 2016	YIELD 2016
Sonic Healthcare	17.1	4.1%
Bank of Queensland	13.7	5.5%
AGL Energy	16.5	4.3%
Fletcher Building	12.5	5.1%
Orica	13.7	5.1%
Steadfast	13.4	4.3%
GWA Group	14.6	4.8%
AusNet Services	18.5	5.9%
ASX Ltd	19.3	4.6%
Trade Me	17.8	5.3%

**SECTOR ALLOCATION**



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*Disclaimer*

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