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QV Equities Ltd.

6 June 2016

A Note from the Chairman

In most countries interest rates are at, or close to, the lowest they've ever been. Central banks are doing "whatever it takes" to boost their economies including cutting their cash rates to very low, or even negative, levels. The widespread expectations that inflation will be virtually non-existent for many years to come has depressed interest rates on medium-dated and long-dated bonds.

The US central bank, the Fed, raised its cash rate from a near-zero level in December but states its future increases in the US cash rate will be "gradual" and "cautious". Other central banks seem likely to raise their cash rates much later than the US, but in a similarly drawn-out way.

Prospects for interest rates are expected to remain below levels we perceive as "normal" and as a result many investors will continue looking to dividend-paying shares to enhance the income they earn on their savings. The "hunt for yield" will likely stay a powerful force in investment markets.

In Australia, cash trusts currently pay interest of 1.75 per cent, and ten year bonds yield 2.3 per cent. Listed shares carry a dividend yield of 4.5 per cent which, for most investors, is enhanced by our excellent system of dividend imputation.

Investors need to recognise that the investment risk on shares is generally greater than on interest-bearing assets: share returns are more volatile; and some companies may have to cut their dividends if their earnings disappoint. The important thing is to seek out dividends that are sustainable or, better still, are likely to rise over time. Investors particularly need to avoid "dividend yield traps": a high dividend yield might simply reflect the collapse in a company's share price in anticipation of an imminent cut in its dividend.

A prominent investment bank wrote recently "With low interest rates and poor growth in company earnings globally, the world-beating dividend yield on Australian equities should have appeal. And solid dividends are available broadly across the market, not just in traditional yield areas" such as banks. Investors Mutual Limited, the manager of the QV Equities portfolio, is always on the look-out for good and growing dividends from mid-sized Australian companies.

Don Stammer
QV Equities Chairman

Investment Update & Net Tangible Assets Report

May 2016

QV Equities Ltd.

NET TANGIBLE ASSETS (NTA)	QVE-ASX
NTA before tax	1.1211
NTA after tax	1.0814

*The NTA per share is the ex price as at 31 May 2016. The before and after tax numbers relate to the provision for deferred tax on the un-realised 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.

PERFORMANCE	QVE's NTA (after tax)	BENCHMARK
1 Month	+2.6%	+3.9%
3 Months	+6.4%	+11.0%
6 Months	+5.4%	+12.3%
1 Year	+5.5%	+7.6%
Since Inception Total Return	+14.9%	+18.2%

The above returns assumes all declared dividends are reinvested

QV EQUITIES	
ASX Code	QVE
Listed	22 Aug 14
Shares on issue	221.4
Benchmark	S&P/ASX 300 Ex20 Accumulation
Number of stocks	20 – 50
Dividend Frequency	Half yearly
Suggested investment time frame	5+ years
Investment Objective	To provide a rate of return which exceeds the return of its benchmark on a rolling 4 year basis

SHAREMARKET COMMENTARY

World sharemarkets finished flat for the month of May, with gains in developed markets offsetting losses in emerging markets. The US S&P500 pushed ahead for its third consecutive month, gaining +1.5% while Europe's Stoxx50 and Japan's Nikkei added +1.2% and +3.4% respectively. Conversely Emerging Markets fell -3.9%, led by Brazil which dropped -10% while the Chinese sharemarket fell for a second consecutive month to be down -0.7%.

Domestically, in early May the RBA surprised many by cutting official interest rates by 0.25% to 1.75%, a record low. This was the RBA's first move in 12 months and was explained by our Central Bank as being due to the sharply lower than expected inflation release in April and the continued need for a lower Australian dollar to help our exporters. The $A did indeed fall, by 5% against the US dollar and by 3% on a trade weighted index basis. Commodities were mixed over the month with oil finishing the month 3% higher as supply disruptions supported the price at around $50 a barrel. The iron ore price fell -24% during the month as Chinese officials continue to clamp down on the flurry of futures speculation. Gold fell -6% as the US dollar rallied off the back of the increased likelihood of a pending US rate hike.

The broader Australian sharemarket continued to push higher and in the process recording seven consecutive weekly gains. All sectors finished the month higher, save for the highly volatile Resources sector as iron ore, gold and base metals all pulled back. The market was led higher by Financials (ex REITs) which gained +5% as the major Banks found support given the attractiveness of their dividend yields in light of the RBA rate cut. The Healthcare sector also did very well, gaining +9% over the month as offshore earners benefited from the Australian dollar weakness.

In ex 20 company news Clydesdale Bank reported a strong 1H16 result beating consensus estimates by 10%. The stock was further buoyed as the British Pound rallied on dissipating fears over the 'Brexit' referendum in late June. Flight Centre had a bumpy month, downgrading its FY16 guidance due to lower air fare prices as well as uncertainty in Australia due to the upcoming Federal election and in the UK with the looming 'Brexit' referendum. Oil Search announced the acquisition of US listed Interoil, a strategic move designed to give the company increased scale and synergies within Papua New Guinea for its LNG projects.

Over the month we added further Flight Centre (FLT) to the portfolio in weakness. With a net cash balance of over $4 a share and a rapidly expanding footprint overseas through its ten different geographic regions, we believe that FLT represents excellent long term value trading on an adjusted PE of 11 times and a dividend yield of 5 % fully franked. Other stocks added to the portfolio included Wilson Group (soon to be renamed as Pinnacle Group) which has recently become a pure play funds management company, as well as media company Fairfax where domain.com.au continues to gain share and traction in the online property market. Over the month we reduced the portfolio's holdings in packaging group Orora as well as online company Trade Me which has been substantially rerated in recent months.

QVE portfolio's NTA rose +2.6% in May which was a solid return as our key Industrial holdings such as Clydesdale, Spark, Pact and Trade Me all contributed well to the portfolio's performance in May. The portfolio has lagged the benchmark return in the last 6 months as some of the larger stocks in the benchmark such as property stocks such as Goodman, Stockland and GPT, Sydney Airport as well as gold miner Newcrest have all risen substantially - however in our view many of these stocks are overvalued and we continue to find much better value elsewhere.

With economic growth globally looking lack lustre and interest rates set to stay low for a while longer, we continue to be believe that well managed companies that can grow their earnings and pay good dividend yields will continue to be well sought after by investors in coming years. We continue to find good opportunities in the ex 20 sector of the Australian sharemarket and we believe the QVE portfolio is well positioned to continue to deliver reasonable capital growth and a solid income stream to its shareholders in the years ahead.

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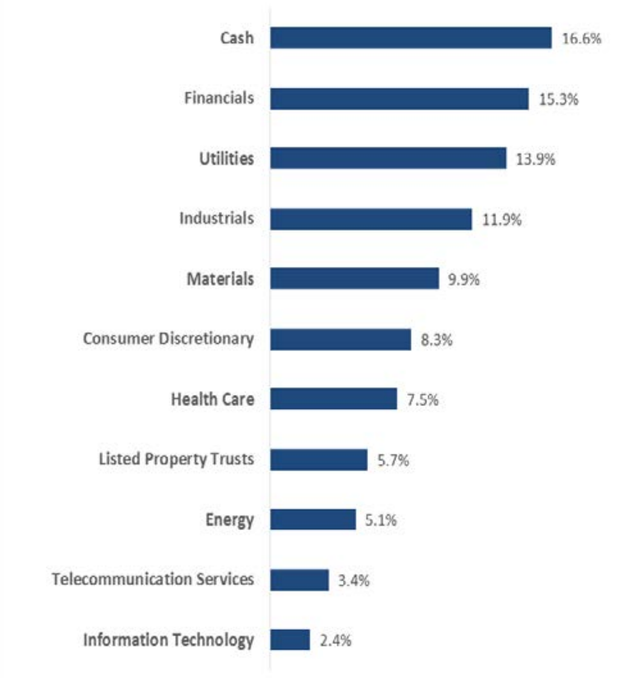
KEY EQUITY INVESTMENTS	ASX Code	Weight
Fletcher Building	FBU	4.3%
AGL	AGL	3.3%
Bank of Queensland	BOQ	3.6%
Steadfast	SDF	3.6%
Sonic Healthcare	SHL	3.3%
Clydesdale Bank	CYB	3.4%
ASX Limited	ASX	2.7%
GWA	GWA	2.8%
AusNet Services	AST	2.8%
Pact	PGH	2.7%

SECTOR ALLOCATION



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