

Investment Update & Net Tangible Assets Report

October 2016



NET TANGIBLE ASSETS (NTA)*		QVE-ASX		QV EQUITIES	
NTA before tax		1.1280 (ex div)		ASX Code	QVE
NTA after tax		1.0881 (ex div)		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 Ex 1.8 cps on 6/10
				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

*The before and after tax NTA numbers relate to the provision for tax on net profit in addition to 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 (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-3.3%	-2.3%	-3.9%
3 Months	-1.4%	-0.4%	-5.2%
6 Months	+5.6%	+4.9%	+4.9%
1 Year	+9.1%	+7.9%	+12.8%
Since Inception Total Return p.a	+9.1%	+7.4%	+8.2%

The above returns are after fees and assumes all declared dividends are reinvested

SHAREMARKET COMMENTARY

Global equity markets came under renewed pressure as bond markets sold off in October. Global bond yields continued to move higher due to concerns over the tapering of QE programs (particularly in Europe) as well as renewed inflationary fears as energy and metal prices rebounded. Firming expectations for a US rate hike in December also weighed on bond markets. The ongoing side show of the US Presidential elections further dampened investor appetite as Donald Trump looks to narrow the gap in the polls as the US (and the world) readies itself for the US Presidential election day on November 8.

The MSCI World Index fell by -1.8% over the month, largely driven by the US S&P500 which fell by 1.9%, the US market's third straight monthly decline. Financials across the globe found support on the expectation that higher rates would help support banking and insurance company profitability. Europe's Stoxx50 finished the month up +1.8%, thanks to stronger Financial stocks as the ECB offered little direction as to whether its QE program would be extended beyond March. Eurozone core inflation ticked up by +0.8% yoy with the German 10yr yield flipped back into positive territory. Japan's Nikkei gained +5.9% for the month, a clear beneficiary of the BOJ's ongoing accommodative monetary policy and a continued weakness in the Yen which fell by 3.4% against the USD over the month.

US macro data bolstered expectations of a US rate hike in December. US GDP advanced 2.9% in the third quarter, its strongest quarterly reading in 2 years, however, consumer spending slowed and business investment remained sluggish. Rate hike expectations were reflected in both the US 10 year yield, which rose 23bps to 1.83%, along with the US Dollar Index which gained +3.1%. In Australia the 10yr Government Bond yield spiked 0.4% to 2.4%. Commodities had a mixed month as oil gave up recent gains and fell -4.2% as OPEC members failed to finalise any agreement on production limits. Conversely, iron ore and coal continued to rally strongly buoyed by ongoing China stimulus and overcapacity reductions.

Domestically, despite strength in both the Financials and Materials sectors, which finished higher by 1.5% and 1.3% respectively. The broader Australian equity market fell 2.2% during October as sectors such as Healthcare, AREITs and the Consumer Discretionary sectors all fell heavily. The ASX ex20 Index fared worse than the broader market, falling -3.9% with the ASX top 20 faring better given solid performances from both the Banks and the large Miners given their index dominance.

In company news, casino stocks led by Crown Casino fell heavily after the Chinese authorities arrested 18 Crown employees as part of a crackdown on marketing casinos in mainland China. Shares in Healthscope fell -30% as the hospital operator flagged reduced patient visits that is expected to weigh on the company's profitability, with shares in Ramsay Healthcare falling 7% in sympathy. In company news, Fantastic Furniture shareholders agreed a takeover by South African furniture giant Steinhoff valuing the company at \$361m.

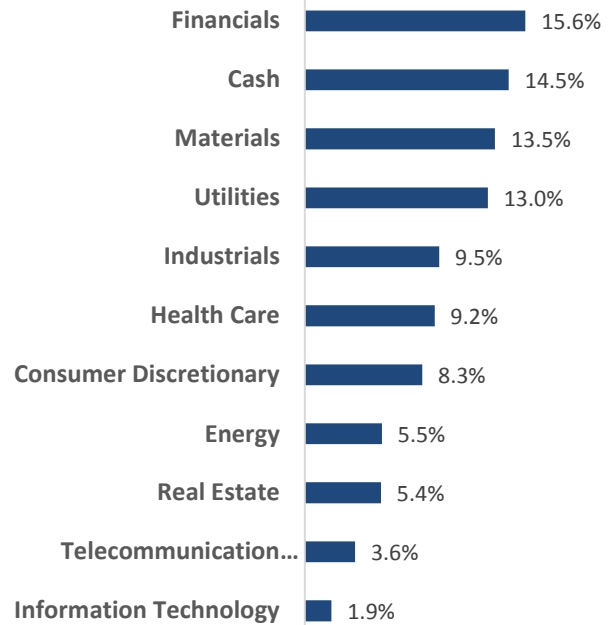
QVE went ex on the 6th October and paid a 1.8 cps fully franked dividend to shareholders on 31 October. During the month and reflecting the broader sharemarket weakness, **QVE portfolio's pre tax NTA** fell 3.3%. This was a disappointing result although it fared better than the benchmark's fall of -3.9%. Many of our core holdings, such as Ansell and Sonic Healthcare fell heavily over the month despite encouraging news whilst Sky City fell heavily after announcing a slowdown in visitations at its key Auckland casino in the September quarter.

We remain cautious on the near term outlook for the stockmarket given uncertainty regarding the US election as well as the Fed's intentions in December. We also continue to stay away from the volatile Resources sector and continue to skew the portfolio to good quality Industrial stocks that we believe can deliver solid earnings and dividends in the next 3 to 5 years.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Fletcher Building	FBU	4.6%
AGL Energy	AGL	3.8%
Steadfast Group	SDF	3.5%
Orica	ORI	3.5%
Bank of Queensland	BOQ	3.3%
Sonic Healthcare	SHL	3.3%
Pact Group	PGH	3.1%
GWA Group	GWA	3.1%
Ansell	ANN	2.8%
Clydesdale Bank	CYB	2.7%

SECTOR ALLOCATION



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