

Investment Update & Net Tangible Assets Report

September 2016



NET TANGIBLE ASSETS (NTA)*	QVE-ASX
NTA before tax	1.1857
NTA after tax	1.1317

**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	+0.2%	+0.4%	-0.4%
3 Months	+7.0%	+5.5%	+5.8%
6 Months	+11.0%	+8.7%	+12.2%
1 Year	+18.6%	+14.4%	+24.8%
Since Inception Total Return [^]	+11.2%	+8.9%	+10.5%

[^]% Performance per annum. *The above returns are after fees and assumes all declared dividends are reinvested

SHAREMARKET COMMENTARY

Global markets posted modest returns in September, despite increased volatility due to uncertainty over global interest rates early in the month and amid weakness in bond markets after the ECB did not confirm further quantitative easing once the current round of quantitative easing ends in 6 months' time. Concerns over whether the US Federal Reserve was nearing its first rate hike since December 2015 also weighed on markets. The MSCI World Index finished September +0.4% higher, as the US Fed, European Central Bank and Bank of Japan all looked to sooth investor's concerns. Thus the US S&P500 finished flat, whilst Japan's Nikkei and Europe's EuroStoxx lost -2.6% and -0.7% respectively, whilst the UK's FTSE100 gained +1.7% as the weakening pound provided a boost to the UK's exporters.

The US Federal Reserve helped calm sharemarket jitters by keeping interest rates on hold at its September meeting, once again adopting a wait and see approach. Of note, three members of the Federal Reserve are now predicting no rate hike this year, up from zero in its June meeting, a clear sign that any US rate hikes will be drawn out and gradual. Furthermore, the Bank of Japan tinkered with its monetary policy by targeting the yield curve in a bid to keep Japanese long term interest rates close to zero. The global energy sector received a boost late in the month as OPEC looked to reach a tentative agreement to cut oil production in order to sustain prices, with the Brent oil price rebounding +4% in the wake of the decision.

The broader Australian sharemarket as measured by the ASX300 finished the month +0.5% higher with strong gains in the Resource sector, offsetting losses in the more interest rate sensitive sectors such as Utilities and the AREITs. The ASX ex20 Index finished the month down -0.4%, with the primary drag being the Telco sector which fell -16% as high flying TPG guidance for FY17 disappointed the market and Vocus being down too. Similar to its Large Cap peers, the ex20 market was largely buoyed by mid and small cap Miners which rallied throughout the month thanks to higher commodity prices, specifically coal and base metals.

Over the month, we used weakness in the sharemarket to add to the portfolio's holding in quality mid cap stocks AGL Energy and Amcor. After meeting with the company's management teams at their recent results briefings, we remain comfortable with the earnings growth prospects for both companies in the years ahead. As yield stocks were sold down heavily over the month due to weakness in the bond market, we also added to QVE's holdings in Shopping Centres Australia and Spark Infrastructure. Furthermore, their yields, which are sustainable and expected to grow in the years ahead, hit the 6%+ mark. While interest rates will at some point head higher, we believe any rises will be small and gradual and that stocks paying this level of sustainable, growing yield continue to look attractive in the current uncertain, low growth economic environment.

The **QVE portfolio pre-tax NTA rose by a modest** +0.2% in the month of September, which was a good result bearing in mind that the benchmark's fell by -0.4%. Portfolio holdings such as Pinnacle Investment, Cabcharge, Mayne Pharma, Bank of Queensland and Pact Group all did well over the month and offset disappointing returns over the month from the likes of SkyCity and Spark Infrastructure, whose prospects we remain positive on.

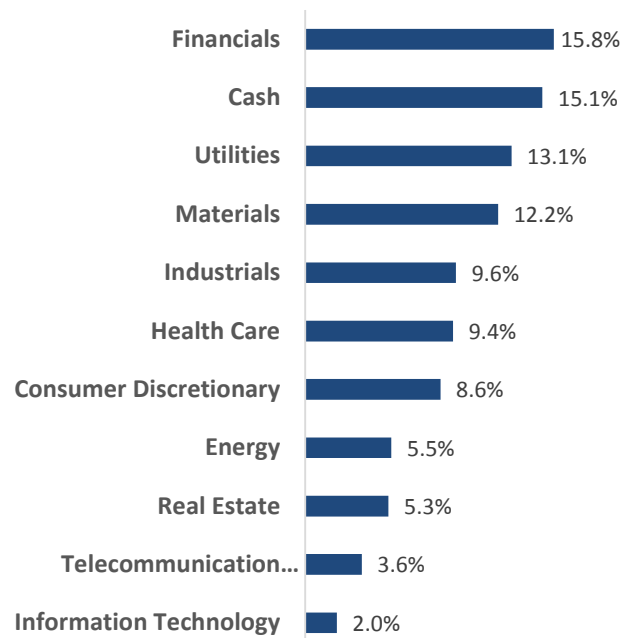
We continue to remain cautious on the overall outlook for the stockmarket given the high valuations of many stocks and a continued subdued earnings outlook for most companies. Having said this, we continue to look for companies we believe can grow their earnings in the next 3 to 5 years and which in our view are reasonably priced and we will continue to use periods of volatility in the stockmarket to top up on favoured stocks.

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



KEY EQUITY INVESTMENTS	ASX Code	Weight
Fletcher Building	FBU	4.6%
Steadfast	SDF	3.9%
AGL	AGL	3.8%
Orica	ORI	3.5%
Bank of Queensland	BOQ	3.5%
GWA	GWA	3.3%
Sonic Healthcare	SHL	3.2%
Pact Group	PGH	2.9%
Ansell	ANN	2.8%
AusNet	AST	2.6%

SECTOR ALLOCATION



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