

Investment Update & Net Tangible Assets Report

August 2017



NET TANGIBLE ASSETS (NTA)*		QVE-ASX	QV EQUITIES	
NTA before tax (cum div)		1.18	ASX Code	QVE
NTA after tax (cum div)		1.15	Listed	22 Aug 14
			Shares on issue	275.1m
			Benchmark	S&P/ASX 300 Ex-20 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
PERFORMANCE*	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK	
1 Month	-0.1%	-0.0%	+3.0%	
3 Months	-1.0%	-0.4%	+2.1%	
6 Months	+3.5%	+4.5%	+7.3%	
1 Year	+3.3%	+5.3%	+8.4%	
Since Inception Total Return p.a	+8.8%	+7.8%	+10.3%	

*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. All figures are unaudited and approximate.

The above returns are after fees and assumes all declared dividends are reinvested. Under recent changes to the corporate tax legislation, the Company's corporate tax rate and franking rate reduced to 27.5% from 1 July 2017. *Performance is calculated to 31 August 2017. Past performance is not indicative of future performance.

SHAREMARKET COMMENTARY

Global equities paused their run in August following 9 months of gains as volatility picked up in the wake of continued political discord in Washington and geopolitical rumblings concerning North Korea. Over the month, the MSCI World Index fell -0.1%, with the US S&P500 edging up +0.1% while Europe's Stoxx50 and Japan's Nikkei Indices slipped -0.8% and -1.4% respectively. USD weakness persisted throughout the month and this continued to weigh on sentiment for the export driven European and Japanese markets.

President Trump's remarks, following the Charlottesville race riots, led to two pro-business advisory councils being dissolved as many prominent CEOs distanced themselves from the President. Further controversial comments from Trump, that he is willing to let the US government shutdown and let the debt ceiling be breached should he not receive funding for his border wall with Mexico, also caused further uncertainty. Finally, in an eventful month for geopolitics, the escalating tensions between the US and North Korea over nuclear testing caused further volatility for equity markets and buoyed safe havens buying, such as in Gold and US treasuries.

The ex 20 sector of the market had a good month, up +3.0%. The Materials, Energy and Industrials sectors all rose strongly over the month thanks to a +7% spike in iron ore, a rally in the gold price and the oil price steadying around the USD 50 a barrel. Energy companies Origin Energy and Santos both rose over +10% over the month as the oil price stabilised, while gold companies like Newcrest, Evolution Mining and Northern Star all surged thanks to strength in the gold price on safe haven buying due to the North Korean 'missile crisis'. The ex 20 Consumer Staples sector also did well as company's like Blackmores, A2 Milk and Treasury Wines all rallied strongly over the month as investors were encouraged on their results announcement.

Most other Industrial stocks had a lack lustre month during August after a mixed reporting season. While many companies met their FY17 expectations, the forward outlook for FY18 for many companies seemed to underwhelm investors. While good quality companies such GWA Group and Trade Me delivered a robust set of numbers and yet sold off in the wake of their FY18 guidance. Many high growth companies were heavily punished over the month if expectations for FY18 were not met and therefore there were significant falls in the prices of companies such as Domino's Pizza and Healthscope.

The **QVE Portfolio** delivered a flat return over the month, which was below the benchmark's strong return of +3.0%. Our low weighting to the Resource sector held back performance. Several of our core industrial holdings such as Sonic and GWA sold off despite announcing solid annual results and increased dividends as investors expected more following the release of conservative guidance with these results. Despite lifting its final dividend and its full year net profit by 5%, Pact also declined over the month after the company had a flattish second half. Having looked closely at all these companies' results and met with management, we remain comfortable with the 3 to 5-year outlook of all these companies and we have used weakness in their share prices to top up on some of our holdings in these quality companies.

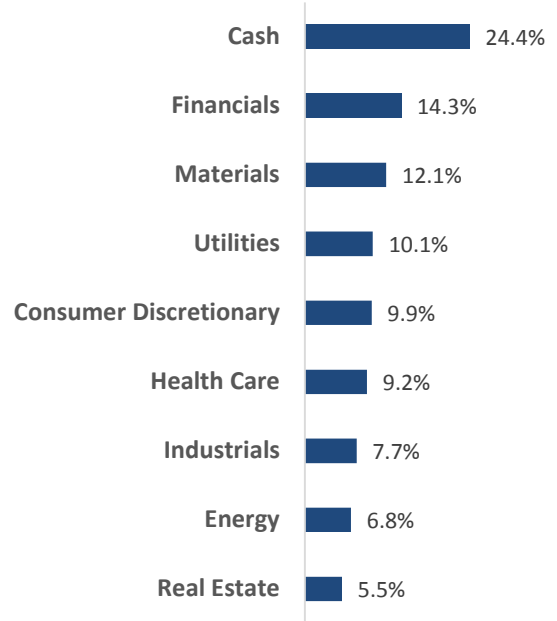
Mayne Pharma declined heavily over the month after announcing a disappointing 2017 result due to a more competitive market for generics in the US in the second half of the year. While this will continue into 2018, the company is looking to offset some of this weakness through cost cutting and new product launches. The company's branded products businesses and contract manufacturing divisions should also post better results in FY18. At current prices, we believe the company has been oversold from a long-term point of view, and while disappointed with the performance to date we are holding our position and continue to closely monitor the company's progress. Conversely Flight Centre shot up strongly after announcing an in-line result and on an encouraging outlook. We used this strength in the share price, as it approached \$50 a share, to exit our position as the company looked fully valued at that level. Caltex also had a good result and we remain comfortable with management's repositioning of the business.

We remain cautious given the continued low growth, competitive economic environment which is making it difficult for many companies to grow their earnings. While the Resource sector is the one grabbing all the attention at the moment as commodity prices rally, we continue to focus our attention on good quality companies that we believe are well positioned to sustainably grow their earnings and dividends in the years ahead. We are also maintaining a healthy level of cash in the portfolio as we await the opportunity to buy good quality stocks at the right level.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Spark Infrastructure	SKI	3.7%
Bank of Queensland	BOQ	3.4%
Sonic Healthcare	SHL	3.3%
Clydesdale Bank	CYB	3.3%
Caltex	CTX	3.3%
Fletcher Building	FBU	3.2%
Pact	PGH	3.2%
Ansell	ANN	3.1%
Amcor	AMC	3.0%
Steadfast	SDF	3.0%

SECTOR ALLOCATION



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