

# Investment Update & Net Tangible Assets Report

October 2017



NET TANGIBLE ASSETS (NTA)*		QVE-ASX	QV EQUITIES		
NTA before tax ex div		1.19	ASX Code	QVE	
NTA after tax ex div		1.15	Listed	22 Aug 14	
*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.			Shares on issue	275.3m	
PERFORMANCE*	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK	Benchmark	S&P/ASX 300 Ex20 Accumulation
1 Month	+1.7%	+1.3%	+5.3%	Number of stocks	20 – 50
3 Months	+1.8%	+1.6%	+8.3%	Dividend Frequency	Half yearly
6 Months	+0.4%	+1.0%	+7.8%	Suggested investment time frame	5+ years
1 Year	+8.8%	+9.1%	+19.1%	Investment Objective	To provide a rate of return which exceeds the return of its benchmark on a rolling 4 year basis
Since Inception Total Return p.a	+9.0%	+7.9%	+11.5%		

The above returns are after fees and assumes all declared dividends are reinvested. Due to the Company's turnover being below \$25 million the Company's corporate tax rate reduced to 27.5% from 1 July 2017. \*Performance is calculated to 31 October 2017. Past performance is not indicative of future performance.

## SHAREMARKET COMMENTARY

Global equity markets rose through October with the MSCI World Index posting a gain of +2.0%. The gains were broad based with all major bourses performing strongly. US markets hit new record highs with the broader S&P500 gaining +2.2%, whilst the Dow Jones Industrial Index moved through the 23,000 level and gained +4.3% over the month as US markets were encouraged by the prospect of President Trump's plan to reform US tax policy. Markets were similarly strong in both Europe and Japan, reacting favourably to an extension of their respective accommodative monetary policies. Europe's Stoxx50 Index gained +2.2% as markets cheered a dovish update from the European Central Bank while Japan's Nikkei surged +8.1% as Japanese Prime Minister Shinzo Abe scored a major victory in the national elections.

Domestically, Q3 inflation came in softer than expected at an annualised rate of 1.8%, falling short of the RBA's target for 2-3%. This was a further sign that stagnant wages growth continues to weigh on consumer activity. As a result, the AUD fell -2.3% to a 3-month low against the USD. In commodities, the iron ore price continued to weaken, falling -5.7% over the month to below the US\$60 level, extending September's -20% fall. The oil price jumped +7.7% as OPEC continues to make overtures on extending its production cuts.

The broader Australian market as measured by the ASX300 index had a strong month returning +4.0%. This was the Australian sharemarket's best month since July 2016 and all sectors finished the month in positive territory. Similarly, the ASX300 ex20 segment had its strongest month since July 2016 gaining +5.3% with all sectors finishing the month in positive territory. The Consumer Staples sector surged +14.2% as soft commodity prices with China exposure were chased by investors with the likes of Bellamy's, Blackmores and a2 Milk posting returns in excess of +30% for the month and Treasury Wine Estates, the largest constituent in the sector gaining +14.3%. The Resource sector excluding the ASX300 top 20 stocks also performed strongly over the month off the back of stronger base metals and oil prices with both the Miners and Energy plays gaining +5.3% and +6.8% respectively.

Adjusting for the 2 cent fully franked dividend paid to shareholders in October, the **QVE portfolio** delivered a return of +1.7% for the month, which was below the benchmark's ebullient return of +5.3%. Our caution to the volatile Resource and Energy sectors limited the portfolio's performance as commodity prices (ex iron ore) continued to be well supported. Similarly, our caution to soft commodity stocks held our performance back relative to the benchmark. Given the very high valuations that many of these companies' trade at - with many on PE's of over 30 x and the regulatory uncertainty that has plagued this sector in the past, it is a sector we are comfortable avoiding.

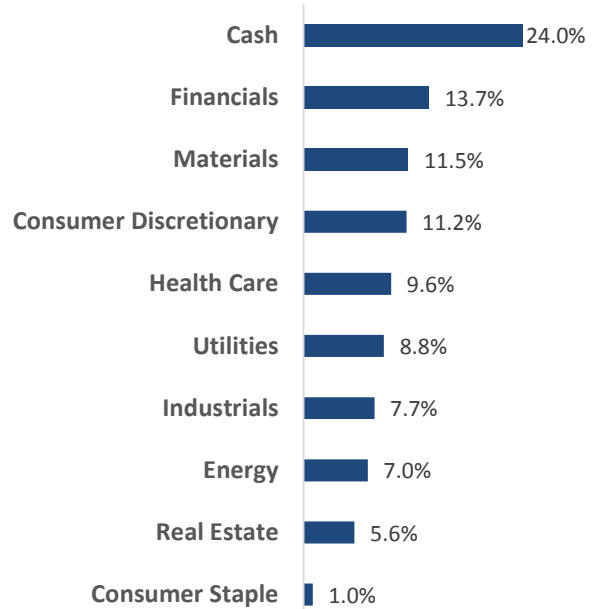
The portfolio benefited from our holdings in Pact, AGL, Ansell, Caltex, Event Hospitality and Clydesdale Bank which did well over the month. Conversely, Fletcher Building fell -12.1% over the month with the company reporting further losses in its development division. We continue to hold Fletcher's as its underlying operations continue to perform well and it is trading on a PE of 12 x normalised profits, which we believe represents very good value. GWA also fell over the month after it stated that earnings in the first quarter were flat on the previous year due to new product launches being delayed to the December quarter. GWA trades on 12.5 x earnings and a yield of over 6% fully franked. We topped up on both companies over the month. A position in Crown Casino was also established as we believe the company's share price is undervalued after it fell heavily following an unconfirmed report of gaming machine tampering by the company. Conversely, we took profits on the portfolio's holding in Amcor, at levels close to \$16 we believe the shares looked fairly fully valued.

Global sharemarkets continue to trend higher as interest rates remain low and as forecasts indicate the global economy will continue to grow into 2018. While this may be so, it remains a challenging environment for many companies to grow their earnings given the intensely competitive nature of most sectors. We continue to focus our attention on good quality companies that we believe are well positioned to grow their earnings and dividends in the years ahead while also maintaining a healthy level of cash in the portfolio as we await the right opportunities to deploy this.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Clydesdale Bank	CYB	3.8%
Pact Group	PGH	3.7%
Spark Infrastructure	SKI	3.5%
Ansell	ANN	3.4%
Caltex	CTX	3.3%
Sonic Healthcare	SHL	3.3%
Tox Free Solutions	TOX	3.0%
Fletcher Building	FBU	3.0%
Steadfast Group	SDF	2.9%
Bank of Queensland	BOQ	2.8%

## SECTOR ALLOCATION



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