

Investment Update & Net Tangible Assets Report

December 2017



NET TANGIBLE ASSETS (NTA)*		QVE-ASX	QV EQUITIES	
NTA before tax cum div		1.24	ASX Code	QVE
NTA after tax cum div		1.18	Listed	22 Aug 14
			Shares on issue	275.3m
			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
PERFORMANCE*	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK	
1 Month	+2.3%	+1.7%	+1.7%	
3 Months	+5.9%	+4.5%	+9.9%	
6 Months	+3.9%	+3.6%	+11.5%	
1 Year	+7.9%	+8.4%	+18.7%	
Since Inception Total Return p.a	+9.9%	+8.5%	+12.3%	

*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. 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 December 2017. Past performance is not indicative of future performance.

SHAREMARKET COMMENTARY

Global equity markets as measured by the MSCI World Index finished calendar year 2017 at all-time highs with a gain of +1.5% in December, rounding out a calendar year return of +22.1%, the MSCI's best performance in 8 years. As has been the case throughout the year, US sharemarkets drove global sharemarkets in December as the S&P500 continued its record breaking ascent with a gain of +1.0% over the month and +24.5% for calendar year 2017. Investors reacted favourably to a confluence of accelerating global economic growth, rebounding commodity prices, continued low interest rates and the passage of President Trump's long promised US tax reform bill in late December. Sentiment similarly buoyed the emerging markets throughout 2017, with the MSCI E.M index gaining +3.4% in December, to round out its best year since 2009 with a gain of +34%.

While US markets were buoyed throughout the year by the tech sector, markets were also buoyed by President Trump's tax bill which allowed for the US corporate tax rate to be cut from 35% to 21% as well as tax cuts at the personal level - with the bill being approved in December. These new tax concessions more than offset any concerns about US interest rates nudging upwards after three interest rate increases by the Fed in 2017, with the third increase coming in December and more US rate rises expected in 2018.

Domestically, the RBA kept rates on hold throughout 2017, reflecting relatively muted economic growth in Australia, subdued inflation, weak wages growth and a stubbornly robust AUD. The AUD finished the year stronger, gaining +3.2% against the USD in December and +8.3% over the year. Commodities were firmer across the board in December given expectations of stronger economic growth through 2018 and ongoing demand from China as iron ore prices and the base metals index gained +6.0% and +7.6% respectively, whilst the oil price rose +7.3% amidst drawdowns in US stockpiles in December.

The broader market as measured by the ASX300 returned +11.9% in calendar year 2017, posting a +1.6% return in December to finish at its highest level in a decade, similarly the ex 20 benchmark had a solid month, gaining +1.7%. Sector performance was mixed with the more defensive and interest rate sensitive sectors such as Utilities and REITs pulling back -4.5% and -1.3% respectively as bond yields crept higher and investors continued to chase growth and momentum stocks. Ex20 Resource stocks outperformed, with both the Materials and Energy sectors rallying +4.8% and +6.4% respectively, buoyed by higher commodity prices.

In company news Tox Free Solutions rallied +32% in the month following the news that Cleanaway Waste intends to buy Tox, valuing the company at \$671m, with the Tox board unanimously recommending that shareholders vote in favour of the takeover. The deal is estimated to give rise to cost savings for the new group of over \$35m over the next few years.

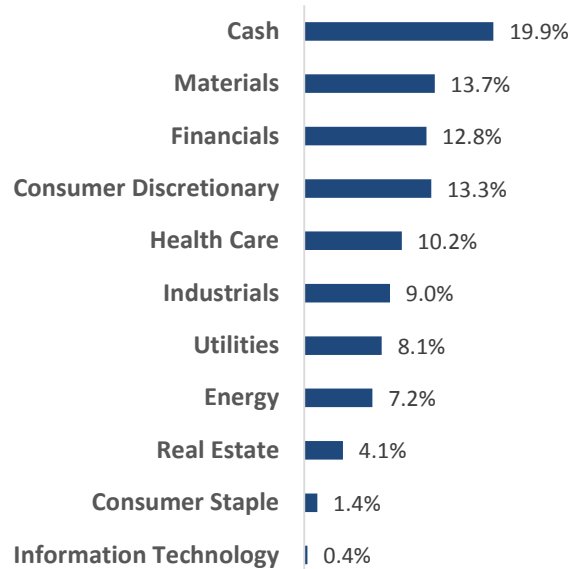
The **QVE portfolio** had a very good month gaining +2.3%, a pleasing result against the benchmark's return of +1.7%. Our caution to the soft commodity stocks benefited relative performance with many of these companies losing steam following months of outperformance and trading at lofty valuations. Over the quarter the portfolio benefited from its holdings in takeover target Tox Free, Cabcharge, Fletcher Building, Oil Search, Fairfax, Mayne Pharma, Orica and recent addition Crown Resorts. Over the month we sold the portfolio's holding in Pinnacle as we believe the stock is now fully valued. We also took part profits on our holdings in Abacus and Ausnet following stellar runs by both stocks while we added to the portfolio's holdings in Orica and Caltex in weakness.

Investor sentiment continues to remain buoyed as the global economy appears likely to grow fairly strongly in 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. With US interest rates set to increase further in the near future, we remain cautious as many markets are at record highs and some excesses are beginning to appear. 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.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Tox Free	TOX	4.1%
Sonic Healthcare	SHL	3.9%
Clydesdale Bank	CYB	3.9%
Pact Group	PGH	3.8%
Caltex	CTX	3.5%
Orica	ORI	3.4%
Crown	CWN	3.4%
Bank of Queensland	BOQ	3.2%
Spark Infrastructure	SKI	3.2%
Fletcher Building	FBU	3.1%

SECTOR ALLOCATION



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