

Investment Update & Net Tangible Assets Report

February 2018



NET TANGIBLE ASSETS (NTA)*		QVE-ASX	QV EQUITIES	
NTA before tax (cum div)		1.22	ASX Code	QVE
NTA after tax (cum div)		1.17	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 (as at 28.02.18)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-0.6%	-0.3%	-0.2%
3 Months	+0.8%	+0.8%	+0.9%
6 Months	+4.7%	+3.9%	+9.0%
1 Year	+8.4%	+8.6%	+16.9%
Since Inception Total Return p.a	+8.9%	+7.8%	+11.4%

*The before and after tax NTA numbers relate to the provision for tax on net profit in addition to deferred tax on the unrealised 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. Past performance is not indicative of future performance.

SHAREMARKET COMMENTARY

Global equity markets corrected during early February following the release of the US employment report. This spooked investors after it showed US wages accelerating at their fastest pace in 9 years fueling inflationary worries and concerns that the Federal Reserve would raise rates at a faster pace than expected over 2018. The inflation fears plus the realisation that the Trump tax plan will raise the US deficit and significantly increase the US government's bond issuance programme saw the US 10 year bond yield spike to 2.9% (up 50bp since the beginning of January), its highest level in over 4 years. After having been down -10% at one point, the US S&P500 finished the month down -3.9% while Europe's Stoxx50 and Japan's Nikkei fell -4.7% and -4.5% respectively over the month.

Not surprisingly the VIX volatility index, which had traded at record lows for most of 2017 spiked over 120%, wiping out many of the short volatility exchange traded products linked to it. Newly appointed Fed Chairman Jerome Powell provided a bullish assessment of the US economy later in the month - this created further concerns that US interest rates may be increased more than expected in 2018 by the Fed.

For the first time in 18 years the 10 year Australian Government offered a lower yield than its US counterpart reflecting the growing divergence in monetary policy between the two countries with the RBA widely expected to keep rates on hold throughout 2018 while the Federal Reserve is expected to raise US rates at least 3 times in 2018. The interest rate differential led to the AUD falling -3.6% against the USD over the month. Commodity markets were mixed, the iron ore price gained a further +9%, whilst the oil price lost -6% as US stockpiles surged to an all time high as US shale drillers ramped up production off the back of higher oil prices through 2017. A confident projection from the IEA that the US could overtake Russia as the world's largest producer by 2019 weighed on the oil price.

In a busy month for the Australian market, the ASX300 finished virtually unchanged in February which was a very good result in what proved a very volatile month. Whilst major markets sold off -10% during the correction earlier in the month, the ASX300 fell only half that amount at its worst. During February, most Australian companies reported their interim results - whilst earnings growth was seen broadly across most sectors, in our assessment and meeting with management teams, earnings growth remains patchy. Despite the pick up in global growth, domestic companies continue to find revenue growth challenging amidst tighter competition and a softer environment for consumers.

The ex20 segment of the market finished the month unchanged. Sector performance was mixed, Consumer Staples outperformed, up +8.6%, courtesy of the soft commodity plays continuing to rally strongly. A2 Milk delivered a strong result, with the stock jumping +48%, whilst Bellamy's added a further +22% over the month while Blackmores lost -17% in the same period on softer sales results, highlighting the unpredictability of the some of these high flying stocks. The Healthcare sector also performed well up +1.5% following solid performances from Mayne Pharma, Sonic Healthcare and Ansell. Conversely, the Materials and Energy sectors were lacklustre reflecting softer base metals, gold and oil prices. The REITs sector shed -1.1% as it sold in sympathy with the spike in global bond yields.

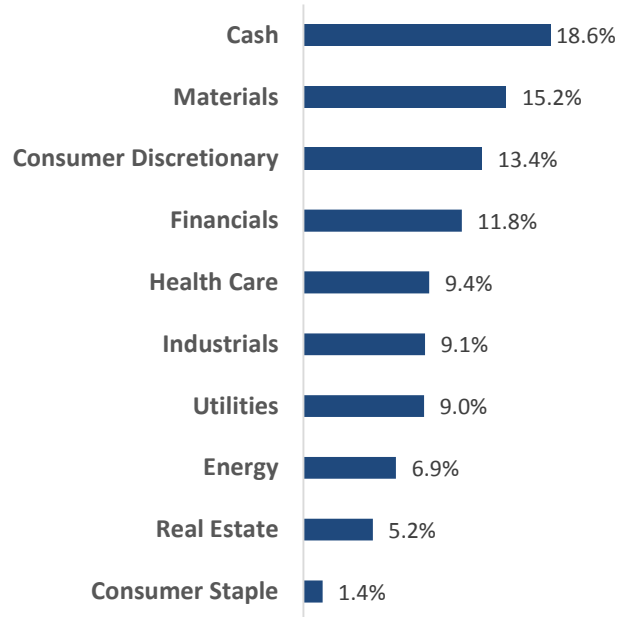
The QVE portfolio finished the month slightly lower, performing broadly in line with its benchmark. We used weakness throughout the month to top up on our positions in good quality industrial companies that we believe are well positioned to grow their earnings and dividends in the years ahead, topping up on companies such as Amcor, Crown and Pact Group on share price weakness. We also used the pull back to top up in reliable companies that sold off in sympathy with the spike in global bond yields such as Shopping Centres Australasia and Spark Infrastructure. We used strength in the share price of Ansell to trim our positions after the stock price spiked after its interim result. The portfolio benefited from solid performances from GWA, Mayne Pharma, Pact Group, Ansell and Spark Infrastructure. Conversely, Fletcher Building weighed on performance following further write downs in its construction division - although we believe the worst is now behind the company and that the company is now well provisioned and remains in a good position to grow its earnings into 18/19.

The significant increase in volatility and pull back in global markets was in our opinion well overdue and has to be kept in context of the strong rises in many of these markets over the preceding 12 months. While the direction of world growth does remain positive, 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 and with the ECB due to slow or stop its QE policy some time in 2018, we remain cautious and will continue to use any further weakness in good quality industrial names to put the portfolio's cash holding to work.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Tox Free Solutions	TOX	4.1%
Amcor	AMC	4.0%
Pact Group	PGH	3.9%
Sonic Healthcare	SHL	3.9%
Crown Resorts	CWN	3.7%
Caltex	CTX	3.7%
Clydesdale Bank	CYB	3.6%
Spark Infrastructure	SKI	3.6%
Orica	ORI	3.5%
Bank of Queensland	BOQ	3.1%

SECTOR ALLOCATION



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