

Investment Update & Net Tangible Assets Report

September 2018



NET TANGIBLE ASSETS (NTA)*		QVE	QV EQUITIES	
NTA before tax cum div		1.22	ASX Code	QVE
NTA after tax cum div		1.18	Listed	22 Aug 14
			Shares on issue	275.5M
			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 30.09.18)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-0.7%	-0.4%	-1.5%
3 Months	-0.2%	-0.2%	+1.5%
6 Months	+4.5%	+3.6%	+9.0%
1 Year	+7.7%	+6.3%	+15.9%
Since Inception Total Return p.a	+9.0%	+7.5%	+11.6%

*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 and excludes tax paid for pre tax NTA. Past performance is not indicative of future performance.

SHAREMARKET COMMENTARY

Global equity markets had a relatively quiet month with the MSCI World index gaining +0.3%. While developed markets edged up over the month, the higher US dollar and US interest rate rises as well as the Trump administration pushing ahead with its plan to introduce tariffs, continued to negatively impact the MSCI Emerging Markets index. European markets and the US S&P 500 both finished the month slightly higher, while the tech heavy NASDAQ index took a breather and finished the month down -0.8%. The main news for the month was the US Federal Reserve increasing US interest rates by 0.25% to 2.25% with the promise of more rate rises to come over the balance of 2018 and into 2019 as the US economy continues to grow strongly. The strong growth of the US economy, spurred by Trump's recent tax cuts and other fiscal stimulus, also led to a spike in US bond yields due to increasing concerns over the re-emergence of inflation.

The Australian sharemarket finished the month lower with the ex20 benchmark down -1.5% despite strength in the Resources sector. The Industrials sector finished 2% lower as many of the high flying 'growth' Industrials of the last 12 months such as Aristocrat, Cochlear and Treasury Estates all declined heavily over the month as investors adjusted these stocks' valuations downwards to take the increase in bond yields into account. High flying stocks exposed to the Chinese "Daigou" distribution channels such as A2 Milk, Blackmores and Bellamy's also weakened over the month on concerns regarding the strength of the Chinese economy going forward. The Utilities sector was also soft shedding -3.1%, mainly due to weakness in AGL's share price as the Government continued to jawbone and threaten the sector with re-regulation in a bid to reduce electricity prices.

Conversely, the Ex20 Resources sector had a good month gaining +1.9% as the price of commodities such as oil and iron ore strengthened during September. The iron ore price gained +5% on the expectation that the Chinese Government will look to offset the economic impact of the US trade tariffs with an infrastructure programme and looser monetary policy. The oil price continued to surge to new 3-year highs with the price rising a further +7% over the month on supply concerns given US led sanctions against Iran.

The **QVE portfolio** had a lacklustre month returning -0.7% which whilst disappointing was better than the benchmark's fall of -1.5%. Many of the portfolio's holdings such as Mayne Pharma and Contact Energy had a good month while many of the high flying Industrial stocks that we don't hold - that in our opinion were trading at overly rich valuations - such as Aristocrat Leisure, Treasury Wines and Cochlear - also helped to protect the portfolio from the market's decline over the month.

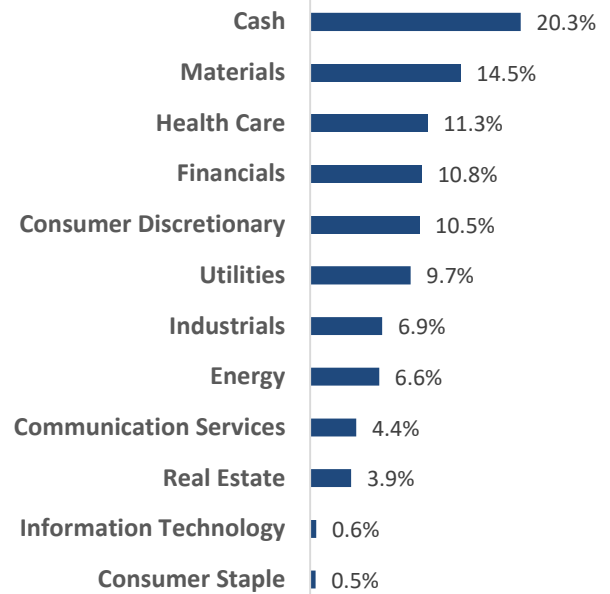
Over the month we sold out of the portfolio's holding in ASX limited as we judged the share price to be overvalued. We also took profits on part of our holdings in both Mayne Pharma and Sonic Healthcare following significant share price appreciation over recent times. We used weakness in the share prices of Aurizon and GWA to top up our holdings in these companies given what we see as attractive valuations and very strong management teams. Following the announcement of the Royal Commission enquiry into the Aged Care sector, we took advantage of the steep share price decline of leading aged care operator Regis to buy a relatively small holding in the company for the portfolio. In our view, we believe Regis is the highest quality amongst the aged care operators. At prices below \$3, we estimate that the stock is now trading at below the replacement cost of the company's centres and offers a fully franked dividend yield of over 5%, as well as very good long-term value.

We continue to focus the portfolio on companies that we believe have sustainable earnings and represent reasonable value. With bond yields now rising sharply led by the US, investors' focus on valuations has intensified as higher bond yields generally leads to a reduction in PE ratio which means that many of the higher PE stocks are now correcting to more realistic levels. The QVE portfolio remains well positioned in this regard with a high cash weighting and a strong focus on not owning overvalued stocks. We will continue to monitor the market closely and look to use the cash in the portfolio to buy good quality industrial names that, in our view, are trading at attractive valuations and that we believe can do well over the next 3 to 5 years.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Clydesdale Bank	CYB	4.2%
Caltex	CTX	4.0%
Spark Infrastructure	SKI	4.0%
Amcor	AMC	4.0%
Sonic Healthcare	SHL	3.9%
Crown Resorts	CWN	3.8%
Orica	ORI	3.5%
Pact Group	PGH	3.4%
Bank of Queensland	BOQ	3.1%
Mayne Pharma	MYX	3.1%

SECTOR ALLOCATION



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