

6 May 2016

A Note from the Chairman

Around the world, a more positive sentiment has returned to share markets, helped along by better news on the Chinese economy, including the clear resolve of the authorities there to try to boost growth, and by the US central bank reiterating that the “normalisation” of its cash rate will be made “cautiously” and “gradually”. Here, the Reserve Bank’s decision to reduce the cash rate in early May added to the strong lift to share prices.

Economic conditions in China and the US

Fears of a hard landing for the Chinese economy have eased recently. Industrial production, consumer spending and the service sector were not as bleak as had been generally anticipated. In addition China’s budget and monetary policies have both been significantly relaxed, with credit growth now rising at a rate of twenty per cent per annum. China will need, at some stage, to rein in its strong growth in credit and the continuing build up in debt.

The US is experiencing modest trend growth in GDP but job growth remains strong although US productivity is levelling out. Despite the slowing growth in profits overall, and disappointing earnings in energy and by some leading technology companies, the US share market remains close to its all-time high.

The Australian economy

The Australian economy has performed better in recent years than in previous resource cycles. Inflation didn’t get out of hand when the resources boom was at its peak. In 2015, when capital spending by resource companies fell away sharply, overall economic growth was three per cent. Real growth of 2.5 per cent seems likely this year. But profit results from Australian companies remain very uneven: it remains a very selective, stock pickers’ market.

The Budget

The projected return to a near-balanced Budget is slow. The main surprise is the comprehensive change to superannuation. That said, the details set out in this year’s Budget will not have a big effect on investment markets.



Don Stammer
QV Equities Chairman

Investment Update & Net Tangible Assets Report



April 2016

NET TANGIBLE ASSETS (NTA)		QVE-ASX	QV EQUITIES	
NTA before tax		1.0849	ASX Code	QVE
NTA after tax		1.0544	Listed	22 Aug 14
<p>*The NTA per share is the ex price as at 29 April 2016. The before and after tax numbers relate to the provision for 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.</p>			Shares on issue	221.4M
PERFORMANCE	QVE's NTA (after tax)	BENCHMARK	Benchmark	S&P/ASX 300 Ex20 Accumulation
1 Month	+1.3%	+2.8%	Number of stocks	20 – 50
3 Months	+3.6%	+9.9%	Dividend Frequency	Half yearly
6 Months	+2.9%	+7.5%	Suggested investment time frame	5+ years
1 Year	+3.9%	+6.3%	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	+12.0%	+13.8%		

The above returns assumes all declared dividends are reinvested

SHAREMARKET COMMENTARY

Global equity markets edged higher for a second consecutive month with the MSCI World Index finishing +1.3% higher. Ongoing supportive Central Bank policy, notably from China and a continued rebound in commodity prices helped drive sentiment for another month. Regional performances were mixed with the S&P 500 and Europe's Stoxx50 up +0.3% and +0.8%, whilst Japan's Nikkei225 and China's Shanghai Composite finished the month down -0.6% and -1.7% respectively, with China consolidating following strong gains made in the prior month.

In a sign of the tepid growth conditions, U.S. Q1 GDP surprised to the downside slowing to a 0.5% annualised rate, its weakest rate in two years. The majority of US corporates continue to release mixed results, with Q1 earnings marking the third consecutive quarter of declining earnings. It was thus no surprise to most market commentators when the US Fed decided to keep rates on hold citing softer business conditions.

Domestically, the release of weaker than expected CPI data which turned negative in the first quarter (the first negative print in 7 years and the weakest annual print since records began), weighed on the AUD which quickly came off its recent highs.

The broader Australian equity market as measured by the ASX300 had a strong month, finishing +3.3% higher. The market was largely driven by the ongoing rebound in commodities as the Resource sector gained +15%. The oil price gained a further +20% over the month despite a failure between the major oil producers to agree on a production freeze. The iron ore price gained +23% on the back of sentiment that the new Chinese stimulus package was feeding through to a pickup in Chinese construction activity and news that the Big 3 mining companies (BHP, Rio & Vale) agreed to scale back production growth in the years ahead.

In company news, Recall shareholders voted overwhelmingly in favour of the US company Iron Mountain's \$2.6b bid, following March's ACCC approval. Late in the month, the NZ Commerce Commission also cleared Z Energy's acquisition of Chevron's NZ based assets, which is expected to drive significant earnings growth for the company in the years ahead. Pacific Brands, a private equity spin off bought from conglomerate Pacific Dunlop more than a decade ago, received a takeover offer from Hanes Brand valuing the company at \$1.1b as it emerged from seven years of restructuring to put long suffering shareholders out of their misery.

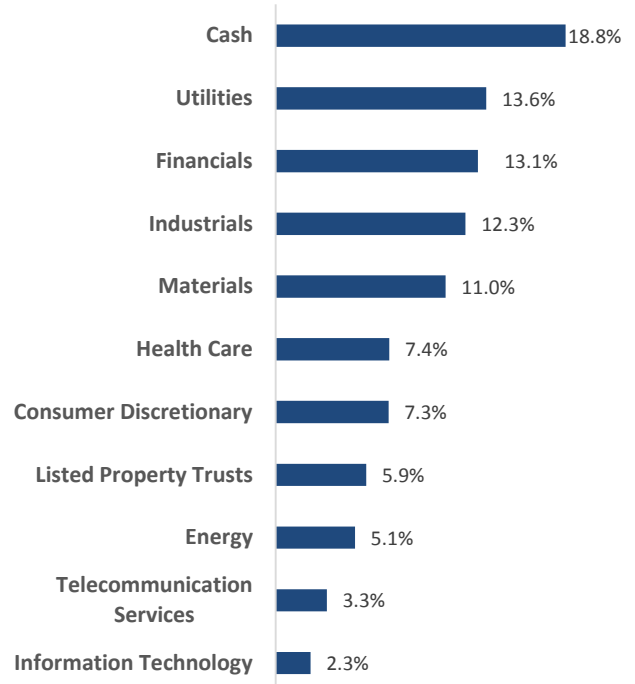
The QVE portfolio's NTA rose +1.3% in April. The portfolio's low weighting to the unpredictable Resources sector held back the portfolio's performance although given the low quality and volatile nature of many stocks in the sector we remain comfortable with the portfolio's positioning. Key holdings such as Z Energy, Ansell, Fletcher Building and Clydesdale Bank all performed well over the month. New stocks added to the portfolio in recent months included Integral Diagnostics, a very well managed radiology company that continues to position itself very well for the aging of the Australian population in the long term, despite the potential for some Medicare funding changes, although we believe this is already more than reflected in the share price.

The loose monetary policies pursued by Central Banks all over the world, including the RBA, continue to focus investor attention to look for returns from the sharemarket as one of the only alternatives outside of cash and bonds. The continued chase for yield has pushed many stocks towards the upper end of their valuations and we continue to be patient and wait for the right opportunities to judiciously invest the portfolio's cash into good quality stocks that we believe can perform well in the years ahead.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Fletcher Building	FBU	4.0%
Steadfast	SDF	3.5%
Bank of Queensland	BOQ	3.5%
AGL Energy	AGL	3.3%
Sonic Healthcare	SHL	3.2%
Orica	ORI	3.2%
GWA	GWA	2.9%
AusNet Services	AST	2.8%
ASX	ASX	2.8%
Pact Group	PGH	2.6%

SECTOR ALLOCATION



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