

05 February 2016

A note from the Chairman

Around the world, share markets started the new calendar year with fairly sharp falls reflecting diverse influences:

➤ In December, the US Fed made a first move towards “normalising” its cash rate by increasing the US overnight rate by 0.25%. This rate had been set at close to zero for seven years. Senior Federal Reserve officials indicated in December that they expected four further increases in the US cash rate during 2016 - a projection which unsettled confidence of many equity investors.

➤ At the end of 2015, valuations in many share markets looked somewhat stretched — at a time when global growth seemed to be losing momentum and concerns of a hard landing in China were intensifying.

➤ The dramatic collapse in oil prices also unnerved share markets, with average share prices moving in lockstep with the oil price - even though in reality lower oil prices should benefit many companies by reducing their costs and raising the spending power of customers.

Recurring bouts of volatility seem likely to be a feature of investment markets in 2016 – for bonds as well as for shares given the many uncertainties. In due course, these various stresses will work themselves out. Investors who take a longer-term perspective are generally best placed to cope with and even to benefit - from volatile and gloomy markets.

The Manager for QV Equities, Investors Mutual Limited (IML), continues to focus on patiently investing in a diversified, carefully selected portfolio of quality companies outside the top-20 listings on the Australian Securities Exchange. IML has a well-established reputation for buying quality stocks at attractive prices.

The Board is confident that QV Equities will deliver a reliable dividend and favorable results over the long term for our investors, even in these challenging market conditions.



Don Stammer
QV Equities Chairman

For further up to date information on the company and its investment philosophy, please go to: www.qvequities.com

Investment Update & Net Tangible Assets Report

JANUARY 2016



NET TANGIBLE ASSETS (NTA)	Pre Option Dilution	Diluted for QVE Options
NTA before tax	\$1.0530*	\$1.0292**
NTA after tax	\$1.0321*	\$1.0177**

*The NTA per share is the ex price as at 31 Jan 2016. The before and after tax numbers relate to the provision for 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. **This NTA per share is calculated allowing for the dilution effect assuming all outstanding options are exercised.

PERFORMANCE	QVE's NTA after tax	BENCHMARK
1 Month	-1.8%	-3.4%
3 Months	-0.7%	-2.2%
6 Months	-0.3%	-2.8%
1 Year	+3.2%	+3.3%
Since Inception (22 Aug 14)	+8.1%	+3.6%

The above returns assumes all declared dividends are reinvested

Global equity markets endured a torrid start to 2016 with the MSCI World Index falling 6.1% (in USD terms). A combination of uncertainty surrounding the health of the Chinese economy and its management of the Yuan, the ongoing frailty in commodity prices, and conjecture over the path of US rate rises all weighed heavily on investors. No major market escaped the falls, with most losing more than 5%. After rebounding from its August 2015 lows, thanks to some unorthodox Government intervention, the Chinese market sank more than 20%.

The local sharemarket also fell with the ASX300 down -5.5% for the month with the ongoing weakness in commodity prices weighing heavily on our market. The ex-20 sector of the local market held up relatively well to be down -3.4% as the large banks and miners within the top 20 were the most impacted by the global sell off. Across ex 20 sectors, the Energy and Materials fell more than 5%, while Financials fell -6% as the share price of equity managers, such as BT and Platinum fell sharply. Positive performers included the Utilities and Telco sectors given their healthy yields and relative defensive attributes.

The QVE portfolio fell -1.8% over the month, which whilst disappointing was markedly better than the benchmark's fall. Our relative underweight to much maligned Resource sector aided our relative performance as did our continued bias towards good quality companies.

Strong performers over the month included Sonic Healthcare, AGL Energy, Amaysim and Sky City while Aurizon and Fletcher Building disappointed. We however, remain positive on the prospects of both the latter companies and thus continue to take advantage of any further price weaknesses to add to our existing position. We also added to our holdings in ASX Limited and electricity utility company, Spark Infrastructure at what we considered to be attractive prices.

In company related news, Dick Smith became the latest victim of the weakening state of the Australian consumer market as the company entered into voluntary administration less than two years since it was sold to the public by private equity.

The challenging environment looks set to continue in 2016, as evidenced by the recent downgrading of earnings forecasts by several companies going into the reporting season. Lacklustre economic growth in many parts of the world has led to excess capacity and a much stronger competitive environment in many sectors. We continue, as we have done since IML's inception to select companies that in our view remain well placed and attractively priced.

QV EQUITIES	
ASX Code	QVE
Option Code	QVEO
Listed	22 Aug 14
Shares on issue	203.4 mil
Options Exercised	18.8 mill
Options Outstanding	165.8 mil

Benchmark

S&P/ASX 300 Ex20 Accumulation

Number of Stocks

20 – 50 ASX listed securities which fall outside the S&P/ASX 20 Index

Suggested investment time frame

5+ Years

Dividend Frequency

Half-Yearly

Options expiry

15 March 2016

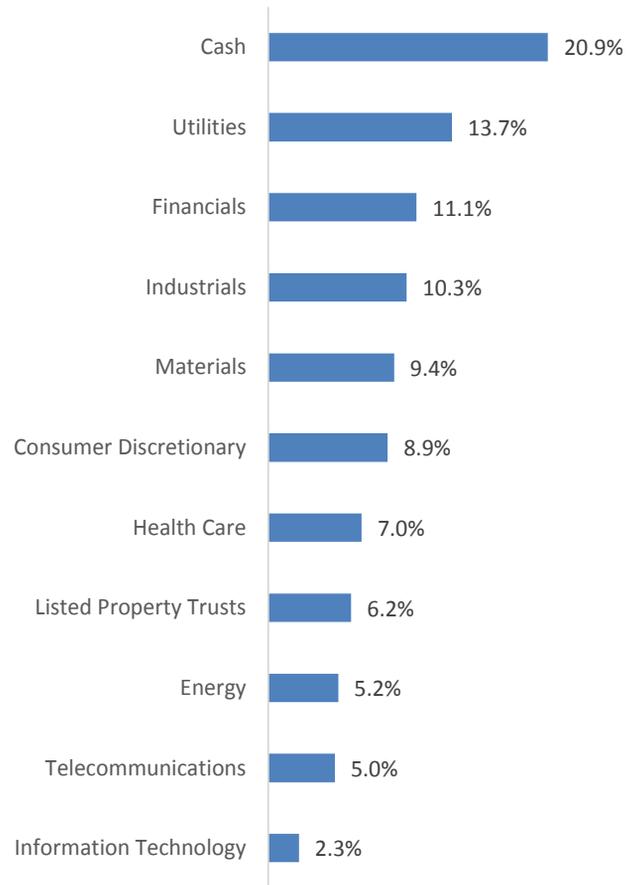
Investment Objective

To provide a rate of return which exceeds the return of its benchmark on a rolling 4 year basis



KEY EQUITY INVESTMENTS	P/E 2017	YIELD 2017
Bank of Queensland	12.7	5.9%
Sonic Healthcare	16.3	4.8%
AGL Energy	16.6	4.2%
ASX Ltd	19.3	4.7%
Orica	12.3	6.3%
Fletcher Building	10.5	6.1%
Steadfast	11.7	5.1%
Ausnet Services	23.3	6.1%
GWA Group	11.6	6.1%
Trade Me	17.6	5.3%

SECTOR ALLOCATION



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Disclaimer

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