

9 June 2015

A note from the Chairman

In the early months of this year, Australian shares were mostly trading at buoyant levels. That was in response to gains in overseas share markets, record low yields on government bonds, investors' love of dividends and expectations that the Reserve Bank would cut the cash rate further (it did, twice).

In recent weeks, most share markets – China is the exception - have given back the gains they chalked up earlier in the year. Market sentiment has turned gloomy and volatility has increased.

Globally, investor enthusiasm towards shares has been dampened by a jump in bond yields. Our share indexes have weakened more than those in most other countries – in part because investors see the Australian dollar as uncomfortably high, despite the efforts the Reserve Bank has made to lower its value.

Within the Australian share market, returns from shares in big companies were generally negative in April and May – by 2.6 per cent and 0.8 per cent respectively. On average, returns from shares in mid-sized businesses recorded modest but useful gains in those months - of 0.2 per cent in April and 2.7 per cent in May.

Early in the year, the dominant expectations of investors were that the US recovery would stall, Europe would suffer a mild recession and deflation, and the Chinese economy would have a hard landing. Those expectations, which helped to lower bonds yields to their lowest levels ever, are dissipating. They're being replaced by expectations for modest growth and mild inflation in each of the major economic blocs.

This change in market sentiment has seen bond yields rise, notably in Europe, and many investment strategists are forecasting that, here and abroad, bond yields will rise further over the next year or two. Provided the better numbers for economic growth come through – and give a boost to revenues and profits - share markets have good prospect of moving higher.

The current weakness in the Australian share market is providing the opportunity for our Manager to selectively purchase, for QV Equities' portfolio, shares included in the ASX 300 index but excluding the top 20 stocks that offer prospect of good returns over the medium and long term.

A handwritten signature in black ink, appearing to read 'Don Stammer'.

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



MAY 2015

NET TANGIBLE ASSETS (NTA)	Pre Option Dilution	Diluted for QVE Options
NTA before tax	\$1.0838*	\$1.0437**
NTA after tax	\$1.0550*	\$1.0287**

*The NTA per share is as at 31 May 2015. 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	+1.0%	+2.7%
Since Inception (22 Aug 14)	+9.0%	+9.9%

- Global equity markets were flat over the month, as measured by the MSCI World Index. Regional performances were mixed, with the US and Japan posting solid gains while Europe continued to correct continuing fears of a Greek default. Economic data released in May in the US was largely positive with non-farm payrolls showing a solid rebound while housing starts and building permits posted meaningful gains. That said the US Federal Reserve minutes released continue to be rather benign and indicated that ongoing economic strength would be needed before a rate hike could be justified.
- The Australian share market produced a small gain of +0.4% as measured by the ASX300 Accumulation Index. The AUD moved -3.3% lower over the month as the RBA cut rates to a record low of 2%. Iron-ore prices continued to recover, adding another +10% while the oil price retreated slightly.
- The small-medium segment of the Australian sharemarket performed markedly better than the overall index with QVE's benchmark posting a +2.7% gain for the month. The gains were led by a strong rally in the more cyclical and mining services companies. The QVE portfolio also recorded a positive month in May thanks in the main to good performances from the portfolio's holdings in Orica, AGL Energy, GWA Group and Aurizon.
- Given the continued mixed economic conditions going forward, we continue to focus on stocks that based on our research are reasonably valued and which have attractive and sustainable yields. Thus during May we added a position in Abacus Property Group (ABP). ABP is well known to us - it has a lowly geared balance sheet (20 %) and it yields over 6%. The company is also in the process of divesting some of its underperforming assets, which we view as a positive.
- Over the month we also acquired small holdings in Generation Healthcare and Genesis Energy. Generation Healthcare has a quality portfolio of hospitals and medical centres on long term leases, which we purchased on a yield of 6%. Genesis Energy is a NZ based gas and electricity retailer which we purchased after the stock price fell heavily following a small downgrade to earnings. Based on our forecasts, the stock now yields in excess of 9%. We also used price weaknesses during the month to top up our positions in Caltex, Pact Group and Fletcher Building.
- The portfolio has been carefully invested in the share market over the last 9 months. With 28% still in cash we are looking to use the current corrective phase in the sharemarket to buy further quality companies at what we believe are attractive valuations and which, based on our research, we believe can grow steadily in the years ahead despite the uncertain economic conditions.

QV EQUITIES	
ASX Code	QVE
Option Code	QVEO
Listed	22 Aug 14
Shares on issue	192.3 mil
Options Exercised	7.7 mill
Options Outstanding	176.9 mill

Benchmark

S&P/ASX 300 Ex20 Accumulation Index

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

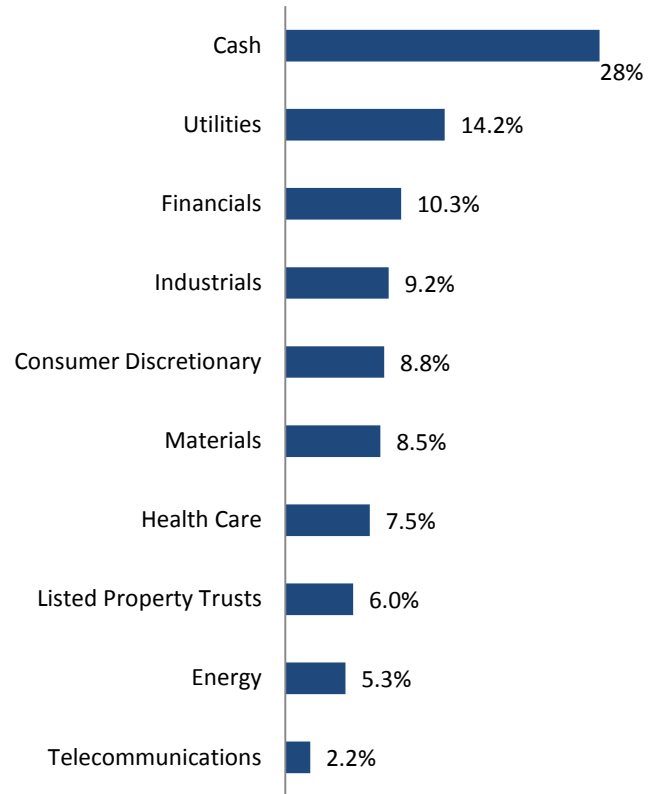
To provide a rate of return which exceeds the return of the relevant benchmark on a rolling 4 year basis





KEY EQUITY INVESTMENTS	P/E 2016	YIELD 2016
AGL Energy	14.9	4.6%
GWA Group	15.9	5.3%
Sonic Healthcare	18.2	3.9%
Bank of Queensland	13.1	5.8%
Energy Developments	13.6	6.0%
Steadfast Group	12.9	4.5%
Orica	13.8	4.4%
Fletcher Building	14.0	4.8%
Ansell	15.5	2.3%
ASX Ltd	19.7	4.6%

SECTOR ALLOCATION



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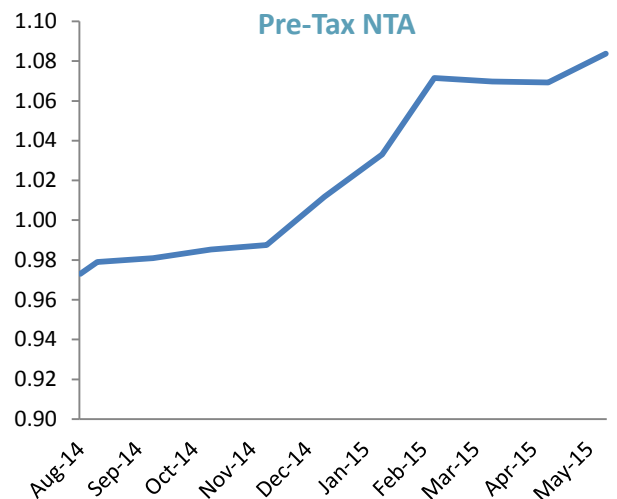
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