

# QV Equities Investor Update

February 2016



QV  
Equities Ltd.

IML INVESTORS  
MUTUAL LTD

## About IML

---

- Boutique manager established in 1998
- Disciplined focus on 'quality' and 'value'
- Over \$5bn FUM - retail and institutional clients
- Large investment team with experienced leadership
- Consistent performance over 18 years

## QV Equities Limited

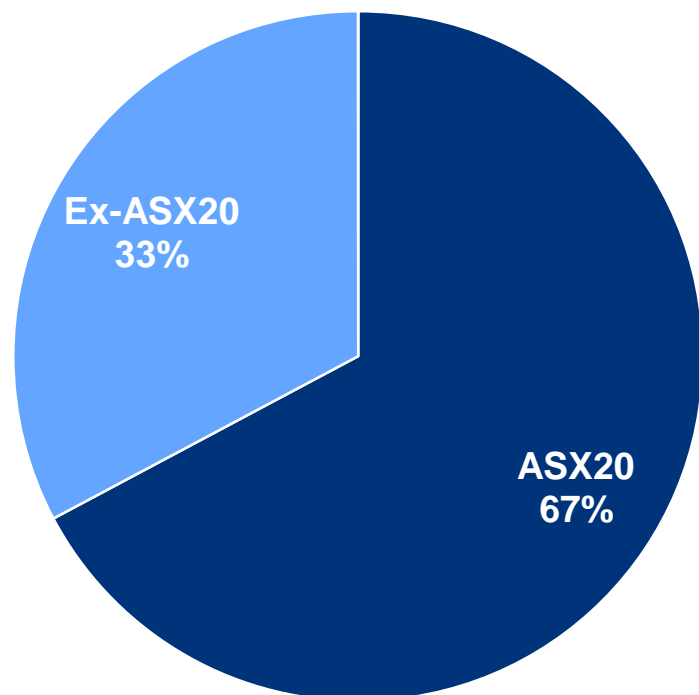
---

- Delivers investors diversification – focusing on ex20
- Listed 22 August 2014
- Managed by Investors Mutual
- Experienced Board with independent majority
- Dedicated to developing a healthy long term dividend stream for clients
- Scaled fee structure – No performance fee

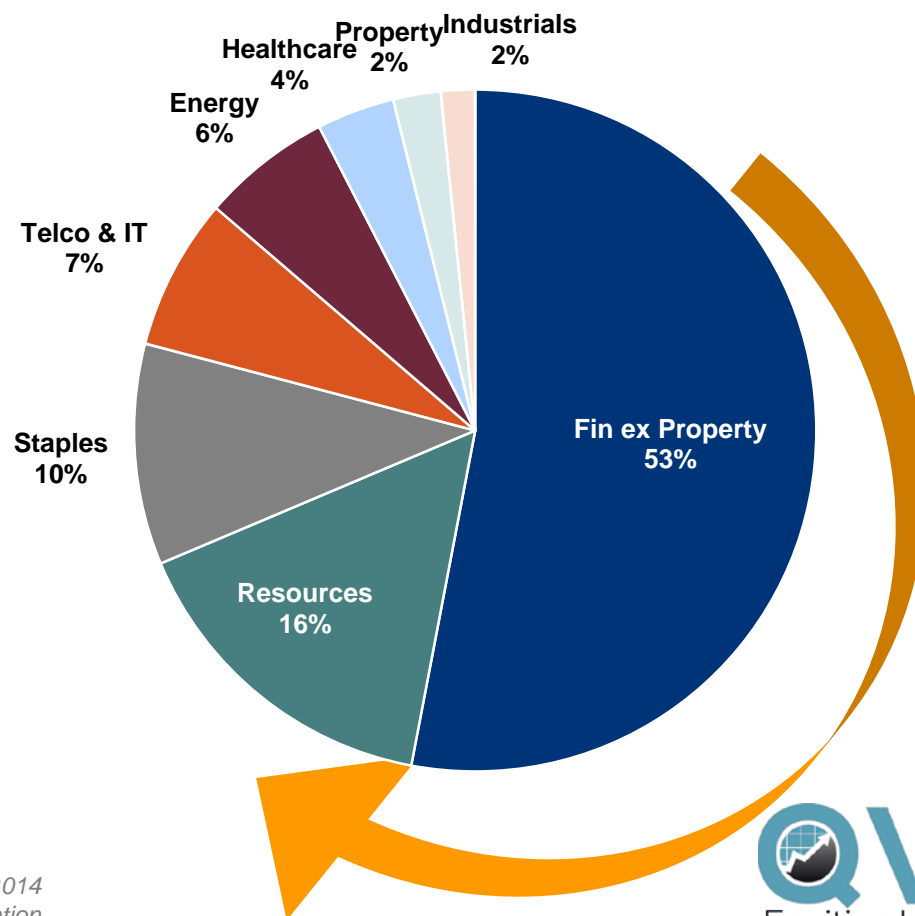
# Looking back: 2014 Components of Australian Equity Market

*Two thirds of the Australian market accounted for by just 20 entities*

Breakdown of S&P/ ASX 300 Index

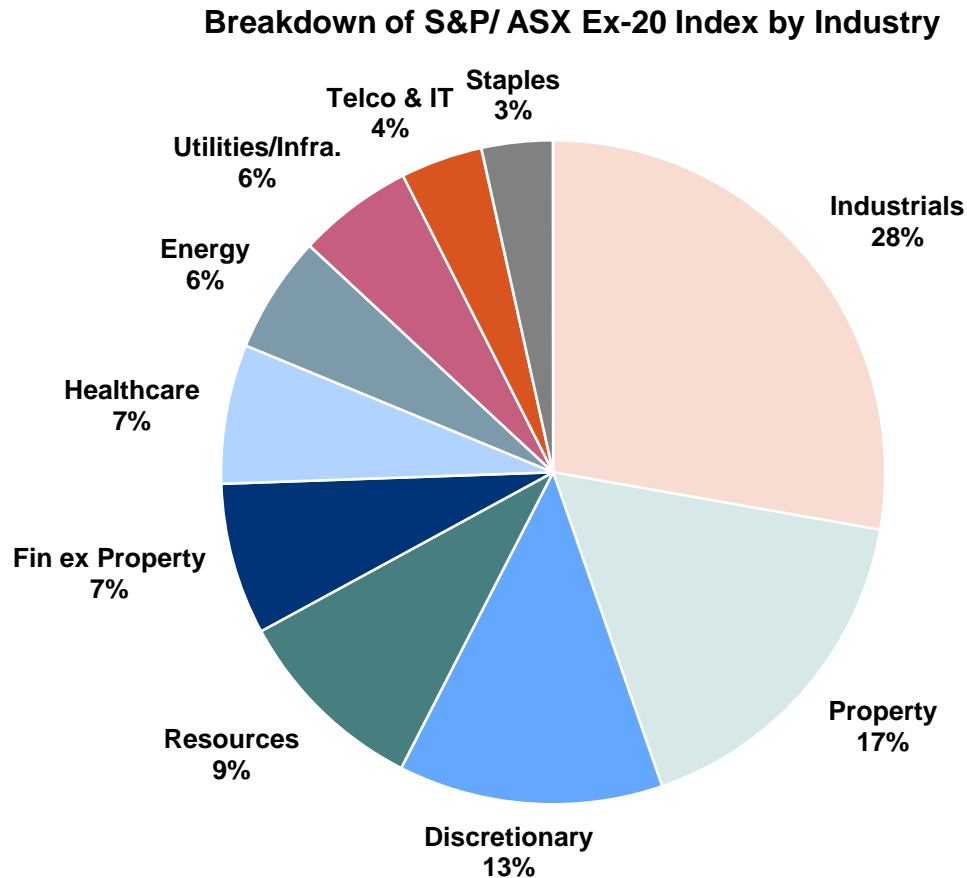


Breakdown of S&P/ ASX 20 Index by Industry



# The ASX Ex-20 segment investment opportunity

In comparison, Ex-20 entities are more diversified by industry and companies and offer greater investment opportunities



## Why focus on an Ex 20 managed portfolio?

---

- More diverse entities in terms of market capitalisation and industry sectors
- Less researched opportunities
- Clients typically underweight in this segment
- Solid yields on offer
- IML has a long record of significant value added in this segment

## Investment Philosophy: focus on quality

---

We seek to buy and own:

Companies with a **competitive advantage**,

with **recurring earnings**,

run by **capable management**,

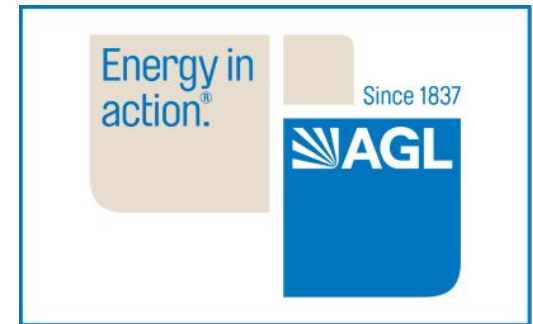
that can **grow**,

.....at a **reasonable price**.

## Good performers over the last 12 months

---

- AGL Energy
- Events Hospitality
- Z Energy
- Sky City Entertainment
- Mayne Pharma
- Shopping Centres Australia
- IPH limited





# Disappointing performers over the last 12 months

---

- Orica
- Aurizon
- Salmat
- Santos & Oil Search
- Ansell
- Fletcher Building



## Performance & NTA – January 2016

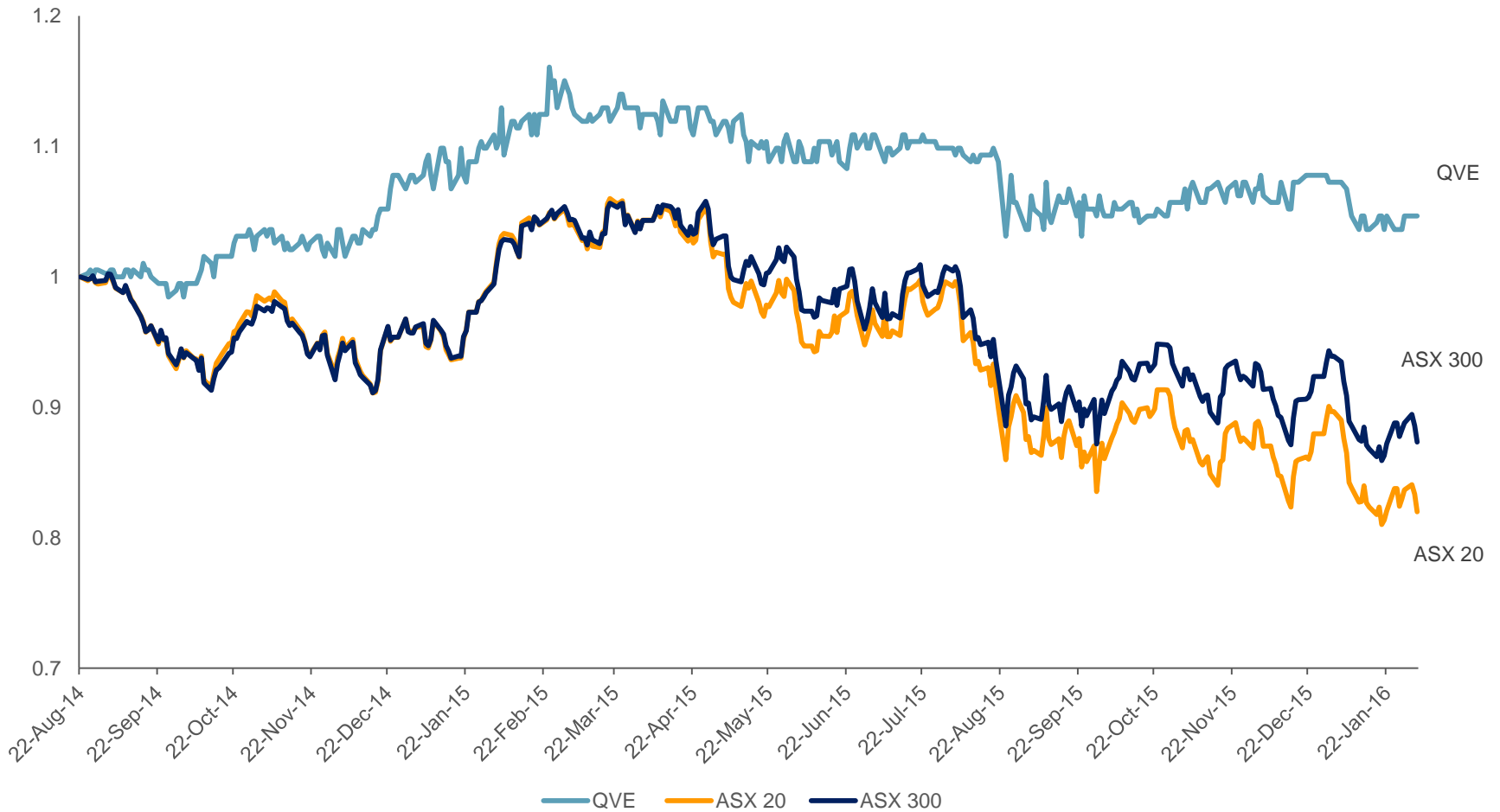
NET TANGIBLE ASSETS (NTA)	Pre Option Dilution	Diluted for QVE Options
NTA before tax	\$1.0530*	\$1.0292**
NTA after tax	\$1.0321*	\$1.0177**

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 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.

# QVE returns vs the market

QVE v ASX20 v ASX300



## Where are we today?

---

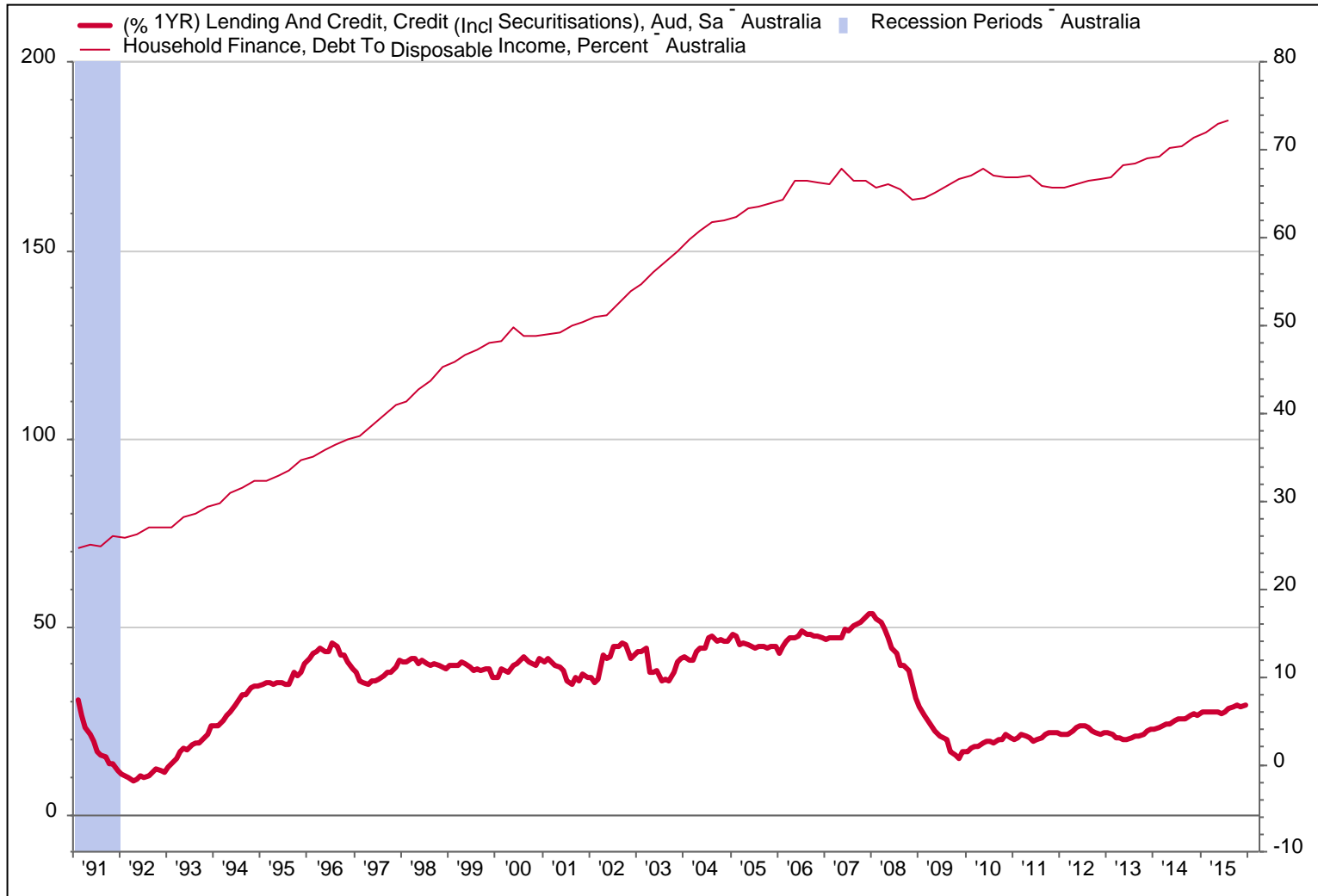
- US economy continuing to expand
- Japan & EU still sluggish
- China slowing sharply
- Emerging economies facing some major issues
- Sharemarket volatile
- Interest rates at record lows

## Australia – remaining subdued

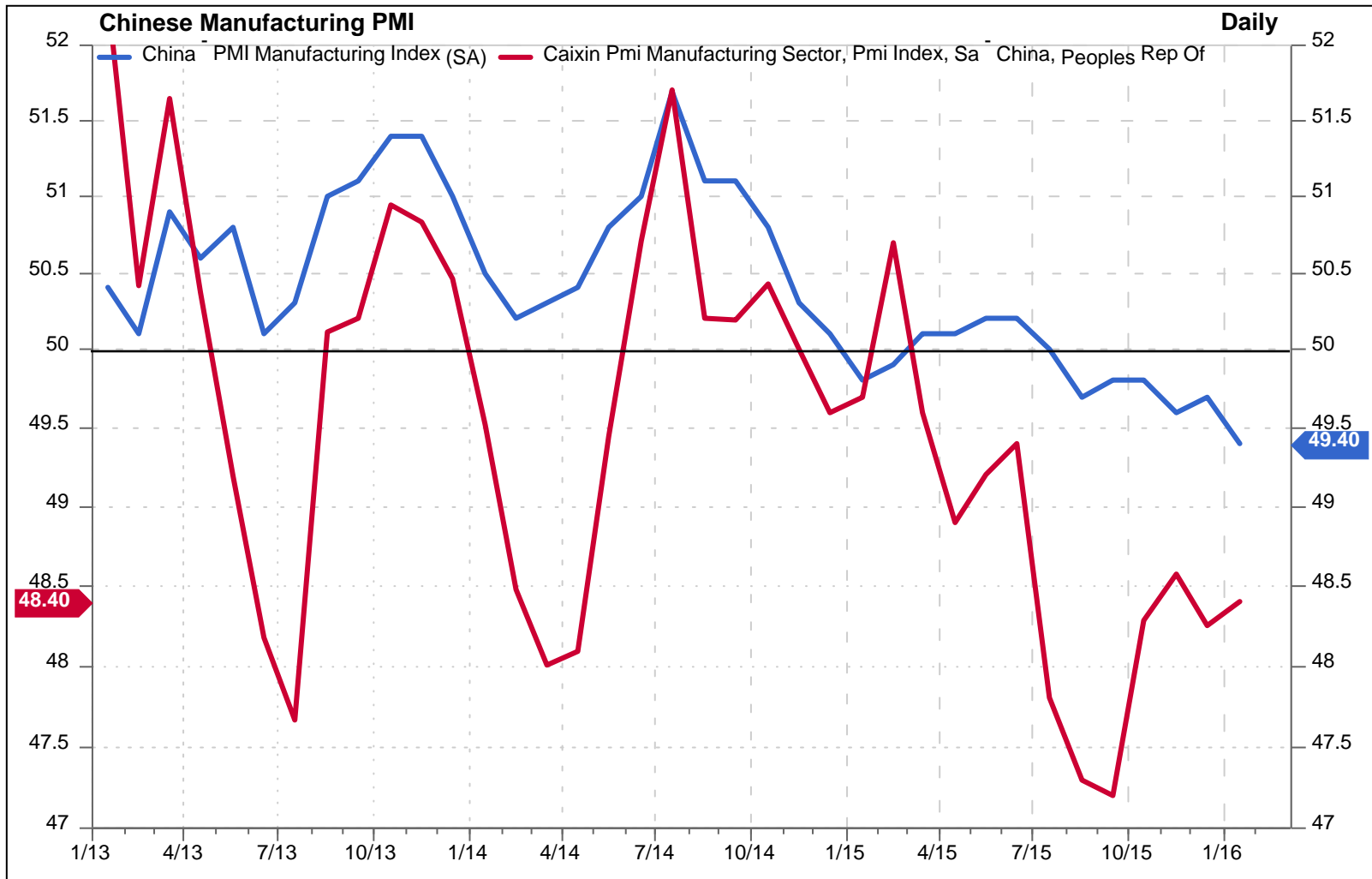
---

- Consumer sluggish – high debt and no real wage growth
- Mining sector continues to struggle
- Interest rates at record lows
- Business investment slowing
- Earnings growth outlook remains patchy

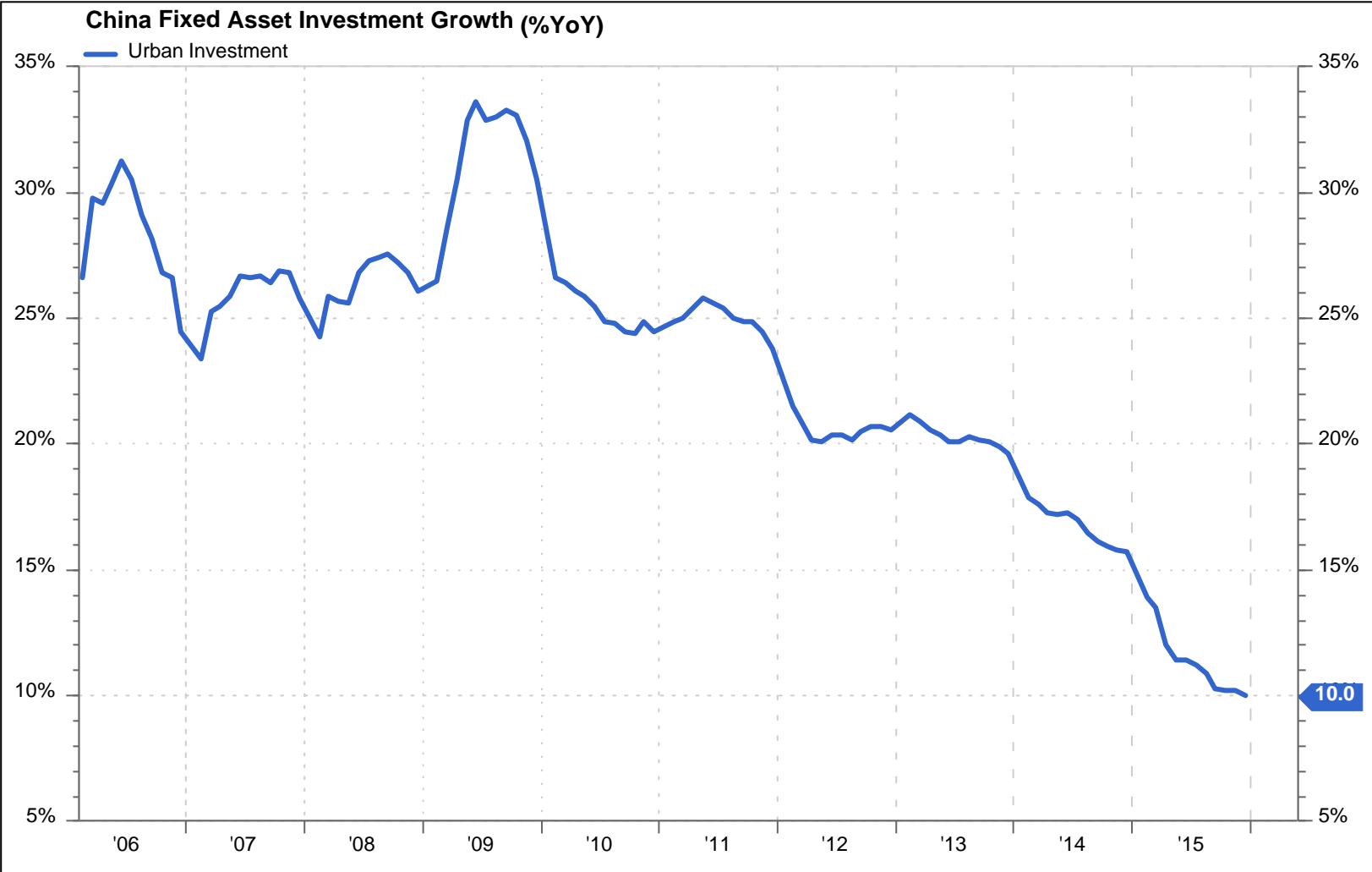
# Australian household debt – must peak soon!



# Chinese economy slowing

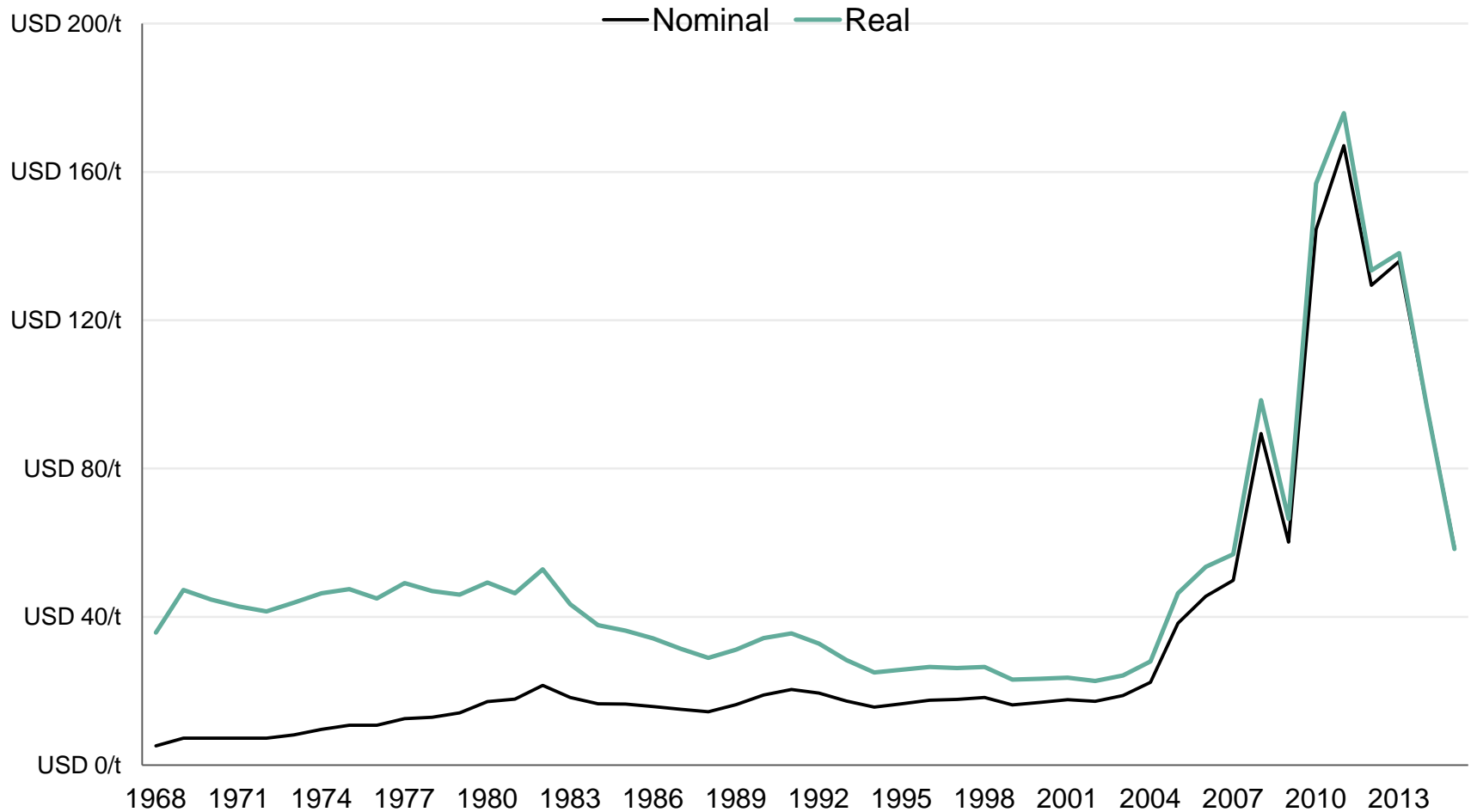


# Chinese fixed asset investment slowing sharply

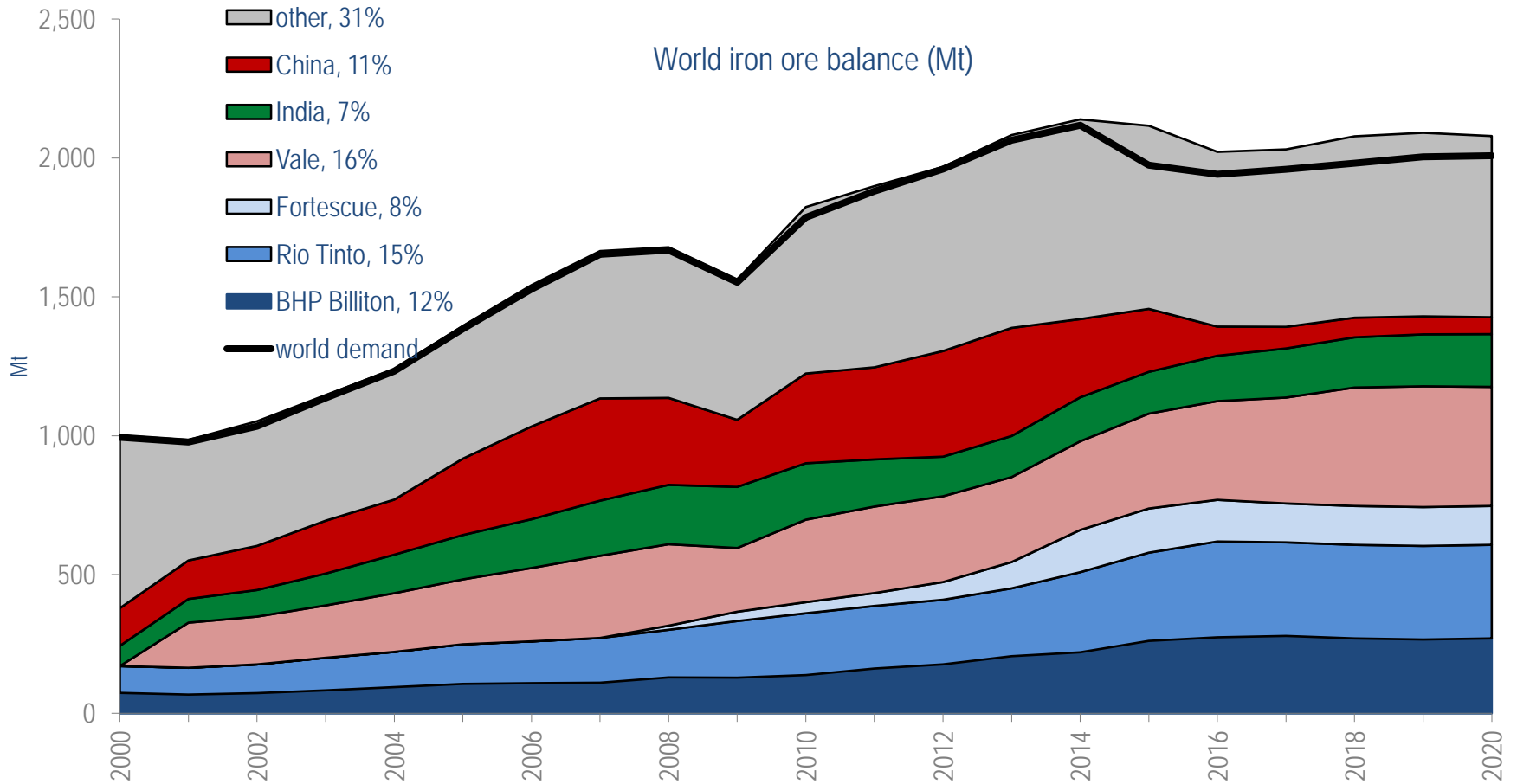




# Iron ore price continues to fall



# However supply is yet to adjust:

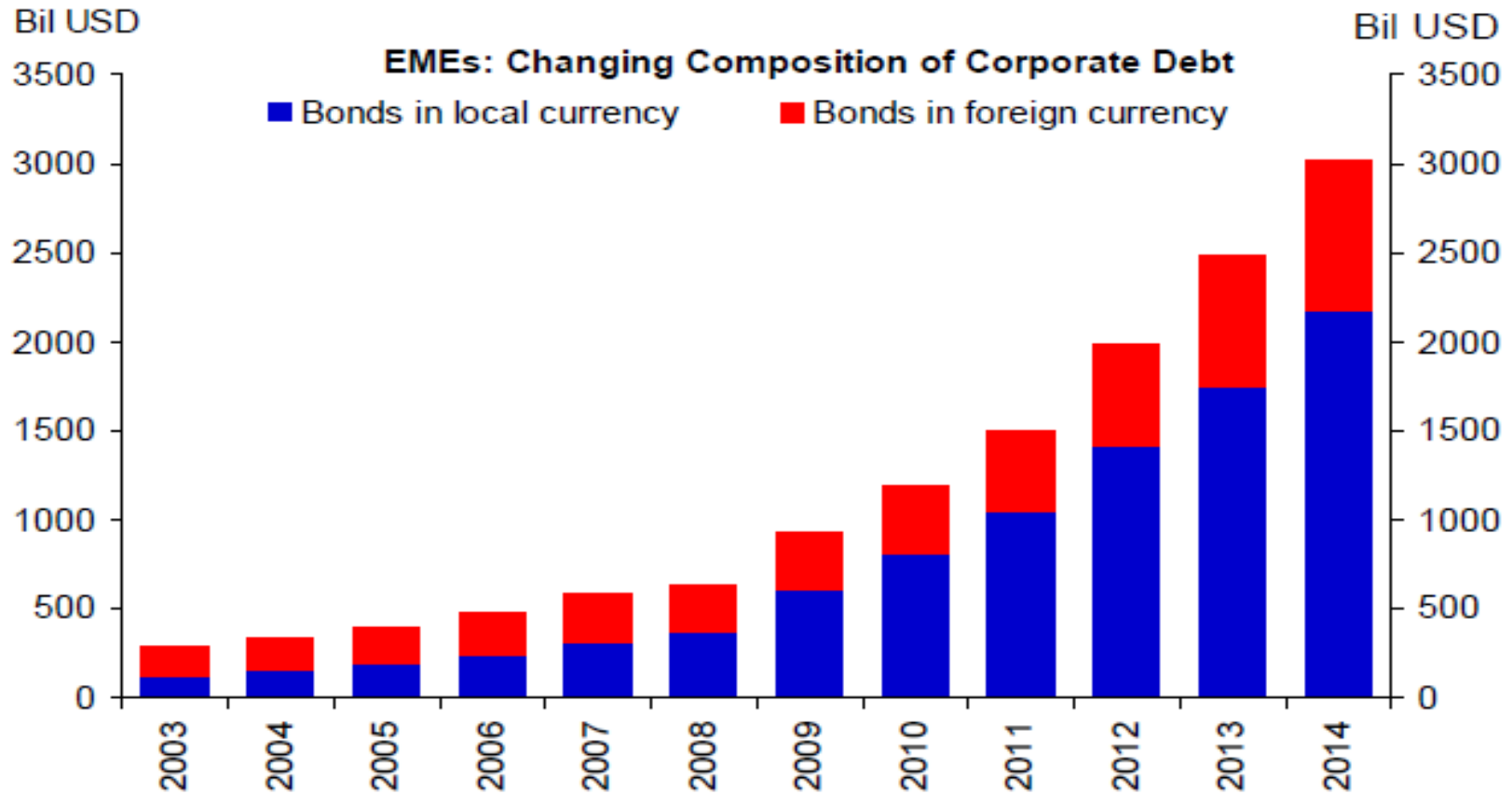


## Resource Outlook

---

- Demand – sluggish global IP and China slowing
- Oversupply exists in most commodities
- Costs continue to fall
- Resource outlook looks set to remain tough for some time yet

# Emerging market corporate debt has increased significantly in recent years



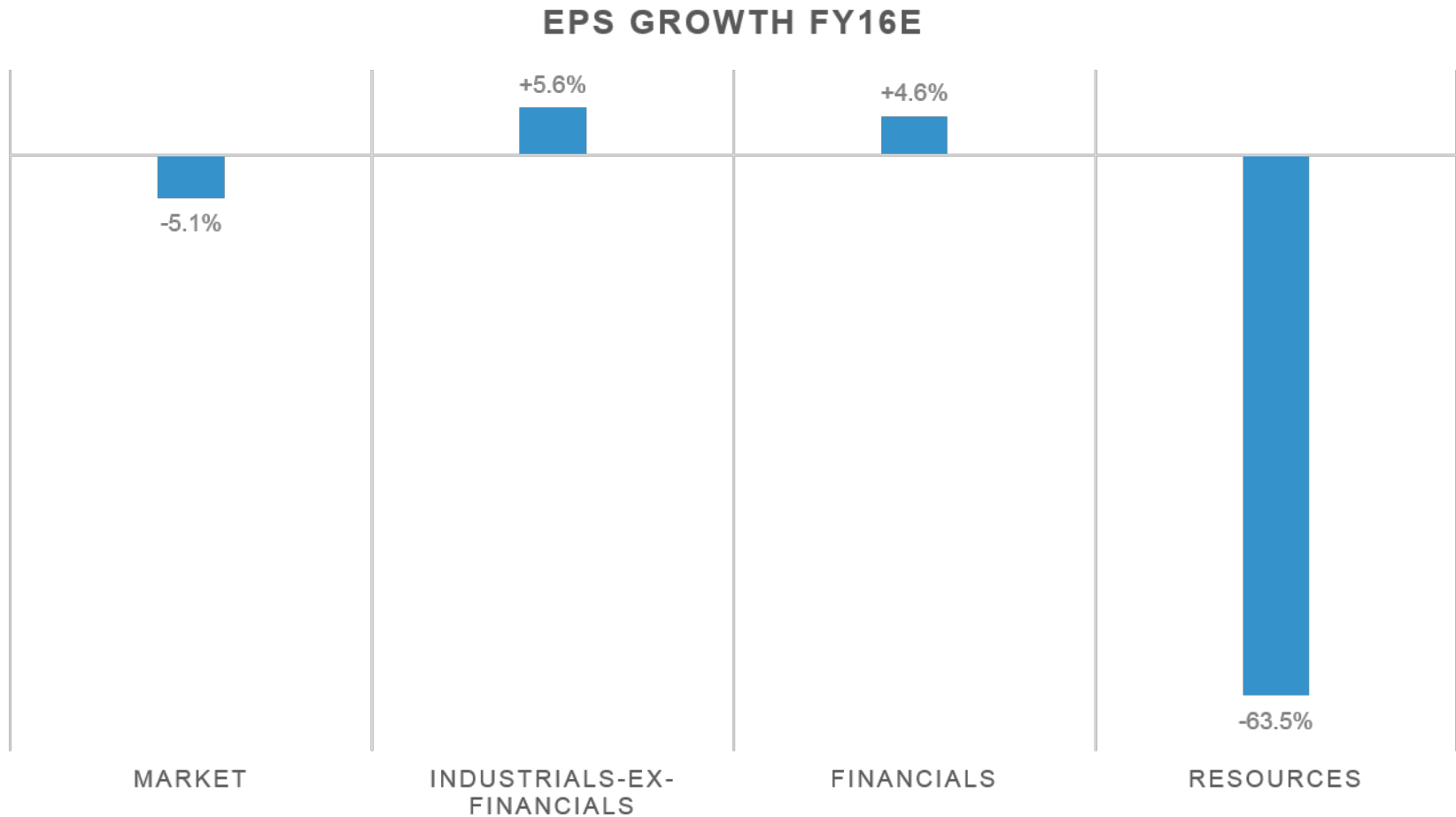
# Emerging market currencies significantly devalued against US



## **Overall - we remain cautious on the economic backdrop**

- Too much leverage
- China's economic slowdown
- Emerging market issues
- Impact on Australian companies

# Aussie Market – what's 'expected' to happen to company earnings



## Investor Implications

---

- Banks and Resources unlikely to drive investor returns
- Earnings growth is patchy
- ‘Research’ and a focus on ‘Quality’ is key
- Attractive opportunities outside the top 20

***Selective companies delivering EPS growth and yield***



## QVE Portfolio Strategy

---

- Focus remains on quality *industrial* stocks
- Companies that can ‘*self*’ generate EPS growth
- Companies with *income* certainty/reliability

... prudently delivering a lower volatile portfolio that can grow over time and deliver consistent dividends

## Earnings growth that is 'self' generated

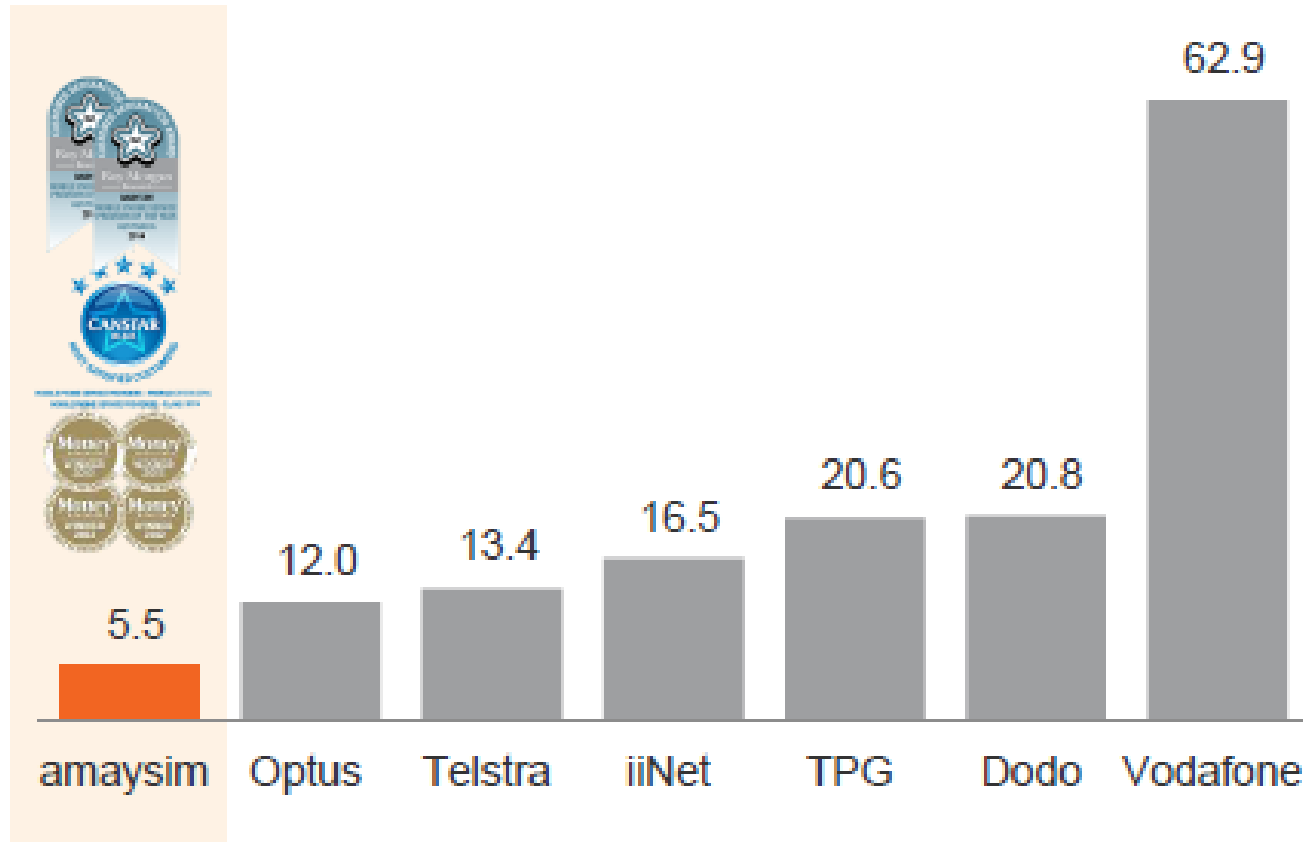
---

Cost-outs & restructuring →	Fletcher Building
Acquisitions →	Pact Group Fletcher Building
Contracted growth →	Ausnet Spark Infrastructure
Market share gains →	Amaysim

- Branded reseller of mobile network SIMs.
- Low cost billing systems, no lock-in contracts, industry-leading customer satisfaction metrics.
- 930K subscribers equals strong bargaining position with mobile network supplier.
- Growth through market share gains
- PE 17.7x, Yield 4.5%

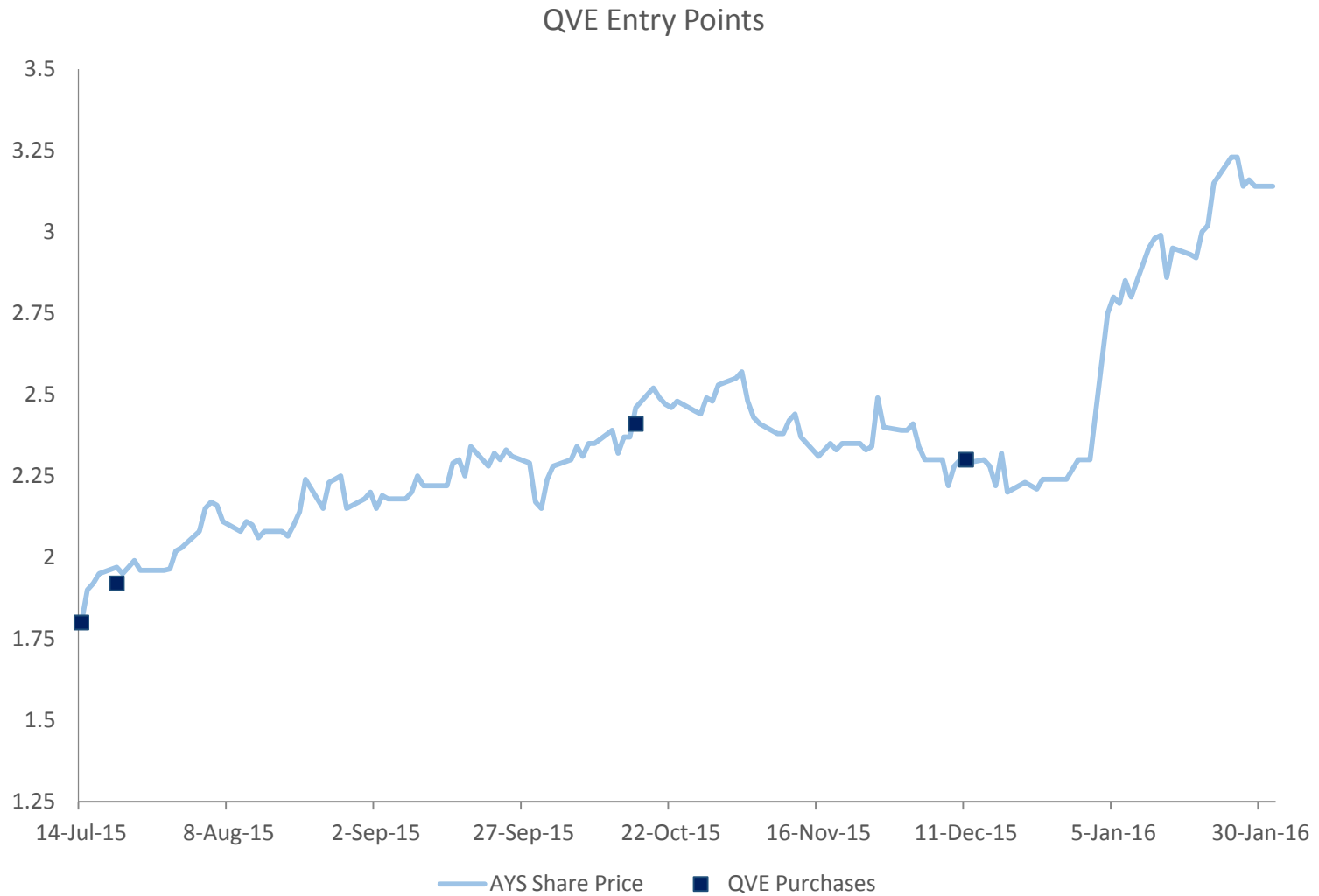


## TIO mobile complaints per 10,000 subscribers: amaysim vs. key peers<sup>1</sup>



*Multiple award winning service*

# amaysim- prudently building the position



# Pact Group

---



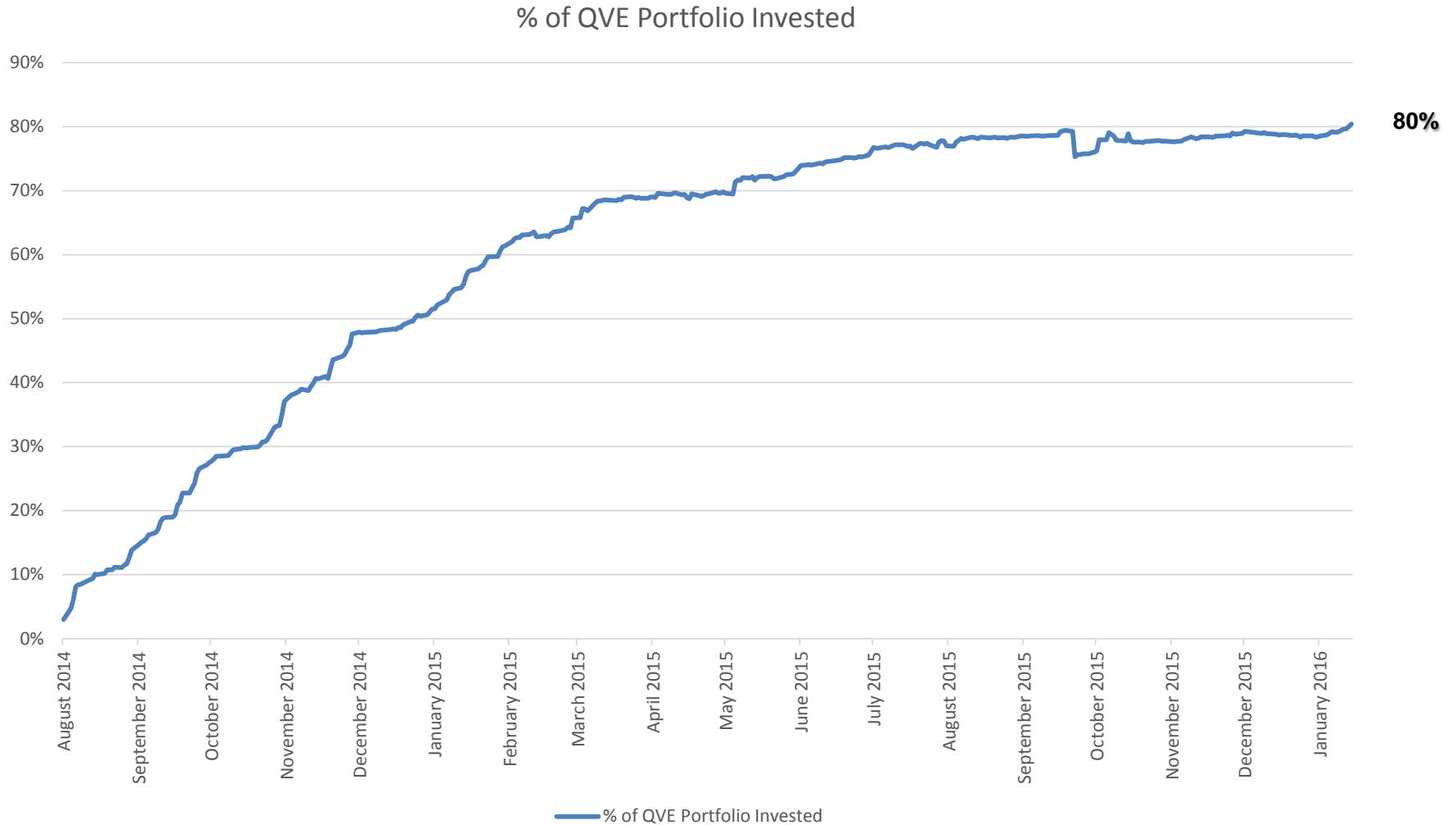
- Largest manufacturer of rigid plastics in Australasia
- 50% market share with 62 manufacturing sites and long-term blue chip customers 75% of revenues from defensive consumer end-use products
- Growth via bolt-on acquisitions
- FY17 PE 13x ; yield 5.0%



- Regulated monopoly assets
- Electricity distribution in SA and VIC, and electricity transmission in NSW
- Reliable distribution growth – 3 year guidance provided
- Strong management track record, with SA and VIC assets highly efficient
- TransGrid acquisition - quality assets with scope for operating efficiencies



# Taking time to prudently invest the portfolio





## Key stocks – reasonable yields available

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%

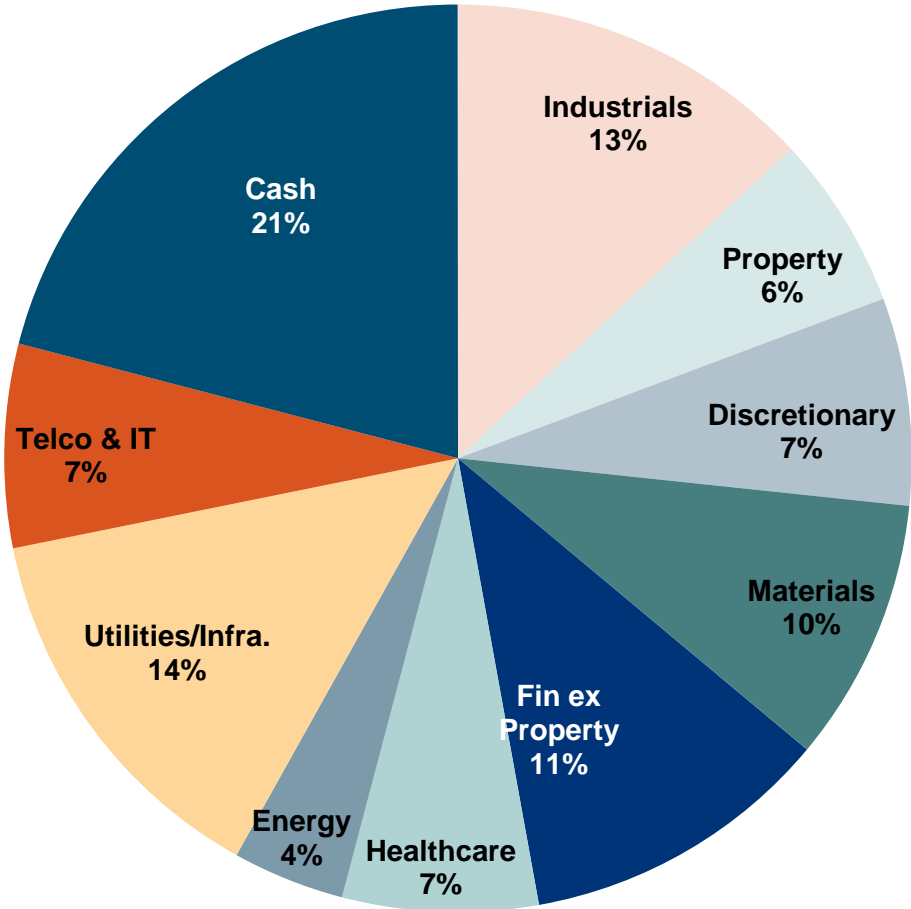
## Recently bought:

---

	P/E 2017	YIELD 2017
Fletcher Building	10.5	6.1%
Steadfast	11.7	5.1%
Spark Infrastructure	18.0	6.6%
Clydesdale Bank	11.5	1.0%
Cabcharge	9.3	6.4%
ALS	15.5	3.2

# QVE- a diverse portfolio

---



## Focus on income certainty

---

- Income is going to represent an important part of investor's return
- Focus on companies which can sustain/grow their dividends
- Good opportunities exist in selective Industrials, Utilities and REITs

## The relevance of QVE in client's portfolios

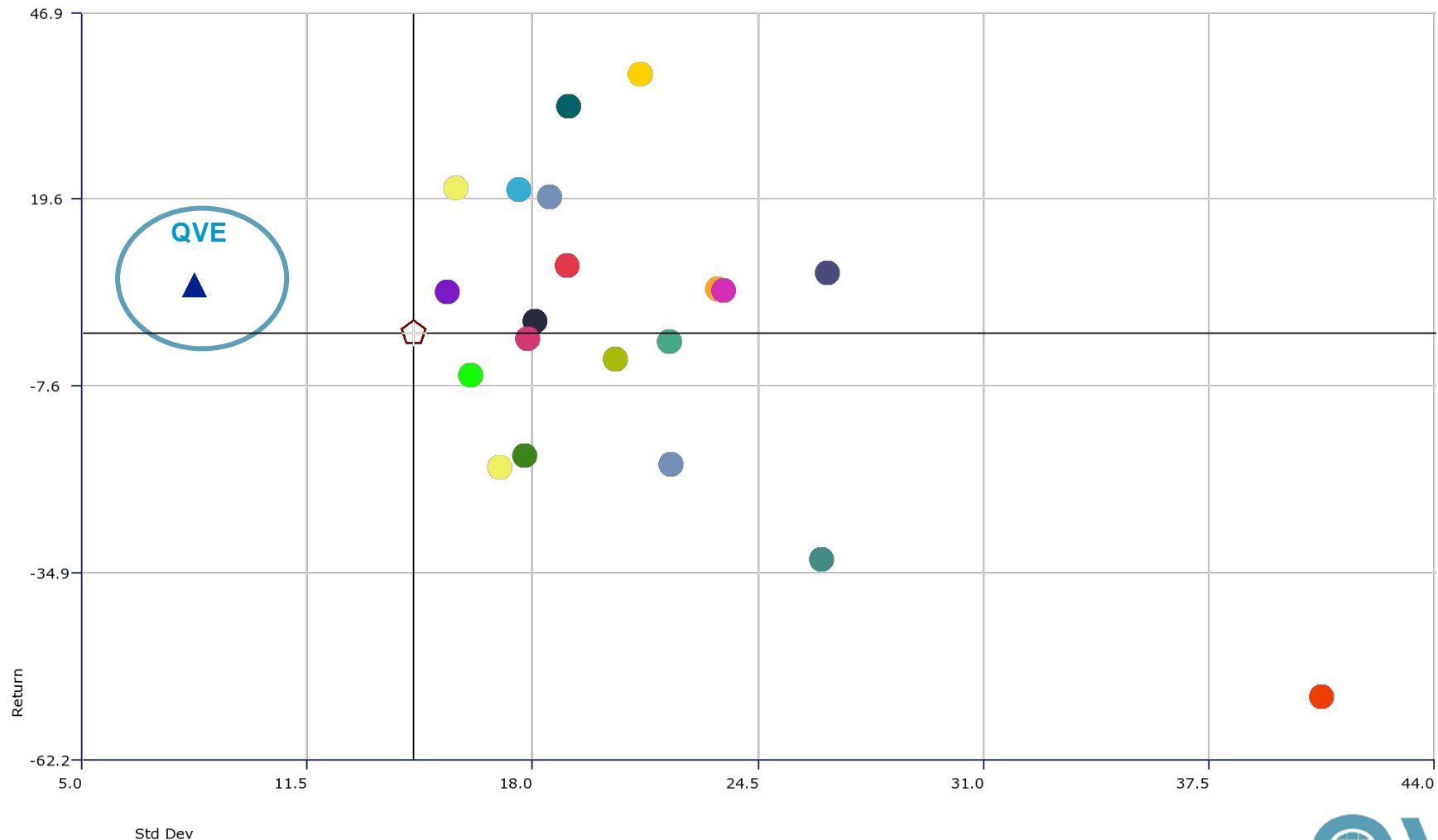
---

- More diverse *investment opportunity* set in terms of stocks and sectors
- Top 20 weighted heavily to two macro sensitive sectors – Financials & Resources
- Clients typically underweight in the ex 20 segment
- Less researched opportunities
- Selected quality companies with solid yields on offer
- IML has a long record of significant value add in this segment....

# QVE complements and provides diversity to the Top 20

## Risk adjusted returns since QVE Listing QVE v ASX Top 20 Stocks

Time Period: 1/09/2014 to 31/12/2015



# QVE Options expire on the 15<sup>th</sup> March 2016

- An opportunity to increase exposure to quality ex 20 companies
- Diversification benefits away from the top 20
- Eligible for QVE's upcoming interim dividend
- No brokerage on the transaction
- Copies of forms in today's packs



**QVE Equities Limited Options**  
(ASX: QVEO)

QVE Equities Limited Option Holders can do one of the following three things:

- Exercise their Options,
- Sell their Options, or
- Let their Options expire

**I wish to exercise my Options**  
If you wish to exercise your Options please follow the instructions on the reverse page of your Notice of Exercise of Options Form. Payment can be made via EFT or cheque.

To receive a copy of the Notice of Exercise of Options Form please visit our website at <http://www.qve.com/files/QVEO-exercise-form.pdf> or request a copy via email [info@qvequities.com](mailto:info@qvequities.com) or call 1800 888 464.

You may exercise either part of, or all of, your Options by completing all relevant sections of Notice of Exercise of Options Form. If you do not indicate the number of Options you wish to exercise, QVE Equities Ltd will exercise as many Options as your accompanying cheque or EFT will pay for. The number of Options exercised, however, will not exceed the number of Options that you hold.

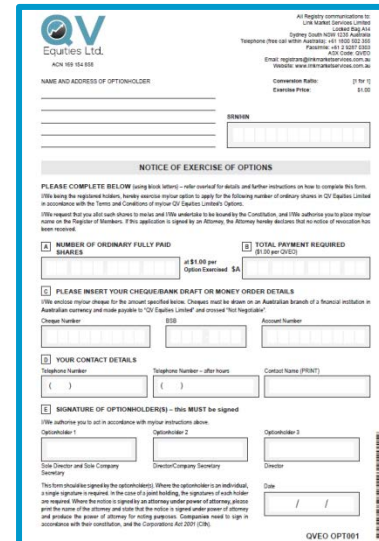
**I wish to sell my Options**  
You can sell your Options directly through an online broker, full service broker or your financial planner. The last day of trading on the ASX is 8<sup>th</sup> March 2016.

**Will I be entitled to QVE's dividend?**  
Your options may be exercised at any time up until and including the 15<sup>th</sup> March 2016 at a price of \$1.00 per option. If you wish to exercise your options to be eligible for QVE's interim dividend, all instructions and cleared funds must be received by 15<sup>th</sup> March 2016.

**Key dates:**

Notice to Option Holders	5 <sup>th</sup> February 2016
Last day Options trade on the ASX	8 <sup>th</sup> March 2016
Last day to exercise your options	15 <sup>th</sup> March 2016
Options Expiry Date	15 <sup>th</sup> March 2016

[www.qvequities.com](http://www.qvequities.com) 1800 888 464 [info@qvequities.com](mailto:info@qvequities.com)



As Registry commission to  
LSE Market Services Limited  
02070 800 800  
Options trade on the ASX  
Telephone (see call with Address): +61 800 888 464  
Facsimile: +61 800 888 464  
ASX Code: QVEO  
Email: [registry@lsmarket-services.com](mailto:registry@lsmarket-services.com) or  
Website: [www.lsmarket-services.com/au](http://www.lsmarket-services.com/au)  
Convenience Ratio: 1 for 1  
Exercise Price: \$1.00

NAME AND ADDRESS OF OPTIONHOLDER

BINOM

**NOTICE OF EXERCISE OF OPTIONS**

PLEASE COMPLETE BELOW (using black ink) - refer carefully for details and further instructions on how to complete this form.  
This notice may be registered, however, exercise of your options to sell for the following number of ordinary shares in QVE Equities Limited in accordance with the Terms and Conditions of my/our QVE Equities Limited Options.  
I/We request that you still wish shares to be made and I/We undertake to be bound by the Conditions, and I/We authorise you to place my/our name on the Register of Members. If this application is signed by an Attorney, the Attorney hereby declares that no notice of revocation has been received.

**A** NUMBER OF ORDINARY FULLY PAID SHARES  at \$1.00 per Option Exercised \$A

**B** TOTAL DIVIDEND REQUIRED (\$1.00 per QVEO)

**C** PLEASE INSERT YOUR CHEQUE/BANK DRAFT OR MONEY ORDER DETAILS  
I/We enclose my/our cheque for the amount specified below. Cheques must be drawn on an Australian branch of a financial institution in Australian currency and made payable to "QVE Equities Limited" and crossed "Not Negotiable".  
Cheque Number:  Account Number:

**D** YOUR CONTACT DETAILS  
Telephone Number:  Telephone Number - after hours:  Contact Name (PRINT):

**E** SIGNATURE OF OPTIONHOLDER(S) - this MUST be signed  
I/We authorise you to act in accordance with my/our instructions above.  
Optionholder 1:  Optionholder 2:  Optionholder 3:

Site Director and Site Company Secretary:  Director/Company Secretary:  Director:

Date:

This form should be signed by the optionholder(s). Where the optionholder(s) are an individual, a single signature is required. In the case of a joint holding, the signature(s) of each holder are required. Where the notice is signed by an attorney under power of attorney, please print the name of the attorney and state that the notice is signed under power of attorney and provide the name of attorney for holding purposes. Completion must be in accordance with the Conditions and the Corporations Act 2001 (CA).

QVEO EX0101

# Market Outlook

---

- Volatility expected to continue
- Outlook for the Resource sector remains difficult
- Plenty of good quality stocks in the ex 20 sector
- Selective value now appearing in ex 20 Industrials



# DISCLAIMER

---

*QV Equities Limited ACN 169 154 858 (QVE) has prepared the information in this presentation. This presentation has been prepared for the purposes of providing general information only and does not constitute an offer, solicitation or recommendation with respect to the purchase or sale of any securities in QVE nor does it constitute financial product or investment advice nor take into account your investment objectives, taxation situation, financial situation or needs. An investor must not act on the basis of any matter contained in this announcement in making an investment decision but must make its own assessment of QVE and conduct its own investigations and analysis. Past performance is not a reliable indicator of future performance. QVE Equities is an Authorised Representative of Investors Mutual Limited (AFSL Number 229988)*

*QV Equities Limited (QVE), its directors, employees and consultants do not warrant the accuracy, reliability or completeness of information contained in the presentation and, to the extent permitted by law, accept no responsibility for any loss or damage arising in any way (whether arising in contract, or tort or negligence or otherwise) from any representation, error or omission in the information or from any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this material or any other person. The information provided within the presentation is not intended to be a complete description of matters described. However, QVE will endeavour to ensure that the information on this presentation is updated as soon as practicable when it becomes aware that material changes have occurred.*

*2. This presentation is for general information purposes only and is not intended to be relied upon for the purpose of making an investment decision. The presentation does not constitute an offer of any investment or an invitation or solicitation to buy or sell securities to any person. In particular, the information provided does not take into account the particular information an individual investor may require to make an investment decision. Consequently, QVE recommends that potential investors seek independent financial and taxation advice before making any investment decisions so as to determine whether an investment is appropriate having given an investors' investment objectives, financial position and needs.*

*3. Usage and linking to the QVE presentation is at the users own risk. QVE will not be liable for any loss or damage from any cause (including negligence) to a users system or presentation, or to people linking to QVE from a users presentation, caused by or in connection with the use of or a link to the QVE presentation. Any such loss or damage is at the responsibility of the user. QVE advises users to take their own precautions in relation to protecting their system or presentation from viruses or malfunction.*

*4. Copyright in the information contained in this presentation is owned by QVE. Use of this information or reproduction of it in any form is allowed for personal use only. The material may be viewed on-line by means of an HTML browser and may be reproduced in hard copy only for a users personal reference. No part of this information may be otherwise reproduced, adapted, distributed or transmitted in any form by any process or incorporated in any way in any other document or material. Except to the extent otherwise permitted by the Copyright Act 1968 (Cth), the material may not otherwise be reproduced or displayed in public and may not be distributed or transmitted electronically to any other person or incorporated by any means into another document or material, including other presentations without the express written permission of QVE. Without limiting the generality of the foregoing, QVE does not permit reproductions of its material in other presentations in conjunction with advertising, trademarks, logos on material of other financial planners or competitors without the express written permission of QVE.*

*5. This presentation is prepared for and provided to residents of Australia only. All currency references are references to Australian dollars (unless otherwise specified) and any reference to law is to the law of Australia. The financial products described in this presentation are available for investment by Australian residents only and should not be relied on by residents of any other jurisdiction.*