

Investment Update & Net Tangible Assets Report

June 2017



NET TANGIBLE ASSETS (NTA)*		QVE-ASX	QV EQUITIES	
NTA before tax		1.2093	ASX Code	QVE
NTA after tax		1.1613	Listed	22 Aug 14
			Shares on issue	275.1m
			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	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	+1.1%	+0.9%	+0.6%
3 Months	+2.1%	+2.1%	+2.1%
6 Months	+3.9%	+4.6%	+6.5%
1 Year	+12.7%	+12.0%	+13.6%
Since Inception Total Return p.a	+10.2%	+8.7%	+10.4%

The above returns are after fees and assumes all declared dividends are reinvested

SHAREMARKET COMMENTARY

Global equity markets were mixed during the month, while the MSCI managed to eke out +0.4%, its 8th consecutive monthly gain. Despite losing steam toward the end of the month, the S&P500 edged up +0.5%, clocking up new record highs during the month. The Nikkei continued its resurgence gaining +1.9%, courtesy of a weakening Yen, while the Euro Stoxx 50 fell -3.2% following months of strong gains.

Despite finishing the month higher, global markets weakened late in the month. Many of the major central banks flagged that the era of ultra-cheap money may be nearing its final chapter as they move away from the emergency settings that have been in place since the GFC. In speeches from the ECB, BOE and the Bank of Canada, central bank chiefs spoke of the need to follow the US's lead in normalising policy. As a result, global bonds saw a significant spike in their yields leading to some weakness in stockmarkets late in the month.

The broader Australian sharemarket as measured by the ASX300 finished the month flat, with the index finishing the June quarter down -1.6%. Despite the weaker June quarter, the ASX300 finished the 2017 financial year with a healthy gain of +13.8%, with the bulk of the gains coming in the months following Donald Trump's surprise win in the US Presidential election in November. The ASX300 regained its poise in June as the Banks staged a modest rebound up +1.5%. This came after a big fall in the previous month subsequent to the Government's impost of a 6-basis point levy on their liabilities, as announced in the May budget. Conversely, the AREIT sector weighed on the broader index falling -4.1%, with the big shopping mall operators; namely Westfield, Scentre and Vicinity all falling heavily as investors become increasingly aware of the ongoing challenges to traditional retailing from online operators. The Consumer Staples sector fell -2.4% in June, reflected in Wesfarmers and Woolworths fall of -6% and -2% respectively. This was due to a downgrade to Coles earnings as the intense competition in the supermarket sector in Australia shows no signs of abating.

The Resource sector also had a challenging month falling -2.1% reflecting weakness in the iron ore and oil price. Despite a rebound in June, the iron ore price fell -20% over the quarter. Whilst the oil price fell to its lowest level in almost a year as an increase in US shale production more than offset the cuts to production announced by OPEC following its meeting in Vienna in late 2016.

The **QVE portfolio** had a solid month gaining +1.1%, which was better than the benchmark's gain of +0.6%. Several of the portfolio's core industrial names such as; Genesis Energy, Fletcher Building, Amcor, Sonic Healthcare and Ausnet had a good month. SkyCity and Pact Group had a softer month, although we remain comfortable with the medium to long term outlook of both companies.

Over the month, we took some profits in global packaging company Amcor after a very strong rally in its share price and used the weakness in Pact Group to top up our holdings in the company. The cashflow generation of Pact Group remains extremely attractive, with the company continuing to use this cashflow to grow through acquisitions in the fragmented contract manufacturing sector in Australia as well as continuing to grow in the plastic pallet pool sector. On 15x 2018 earnings and with several accretive acquisitions to come, the company continues to look good on a 3 to 5 year view. We also took advantage of weakness in the share prices of Fletcher Building and Mayne Pharma as we believe that both these companies look fundamentally cheap on a 3 to 5 year view.

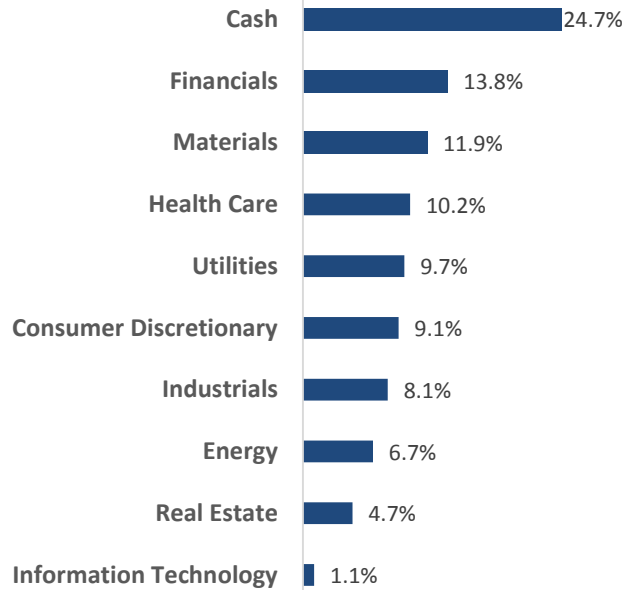
We took the opportunity to add Clearview Wealth (CVW) to the Portfolio during the month. CVW is a provider of life insurance and wealth management. We like the business because it is relatively defensive, has a high-quality life insurance book and a strong management team. With the stock trading at a small premium to its embedded value and strong earnings profile over the next 2 years, we believe the stock represents good value. In addition, with Sony Life Japan taking a 15% position on the register, there is scope for them to move to full ownership at some point in the future.

The recent correction in the Australian sharemarket over the June quarter was, in our view, overdue. It remains a challenging environment for many companies to grow their earnings. The high valuation of many companies in our coverage reflects our higher than normal cash weighting as we continue to look for opportunities in good quality companies that in our opinion look attractively priced on a 3 to 5 year view, as we did with Clearview over the month.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Sonic Healthcare	SHL	3.6%
Pact Group	PGH	3.2%
Fletcher Building	FBU	3.2%
Clydesdale Bank	CYB	3.2%
Spark Infrastructure	SKI	3.1%
Ansell	ANN	3.1%
Bank of Queensland	BOQ	3.1%
Caltex	CTX	3.0%
Amcor	AMC	2.9%
Tox Free	TOX	2.9%

SECTOR ALLOCATION



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