

# Investment Update & Net Tangible Assets Report

July 2018



NET TANGIBLE ASSETS (NTA)*		QVE-ASX	QV EQUITIES	
NTA before tax cum div		1.24	ASX Code	QVE
NTA after tax cum div		1.20	Listed	22 Aug 14
			Shares on issue	275.5M
			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 (as at 31.07.18)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	+1.6%	+1.2%	+0.9%
3 Months	+4.1%	+3.3%	+4.3%
6 Months	+4.4%	+3.7%	+5.5%
1 Year	+9.9%	+8.1%	+18.6%
Since Inception Total Return p.a	+9.8%	+8.2%	+11.9%

\*The before and after tax NTA numbers relate to the provision for tax on net profit in addition to 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. All figures are unaudited and approximate.

The above returns are after fees and assumes all declared dividends are reinvested and excludes tax paid for pre tax NTA. Due to the Company's turnover being below \$25 million the Company's corporate tax rate reduced to 27.5% from 1 July 2017. Past performance is not indicative of future performance.

## SHAREMARKET COMMENTARY

Global equity markets continued to remain well supported in July with positive performances from all major bourses despite growing trade tensions between the US and China. The MSCI World Index advanced +3.1% over the month as the US S&P 500 rose +3.6% thanks to a solid start to the second quarter US reporting season while Europe's Stoxx50 and Japan's Nikkei also rallied +3.8% and +1.1% respectively over the month.

Of concern over the month was the direction of the Chinese economy as reflected by their stockmarket falling to new one-year lows as the first round of US tariffs on billions of dollars of Chinese exports to the US began to impact on confidence in the world's second largest economy. Declining factory activity in China, as highlighted by July's weaker Purchasing Managers Index (PMI), as well as slowing consumption continue to be closely watched although investors remain optimistic that President Trump's threats will turn out to be a negotiating tactic as opposed to the start of a trade war.

The S&P ex20 segment of the market in Australia gained +0.9% over the month in a relatively quiet month. Most sectors were fairly flat in July apart from the Materials sector which fell on a pullback in metals prices. Other notable moves in July were in the Consumer Staples sector where many of the high flying infant formula names, such as A2 Milk and Bellamy's, pulled back as A2 softened expectations for its FY19 earnings and Bellamy's investors became concerned about regulatory delays for sales of the company's new products into China. The Healthcare sector also moved higher over the month with Mayne Pharma, Sonic Healthcare, Ansell and Ramsay Healthcare all enjoying a solid month. The Financials sector also made gains on the back of a rally in challenger banks Clydesdale, Bank of Queensland, Bendigo and Adelaide Bank.

**The QVE portfolio** had a good month gaining +1.6%. The portfolio benefitted from solid performances from several of our core industrial holdings such as Bank of Queensland, Fairfax, Clydesdale Bank and Sonic Healthcare. Our holding in Fairfax benefitted the portfolio with the stock climbing +8% following the announcement of a cash and scrip bid by Nine Entertainment. The combined entity plans to promote the Fairfax controlled Domain on the Nine TV network while the proposed takeover would also consolidate the ownership of video streaming company Stan, which is currently jointly owned by Fairfax and Nine Entertainment. In addition, \$50m of cost synergies have also been identified once the two companies are combined.

Over the month the share prices of regulated utilities Spark Infrastructure and Ausnet were weighed down by regulatory uncertainty following the release of draft Regulatory guidelines which are due to apply from 2021. After extensive research into the area, we assessed these fears as being overdone and used the share price weakness to top up our holdings in both companies on yields of over 6%. We also used share price weakness to further top up our holdings in Pact Group and Caltex as we continue to see a positive 3 to 5-year outlook for both companies which does not appear to be fully factored in these companies. We also reduced our holdings in Ansell, Sonic and Bunnings after a strong recent rerating in the share prices of all these companies.

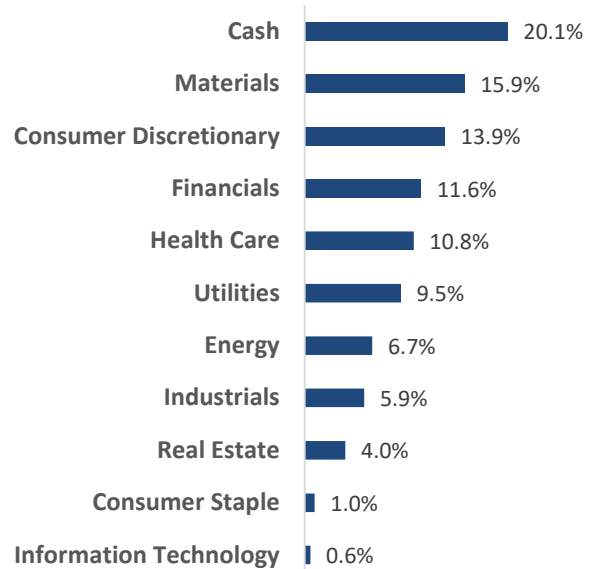
In the last few months we added flexible packaging company, Pro Pac Packaging (PPG) to the QVE portfolio. In the last 18 months, Pro Pac has installed a new management team and through a series of acquisitions is becoming one of Australia's largest flexible packaging company. Pro Pac recently raised \$70m to fund two acquisitions in the hard and soft flexible packaging sectors respectively. In our view, both acquisitions were reasonably priced and with synergies of \$8m to be gained we believe these acquisitions will deliver eps growth of over 20% over time. The company recently disclosed that EBITDA expectations of \$38m for FY18 had reduced to \$35m as a result of rising resin prices and tougher conditions in the agricultural sector. We find the stock attractive as it trades on a PE of just over 12 times FY19 earnings as the benefits of the acquisitions and resulting synergies come through.

During August most Australian listed companies will release their results for the 6 months ended 30 June 2018 and give investors an insight into how corporate Australia is travelling. We expect the results to be fairly mixed as it remains a challenging environment for many companies to grow their earnings given the intensely competitive nature of most sectors. Whilst investor confidence continues to be buoyant, we remain relatively cautious and disciplined, using any weakness to buy good quality industrial names that, in our view, are trading at reasonable valuations and that we believe can do well for the QVE portfolio over the next 3 to 5 years.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Pact Group	PGH	4.4%
Clydesdale Bank	CYB	4.2%
Caltex Australia	CTX	4.2%
Sonic Healthcare	SHL	4.1%
Spark Infrastructure	SKI	4.0%
Fletcher Building	FBU	3.8%
Crown Resorts	CWN	3.7%
Orica	ORI	3.3%
Amcor	AMC	3.1%
Bank of Queensland	BOQ	3.1%

## SECTOR ALLOCATION



## CONTACT US:

**Wayne McGauley**  
Head of Retail  
[wayne.mcgauley@iml.com.au](mailto:wayne.mcgauley@iml.com.au)  
M: 0404 012 644

**Luke Mackintosh**  
State Manager NSW & SA  
[luke.mackintosh@iml.com.au](mailto:luke.mackintosh@iml.com.au)  
M: 0432 147 399

**Sam Harris**  
Key Account Manager  
NSW & ACT  
[sam.harris@iml.com.au](mailto:sam.harris@iml.com.au)  
M: 0429 982 159

**Justin Brooks**  
State Manager  
VIC, TAS & WA  
[justin.brooks@iml.com.au](mailto:justin.brooks@iml.com.au)  
M: 0416 194 633

**Gaylyn Geall**  
State Manager QLD  
[gaylyn.geall@iml.com.au](mailto:gaylyn.geall@iml.com.au)  
M: 0421 233 175

**INVESTMENT ENQUIRIES**  
[info@qvequities.com](mailto:info@qvequities.com)  
1800 868 464

**CORPORATE ENQUIRIES**  
1300 552 895

## PORTFOLIO MANAGERS:

**Simon Conn and Anton Tagliaferro**



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