

# Investment Update & Net Tangible Assets Report

August 2018



NET TANGIBLE ASSETS (NTA)*		QVE-ASX	QV EQUITIES	
NTA before tax cum div		1.23	ASX Code	QVE
NTA after tax cum div		1.19	Listed	22 Aug 14
<small>*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.</small>			Shares on issue	275.5M
			Benchmark	S&P/ASX 300 Ex20 Accumulation
PERFORMANCE (as at 31.08.18)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK	
1 Month	-1.0%	-0.9%	Number of stocks	20 – 50
3 Months	+2.5%	+1.7%	Dividend Frequency	Half yearly
6 Months	+3.8%	+3.1%	Suggested investment time frame	5+ years
1 Year	+8.8%	+7.1%	Investment Objective	To provide a rate of return which exceeds the return of its benchmark on a rolling 4 year basis
Since Inception Total Return p.a	+9.3%	+7.8%		

The above returns are after fees and assumes all declared dividends are reinvested and excludes tax paid for pre tax NTA. Due to retrospective tax legislation changes in August 2018, the Company's corporate tax rate reverted back to 30% from 1 July 2017. Past performance is not indicative of future performance.

## SHAREMARKET COMMENTARY

The MSCI World Index continued to push higher in August as the US sharemarket continued to hit new all-time highs as the US S&P 500 gained +3.0%, and the tech heavy NASDAQ index surged a further +5.7%. Other global sharemarkets were mixed as they were held back by ongoing threats of trade tariffs by President Trump - as a result European and most Asian markets ended in negative territory. The stronger US dollar is also forcing many emerging market central banks – such as Indonesia's and Turkey's - to ratchet up their interest rates to support their currency against the US dollar. This is sapping investor confidence in the economic growth prospects of many of the world's developing regions and causing heavy falls on many emerging market sharemarkets.

The Australian market as measured by the ASX300 finished the month up +1.4% hitting new ten-year highs as the FY18 reporting season hit full gear. Reporting season for FY18 was largely as expected and fairly lacklustre as many companies were cautious with their forward guidance. This caution reflects the competitive environment in many sectors domestically as well as the uncertainties from regulatory changes hanging over some areas of corporate Australia – such as in the Banking and Utilities sectors. The Healthcare and Technology sectors provided the main highlights for the Industrial sector of the market in this earnings season, while many companies in the Resource sector also posted good profit results thanks to much stronger oil and coal prices and a lower Australian dollar over FY18.

The ex 20 segment of the market gained +2.0% over the month led by the Technology sector which surged +13% as investors chased stocks like Wisetech, Afterpay, Appen, Altium and Xero despite many of these approaching PE's of close to 100. Other sectors to perform well in the ex 20 sector were the REIT and Consumer Staples sectors where companies like Blackmores and A2 Milk rebounded strongly over the month.

Despite the positive backdrop, the **QVE portfolio** had a disappointing month shedding -1.0%. The portfolio's performance was held back by our near zero weighting to the high-flying and fairly speculative Technology sector and our low weighting to the REIT sector, which appears fully valued.

The portfolio was also adversely affected by the performance of our holdings in the packaging sector over the month. Pro Pac and Pact's share prices both fell after posting disappointing results mainly due to higher input costs, such as resin and electricity prices which negatively impacted margins in the last 6 months of FY18. Lower sales to the agricultural sector due to the drought in Australia also impacted volumes for these two companies.

Amcor's share price also slipped over the month as a result of higher resin prices and because Pepsi, a major customer, lost some market share in the US. Despite the profits being lower than hoped for, all these companies continued to generate high free cashflow and all maintained their dividends. We continue to like the medium to long term prospects for these companies as we believe the current issues are largely temporary in nature, and we continue to like the resilience of the cashflows that packaging companies can generate almost independently of economic conditions.

Caltex shares also disappointed over the month after the company posted a result in line with guidance. Although lower refining margins impacted the result, encouragingly the company's retail and infrastructure operations continued to generate stronger profits. Caltex is looking to roll out its new convenience store format using the Woolworths 'Metro' brand which is expected to contribute materially in the years ahead. On a PE of 13x, a resilient earnings stream, a good balance sheet and \$3 a share in excess franking credits, we continue to see good value in Caltex at current levels.

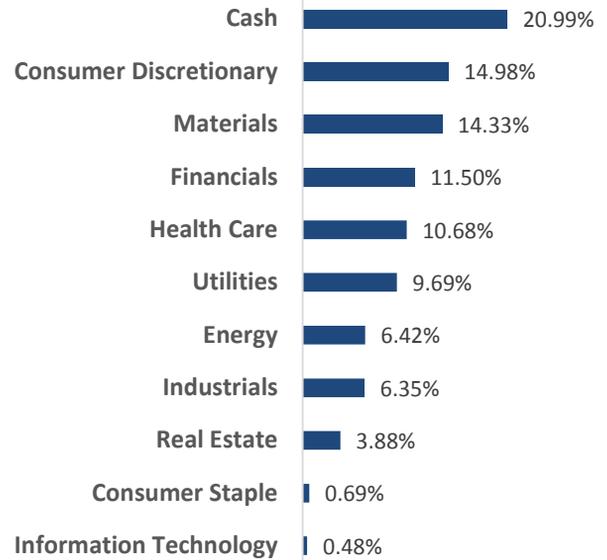
On the plus side, the portfolio benefitted from solid performances from several of our core industrial holdings such as Mayne Pharma, Event Hospitality, Southern Cross Media, IPH, Crown Resorts and Spark Infrastructure which all announced solid earnings growth and encouraging outlook statements for the year ahead.

We continue to focus the portfolio on companies that we believe have sustainable earnings and which we believe represent reasonable value. With the market now at 10-year highs and many valuations looking full, we remain cautious. We are looking to use the cash in the portfolio to buy good quality industrial names that, in our view, are trading at reasonable valuations and that we believe can do well over the next 3 to 5 years.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Spark Infrastructure Group	SKI	4.2%
Sonic Healthcare	SHL	4.2%
Clydesdale Bank	CYB	4.2%
Caltex Australia	CTX	4.0%
Crown Resorts	CWN	3.9%
Pact Group Holdings	PGH	3.6%
Amcor	AMC	3.6%
Orica	ORI	3.3%
Bank of Queensland	BOQ	3.2%
Steadfast Group	SDF	3.1%

## SECTOR ALLOCATION



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