

Investment Update & Net Tangible Assets Report

November 2018



NET TANGIBLE ASSETS (NTA)*		QVE	QV EQUITIES	
NTA before tax		\$1.10	ASX Code	QVE
NTA after tax		\$1.09	Listed	22 Aug 14
			Shares on issue	276.0M
			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 5 year basis

PERFORMANCE (as at 30.11.18)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-2.1%	-1.5%	-3.0%
3 Months	-7.3%	-5.2%	-11.3%
6 Months	-5.0%	-3.5%	-6.7%
1 Year	-2.9%	-1.5%	-3.4%
Since Inception Total Return p.a	+6.8%	+6.0%	+8.4%

*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. Past performance is not indicative of future performance.

SHAREMARKET COMMENTARY

Global equity markets endured another volatile month albeit finishing +1.3% higher courtesy of a sharp rally late in the month. The US S&P 500 index finished the month up +1.8%, rebounding 5% in the final week of the month, whilst the tech heavy NASDAQ index rebounded 8% to finish the month flat. The catalyst for the rally was a more dovish tone from the US Federal Reserve, detailing that their key policy rate was now marginally below neutral, implying a less aggressive path of interest rate rises into 2019. Europe's Stoxx 50 index fell -0.8% as the continent muddles through the latest Brexit saga as the March 2019 deadline fast approaches, coupled with concerns over Italy's fiscal largesse and French riots over increases in the price of diesel.

Commodities were generally weaker over the month as the impact of the US trade tariffs, EU uncertainty and emerging market weakness began to take its toll on investor sentiment regarding the strength of the global economy into 2019. Underwhelming manufacturing and export data from China also increased concerns that the world's second largest economy was slowing, resulting in the price of iron ore falling -13%. Similarly, the price of oil had one of its worst months on record falling -21% to a one year low, on concern of slowing global growth and rising global supply, particularly from the US, with US oil production hitting a record of 11.6 million barrels per day.

The Australian sharemarket had another negative month with the ASX 300 closing the month down -2.2%. The weakness in our sharemarket was led by the Resources sector which fell -6.5% in sympathy with the weakness in the prices of both oil and iron ore. Similarly, the ex20 index had a challenging month shedding -3.0%, with Resources weighing on overall returns with Energy and Materials falling -10% and -4% respectively. Within the industrials segment, only Technology managed to eke out a positive return, following its heavy sell off the month prior on excessive valuation concerns. The Consumer Discretionary sector fell -4.3% weighed down by index heavyweight Aristocrat Leisure which released FY18 results that fell short of expectations, highlighting margin pressures. The REIT sector proved somewhat resilient due to moderating bond yields, although property heavyweight Lend Lease dropped -30% after announcing significant additional provisions on its construction projects.

In what was another difficult month for the sharemarket, the **QVE Portfolio** finished -2.1% lower, which whilst disappointing was better than the benchmark's fall of -3.0%. Our caution to the Resources sector insulated the portfolio against wider falls in the market while resilient performances from our holdings in good quality industrials such as Shopping Centres Australasia and Orica helped the portfolio hold up in value. Over the month we sold out of our entire holding in Coca Cola at prices above \$10 as the stock looked fully priced. We also used strength in the share prices of the portfolio's holdings in stocks like Steadfast and Contact Energy while adding to our holdings in preferred stocks in weakness.

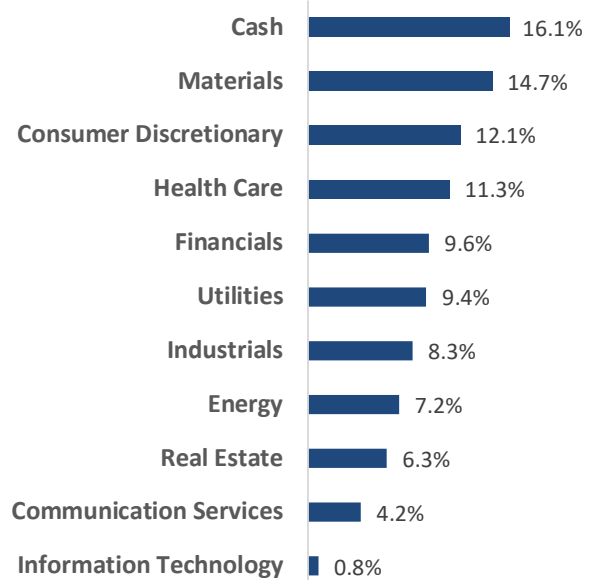
On the negative side, the portfolio was impacted by our holding in Clydesdale Bank which fell heavily over the month following the release of the bank's FY18 result. While the FY18 result was in line with our expectations, the bank's guidance for FY19 was disappointing as Clydesdale pointed to unexpected margin deterioration in the recently acquired Virgin Money operation. This margin pressure is expected to ease into FY20 once Clydesdale is able to integrate Virgin's operations into the bank and utilise the cheaper cost of funding from its deposit base to help fund Virgin's loan book. With Clydesdale now trading at 0.6x book value and with significant cost synergies from the acquisition of Virgin still expected to come through in the next three to five years, we continue to hold the stock in our portfolios despite the disappointing recent result.

Investor confidence has been shaken in the last few months due to various macro issues that continue to cloud the outlook for economic growth as we enter 2019 such as weakness in China's economy as well as continued uncertainty with the trade tariffs and Brexit situations. In Australia, the situation is further clouded as we face an impending election in the first half of 2019 while policy uncertainty in areas such as the Banking and Electricity sectors is also undermining investor confidence. We remain cautious on the sharemarket and continue to use weakness in the market to use the cash in the portfolio to increase our holding in stocks which we believe continue to have good medium to long term prospects in the next 3 to 5 years such as Crown Resorts, Pact Group and GWA while taking profits on stocks that look fully valued, as we did with Coca Cola over the month.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Crown Resorts	CWN	4.6%
Amcor	AMC	4.4%
Spark Infrastructure	SKI	4.3%
Caltex	CTX	4.1%
Sonic Healthcare	SHL	4.1%
Pact Group	PGH	3.8%
Orica	ORI	3.7%
Aurizon	AZJ	3.5%
Steadfast	SDF	3.1%
Bank of Queensland	BOQ	3.1%

SECTOR ALLOCATION



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