

Investment Update & Net Tangible Assets Report

December 2018



NET TANGIBLE ASSETS (NTA)*		QVE	QV EQUITIES	
NTA before tax		\$1.08	ASX Code	QVE
NTA after tax		\$1.08	Listed	22 Aug 14
			Shares on issue	276.0 M
			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 31.12.18)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-1.6%	-1.1%	-1.5%
3 Months	-8.1%	-5.8%	-11.3%
6 Months	-8.3%	-6.0%	-10.0%
1 Year	-6.6%	-4.2%	-6.5%
Since Inception Total Return p.a	+6.3%	+5.6%	+7.8%

*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/losses 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/losses 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

After largely ignoring the uncertainties building for much of 2018, global sharemarkets - led by the US - sold off heavily in December as a near panic emerged over the economic outlook for 2019. This was due to the negative impact of various factors such as the continued US-China trade war, higher US interest rates, slowing emerging market economies, as well as renewed concerns over EU stability and the long drawn out Brexit negotiations. The heavy falls appeared to be often driven by algorithmic computer selling which amplified day-to-day market swings and led to a pronounced increase in volatility. The renewed uncertainty in equity markets also led to a flight to safety in the final quarter with the US 10-year bond price rallying strongly as its yield fell to 2.7% (from 3.2% a few months earlier) whilst the gold price added +8% over the final quarter of 2018.

The Australian market, as measured by the ASX300, managed to outperform its global peers by finishing the month flat. Despite a sharply weaker oil price, the ASX300's performance was helped by a rebound in the Resources sector as heavyweight miners, RIO and BHP, saw strong support from investors with capital returns and/or special dividends anticipated from both companies and after BHP completed its US\$5b off-market buyback. The ex20 segment of the market proved less resilient falling -1.5% over the month as most sectors finished the month in negative territory. The Communication Services sector was the worst performing sector as TPG fell -24% after the ACCC expressed concern on the proposed merger between TPG and Vodafone and on weakness in media companies such as Nine Entertainment and Southern Cross Media on fears of the impact of an economic slowdown on advertising revenues.

In another difficult month for the sharemarket, the **QVE Portfolio** finished -1.6% lower, which was broadly in line with the benchmark's fall of -1.5%. The portfolio was impacted by falls in the share prices of several companies held in the portfolio such as Caltex, Sonic Healthcare, Southern Cross Media and Mayne Pharma. We used market weakness in December to top up on QVE's existing holdings in these stocks, as in our view, these companies remain on track to produce higher profits and returns to shareholders in the next 3 to 5 years.

Caltex fell after a profit update revealed 2018 earnings would be at the lower end of expectations mainly as a result of lower profits from the company's volatile refining division. More importantly the company's core Fuel & Infrastructure and Convenience Retail divisions remained on track with previous guidance - which is encouraging news. Sonic Healthcare's share price slipped after the company announced a \$600 million institutional placement of new shares at \$19.50 (which QVE participated in) after the company announced the acquisition of US pathology company Aurora Diagnostics for US \$540 million - a move which vastly expands Sonic's growing footprint in the US market. While Southern Cross Media slipped on advertising expenditure trends, the company's very cash generative radio business continues to perform well thanks to growth in its digital offerings. Mayne Pharma's price fell sharply after it announced an increase in R&D spending with the aim of repurposing SUBA-itraconazole to treat a genetic form of skin cancer. While this step up will increase Mayne's research and development costs for the next couple of years, the company has the potential to generate significant returns when approval for release of SUBA-itraconazole in the US market is received from the FDA, which we expect to occur in 2020/21.

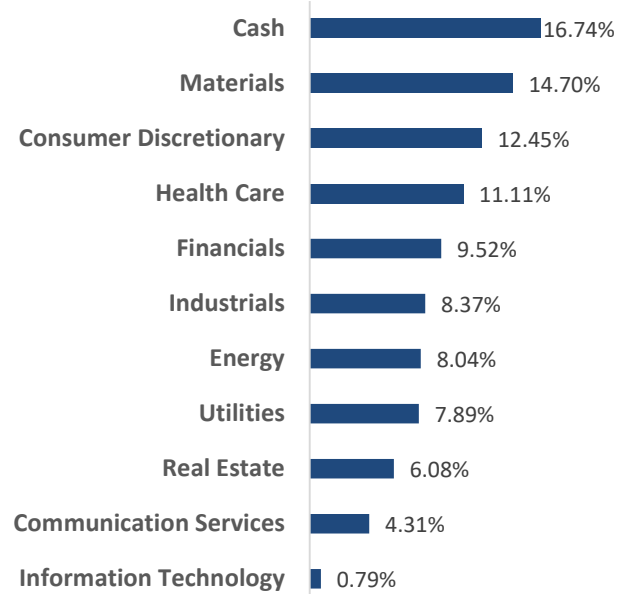
Over the month we took profits on the portfolio's holding in NZ gentailer Contact Energy and used the funds to purchase a holding in integrated energy company Origin Energy. Origin has fallen heavily in recent times given regulatory uncertainty in the domestic electricity sector as well as the weaker oil price. In our opinion, Origin looks very attractively priced below \$6.50 and is trading on a free cash flow yield of almost 10% when using our long-term oil price of USD \$55 a barrel and a conservative estimate for its electricity division. Origin has made great progress on repairing its balance sheet in recent years and will recommence the payment of dividends this financial year.

While the outlook for global growth in 2019 remains uncertain, we are beginning to see good value emerge in a number of quality Industrial companies following the heavy falls on sharemarkets of the last few months. While the earnings growth outlook for many companies also remains uncertain we will continue to use volatility in the market to buy stocks we now see as very attractive such as Caltex, Southern Cross Media, Sonic, Tabcorp, Crown and Mayne Pharma. All these stocks have been sold down heavily in the current correction despite being well managed companies with conservative balance sheets run by very capable and focused management who have in place long term and sensible plans to grow each company's earnings and shareholder value in the next 3 to 5 years.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Crown Resorts	CWN	4.8%
Amcor	AMC	4.4%
Sonic Healthcare	SHL	4.2%
Spark Infrastructure	SKI	4.1%
Caltex	CTX	4.0%
Pact Group	PGH	3.9%
Orica	ORI	3.8%
Aurizon	AZJ	3.6%
Steadfast	SDF	3.2%
Bank of Queensland	BOQ	3.1%

SECTOR ALLOCATION



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