

# Investment Update & Net Tangible Assets Report

February 2019



NET TANGIBLE ASSETS (NTA)*		QVE	QV EQUITIES	
NTA before tax		\$ 1.11 ( ex div)	ASX Code	QVE
NTA after tax		\$ 1.10 ( ex div)	Listed	22 Aug 14
*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.			Shares on issue	276.0 M
<b>PERFORMANCE (as at 28.02.19)</b>	<b>QVE's NTA (pre tax)</b>	<b>QVE's NTA (after tax)</b>	<b>BENCHMARK</b>	
1 Month	+2.2%	+1.6%	+5.3%	Benchmark
3 Months	+3.4%	+2.5%	+9.6%	S&P/ASX 300 Ex20 Accumulation
6 Months	-4.2%	-2.8%	-2.8%	Number of stocks
1 Year	-0.5%	+0.2%	+4.9%	20 – 50
Since Inception Total Return p.a	+7.3%	+6.2%	+10.1%	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

The above returns are after fees and assumes all declared dividends are reinvested and excludes tax paid from pre tax NTA. Past performance is not indicative of future performance.

## SHAREMARKET COMMENTARY

Global sharemarkets continued to rebound strongly in February with the MSCI World Index gaining +2.5%. The gains were broad based and across all major bourses with the US S&P500 gaining +3.2% to bring the calendar year to date return to +11%. Despite continued uncertainty over both the UK's Brexit ordeal and Italy's fiscal malaise – with the country in technical recession - the EuroStoxx50 index gained +4.4%, buoyed by hopes that the ECB may embark on another easing programme to provide relief to the Eurozone's flagging economy. In the Asian region, Japan's Nikkei gained +3.0%, whilst China's Shanghai Composite gained +13.8% following fresh fiscal stimulus aimed at negating weakness from uncertainty surrounding the trade disputes with the US. The underpinning of the rebound in global stockmarkets in the first two months of 2019 has been mainly due to the US Federal Reserve's U-turn on interest rates. From a previous firm expectation of 3 interest rate rises in 2019, more recently the Fed has commented that at this stage they will likely hold off on further increases in 2019. Markets have also been buoyed by a more reconciliatory tone being established between the US and China in their trade negotiations, with President Trump postponing the 1<sup>st</sup> March deadline on increasing tariffs.

The Australian sharemarket as measured by the ASX 300 was one of the strongest performers globally gaining +6.0% over the month led by strong performances from both the Financials and the Resources sector. Similarly, the ex20 segment of the market was also strong, returning +5.3%, with all sectors finishing the month in positive territory. The Ex20 Resources sector gained +5.1%, with mid cap miners rallying on higher base metal prices, whilst the energy sector was particularly strong reacting to positive short-term strength in the oil price, which gained +4.1%, as OPEC resumed production cuts in a bid to support the price following its sell off late last year. Within the industrials segment, sector performance was mixed. Financials gained +10%, primarily driven by the listed fund managers with gains in excess of 20% in sympathy with the rebound in financial markets. The local Information Technology sector also rebounded strongly as it added +7.5%, as the Nasdaq in the US continued its recovery.

Despite strong gains in the market, reporting season was a rather lacklustre affair, with many companies continuing to report fairly flat earnings reflecting increased competitive pressures and the softening economic backdrop. In total, only half of the companies that reported were able to report a lift in profits from a year earlier, with many companies guiding to lower earnings for the year ahead. One feature of reporting season was several companies - such as Flight Centre and Caltex - declaring special dividends to release franking credits to shareholders.

As markets rebounded from the losses suffered in the December quarter the **QVE portfolio** had a solid month returning +2.2%, albeit below its benchmark's strong return of +5.3%. Our caution to the ever-volatile Resources sector held back our relative performance, as did our zero exposure to listed fund managers and the IT sector, which despite eye-watering valuations, have little in the way of tangible earnings. The Fund's positioning in good quality Industrial companies contributed to our performance over the month as Steadfast, Nine Entertainment, Southern Cross Media, GWA, Amcor and Regis Healthcare all performed strongly. The Fund's holding in Clydesdale Bank also did well as the UK based bank rebounded +9% in February following an encouraging update which highlighted increased synergies from their recent merger with Virgin Money. The portfolio also benefited from Ruralco (RHL) receiving a takeover offer from Canadian fertilizer conglomerate Nutrien through a scheme of arrangement. The bid - at a 44% premium to the RHL's pre-offer price - includes the payment of a 90 cent fully franked dividend to shareholders.

Disappointing performers for the portfolio over the month included Pact Group, which cut its interim dividend following a disappointing interim result with profitability continuing to be impacted by higher input and electricity prices – we continue to monitor this company closely. Despite reporting a good result, Mayne Pharma (MYX)'s share price also dropped after the company flagged the potentially imminent release of a new drug by a competitor which may impact MYX's generic division at some stage. Crown's share price also fell after a disappointing VIP result from its Melbourne and Burswood casinos, although the new Sydney casino remains on track for opening in early 2021. We remain comfortable with our holdings in both MYX and CWN and believe both will be very good long-term investments for the portfolio.

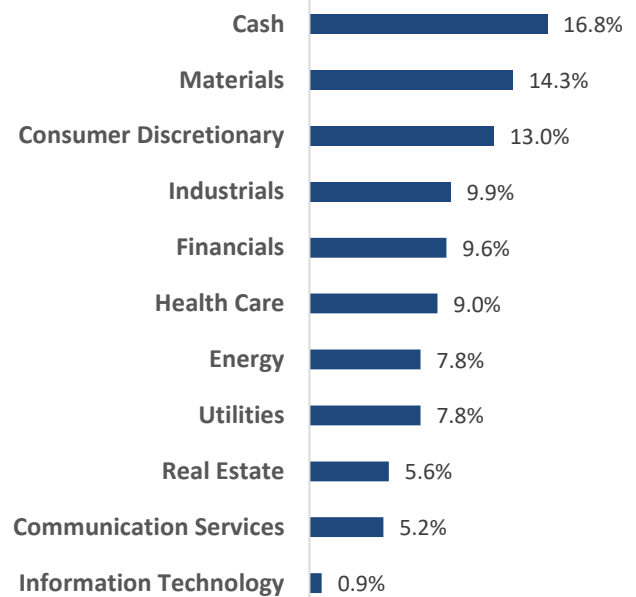
Sydney Airport (SYD) was added to the portfolio following the release of the draft proposal from the Productivity Commission which gave us comfort that no major changes to pricing regulations are forthcoming. With a new management team in place and a refocus on efficiency gains, we believe SYD is well poised to grow its earnings and distributions in the years ahead. Over the month we took part profits on our holding in Abacus Property and Spark Infrastructure following strong share price appreciation. We also took profits on our holding in Ansell as we believe demand for industrial gloves may soften as the global economy slows over 2019.

Despite most markets recovering all of their December quarter losses since the start of 2019, we remain cautious about the outlook as the earnings for most companies remain lacklustre given slower economic growth forecast both in Australia and globally in the year ahead. The company reporting season in February highlighted that the outlook for many Australian based companies remains fairly challenging in light of increasing competition and increasing regulatory imposts on many sectors. We will continue to use the portfolio's cash opportunistically and continue to look to buy into well managed companies which have clear, sensible, long-term plans for growing their earnings in the next 3 to 5 years and which we believe are attractively priced.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Amcor	AMC	4.5%
Crown Resorts	CWN	4.5%
Caltex Australia	CTX	4.3%
Spark Infrastructure	SKI	4.0%
Sonic Healthcare	SHL	3.9%
Aurizon	AZJ	3.7%
Steadfast	SDF	3.6%
Orica	ORI	3.4%
Pact Group	PGH	3.3%
GWA	GWA	2.9%

## SECTOR ALLOCATION



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