

Investment Update & Net Tangible Assets Report

May 2019



| NET TANGIBLE ASSETS (NTA)* | | QVE | QV EQUITIES | |
|----------------------------|--|--------|---------------------------------|---|
| NTA before tax | | \$1.14 | ASX Code | QVE |
| NTA after tax | | \$1.12 | Listed | 22 Aug 14 |
| | | | Shares on issue | 276.3M |
| | | | 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 31.05.19) | QVE's NTA (pre tax) | QVE's NTA (after tax) | BENCHMARK |
|----------------------------------|---------------------|-----------------------|-----------|
| 1 Month | -1.5% | -1.0% | +0.4% |
| 3 Months | +2.8% | +2.1% | +4.4% |
| 6 Months | +6.3% | +4.6% | +14.4% |
| 1 Year | +1.0% | +0.9% | +6.7% |
| Since Inception Total Return p.a | +7.5% | +6.3% | +10.6% |

*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 from pre tax NTA. Past performance is not indicative of future performance.

SHAREMARKET COMMENTARY

Global equity markets had their first monthly decline of the year, with the MSCI World index falling -6.1% in May as uncertainty over global economic growth weighed on investor sentiment. All major bourses ended the month lower, with the US S&P500 shedding -6.4% as it pulled back from its record highs reached in late April. Europe's Stoxx 50 and Japan's Nikkei lost -5.1% and -7.4% respectively. Concerns over a global economic slowdown intensified as the US and China showed little inclination to resolve their trade dispute. In addition, Trump threatened Mexico with higher tariffs should the country fail to co-operate in slowing illegal immigration to the US. Adding to the uncertainty, minutes from the latest Federal Reserve meeting intimated a reluctance to cut interest rates, despite inflation falling below the Fed's target of 2%.

Domestically, the Federal election dominated May's news. The Coalition's surprise victory was well received by sharemarket investors, who welcomed a result that would leave tax treatment of franking credits and negative gearing unchanged. The RBA held interest rates steady in May and lowered the cash rate 25 basis points in June to a record low of 1.25%. Rate cuts in 2019 are now seen as vital to supporting a sluggish domestic economy amid weakness in the housing market.

The Australian sharemarket, as measured by the ASX300 index, recorded a strong month, gaining +1.7%. The market was helped by a strong rally in the Banks, which were seen as major beneficiaries of a Coalition election victory. Without the major banks, the ex20 segment firmed +0.4% for the month. Sector performances were mixed. Communication Services outperformed other sectors, returning +7% as media companies such as Nine Entertainment Company and Ooh!Media performed strongly after both reaffirmed their guidance. Also buoying the sector was Vocus, which finished the month up +17% following a surprise \$3.3 billion takeover bid by Swedish private equity firm EQT – which subsequently withdrew its bid a week later. The REIT sector gained a further +3% as investors chased the sector into, what in our opinion, is well overvalued territory as bond yields and interest rates continued to fall. On the negative side of the ledger, the Consumer Staples sector shed -4% as companies exposed to the Chinese consumer market such as Treasury Wines, A2 Milk and Bellamy's pulled back on fears of a knock-on effect from the US-China trade dispute. The sector was also beset by further profit downgrades from both Costa Group and BWX, which sent their share prices lower. The Resource sector was mixed for the month, with the Energy sector down -6% on weak oil prices, whilst the Materials sector gained +3% as the iron ore price continued to firm on supply concerns following the disruption of production in Brazil due to dam failures and the temporary closure of several iron ore mines in that country since January.

The **QVE portfolio** had a disappointing month as the portfolio returned -1.5% against the benchmark's return of +0.4%. The portfolio's low weighting in the REIT sector and in stocks such as Fortescue, Newcrest and Aristocrat, which have large benchmark weightings and performed strongly, held back our relative performance. Also, a soft month for stocks like Mayne Pharma, Clydesdale Bank and Crown Resorts hurt performance. Crown fell after James Packer surprised many with the sale of a 20% stake in the company to Macau-based Melco at \$13 a share, well below Wynn's bid of \$14.75 in April. Mayne Pharma fell fairly heavily after announcing a weaker than expected earnings outlook for the second half of FY19 for its US generics business. We believe that Mayne's shares remain very undervalued. While the generics business remains volatile, investors appear to be ignoring the continued strong growth in the company's contract services and branded pharma divisions, which will soon represent a total of 50% of group EBIT. Clydesdale Bank delivered a result in line with expectations. However, the company's shares fell over the month as the bank remained cautious about its outlook and as the UK banking sector shed -5% on continued Brexit concerns.

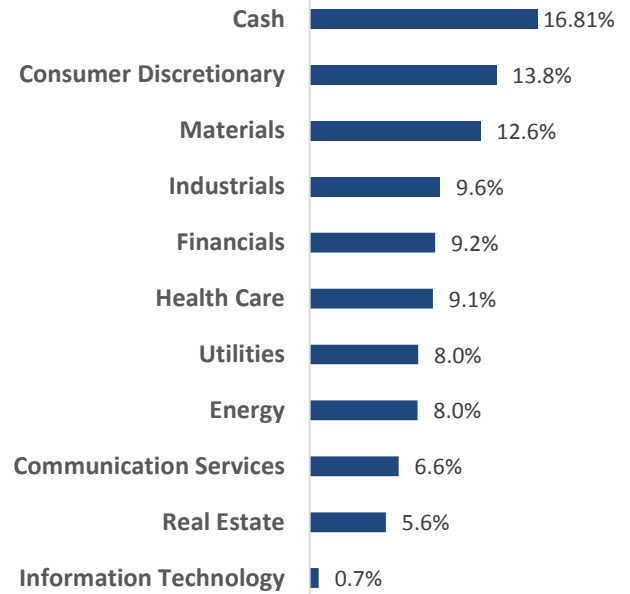
Over the month, we added outdoor advertiser Ooh!Media to the portfolio – we believe the company looks attractive trading on a PE of around 13x and yield of 4% in a sector which continues to take share in an increasingly fragmented media sector, driven by growing digitisation of sites. Over the month, we took profits on IPH as the stock reached new 12-month highs. We used weakness in the share prices of Tabcorp, Mayne Pharma and Incitec Pivot to top up our holdings in these companies, which are currently all out of favour. We believe they all represent good, long-term value.

While the Information Technology, REIT and Resources sectors remain in the limelight, with many stocks in these sectors regularly hitting fresh highs, we continue to find it very hard to justify large weightings in these sectors as we cannot see much compelling value. The QVE portfolio thus remains invested in a spread of good quality, solid Industrial stocks across a number of sectors. We continue to look for opportunities to invest the portfolio's cash in companies that we believe are well positioned to grow over the next 3 to 5 years.



| KEY EQUITY INVESTMENTS | ASX Code | Weight |
|------------------------|----------|--------|
| Crown Resorts | CWN | 4.5% |
| Aurizon | AZJ | 4.1% |
| Sonic Healthcare | SHL | 3.9% |
| Spark Infrastructure | SKI | 3.7% |
| Amcor | AMC | 3.5% |
| Caltex | CTX | 3.5% |
| Steadfast | SDF | 3.5% |
| GWA | GWA | 3.1% |
| Bank of Queensland | BOQ | 2.8% |
| Orica | ORI | 2.7% |

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