

Investment Update & Net Tangible Assets Report

July 2019



NET TANGIBLE ASSETS (NTA)*		QVE	QV EQUITIES	
NTA before tax		\$1.17	ASX Code	QVE
NTA after tax		\$1.14	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 31.07.19)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	+2.0%	+1.4%	+4.6%
3 Months	+1.1%	+0.9%	+8.2%
6 Months	+7.8%	+5.7%	+18.5%
1 Year	+0.0%	+0.1%	+11.6%
Since Inception Total Return p.a	+7.8%	+6.5%	+11.8%

*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 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 edged higher in July with the MSCI World index returning +0.9%, consolidating the previous month's strong gain of +6%. However, performances across the major bourses were mixed, with the US providing the heavy lifting as the S&P 500 and the tech-heavy NASDAQ indices returned +1.4% and +2.2%, respectively, as they reached new record highs. Japan's Nikkei was similarly robust, gaining +1.2% whilst Europe's Stoxx50 index finished flat.

Late in the month, the US Federal Reserve cut its benchmark interest rate by 0.25% as was widely expected. This was the Fed's first interest rate cut since the depths of the financial crisis in 2008. The move reflected the Fed's concerns over slowing global economic growth as recently reflected in negative manufacturing data. Domestically, the RBA cut interest rates a further 0.25% in July to an all-time low of 1% in a bid to revive a very sluggish domestic economy.

As a result of the RBA interest rate cut, the Australian sharemarket, as measured by the ASX300 index, enjoyed a strong month with a gain of +3.0% as it reached an all-time high during July, surpassing the previous record from November 2007.

The ex20 segment of the market also had a positive month, rising +4.6%. The Consumers Staples sector led gains, up +11.5% on the view that that the US-China trade dispute was set to be resolved. This drove double-digit gains for companies such as a2 Milk and Bellamy's which are heavily exposed to the China story. The Materials sector was also strong, rising +5.4% as gold miners posted double-digit returns on expectations of higher gold prices, given the easing bias from major central banks. The REIT sector continued its upwards trajectory as global and domestic bond yields continue to trend lower on the expectation of slower economic growth and further central bank interest rate cuts in the months ahead.

The **QVE portfolio** firmed +2.0% in July which, while a solid return, was below the benchmark's +4.6% return. Our caution towards the REIT sector held back performance. However, we are comfortable with our position given that many of the larger REITS look fully valued, trading significantly above their net tangible asset backings (NTAs). In addition, QVE does not own Consumer Staple companies such as a2 Milk and Bellamy's due to the China-related volatility and our view that the sector remains subject to regulatory changes in China, which can happen swiftly and unpredictably.

The Fund benefited from strong performances from several of our solid industrial holdings, such as Steadfast, Aurizon, Regis Healthcare, SkyCity and Sydney Airport. In addition, Caltex rebounded in July on improved global refining margins. Conversely, our holding in Clydesdale Bank held back our performance as Clydesdale had a challenging month. The release of its Q3 result showed its margins remained under intense competitive pressure while softening domestic demand for credit in the UK was also hindering loan growth. We believe these pressures should ease over time, particularly once the uncertainty over Brexit is finally resolved. On the positive side, the results highlighted the bank's strong capital position, and the merger of Virgin and Clydesdale into a national brand will reap significant cost and revenue opportunities in the years ahead. Clydesdale is trading at 0.5x book value, which we believe represents compelling value despite short-term competitive headwinds.

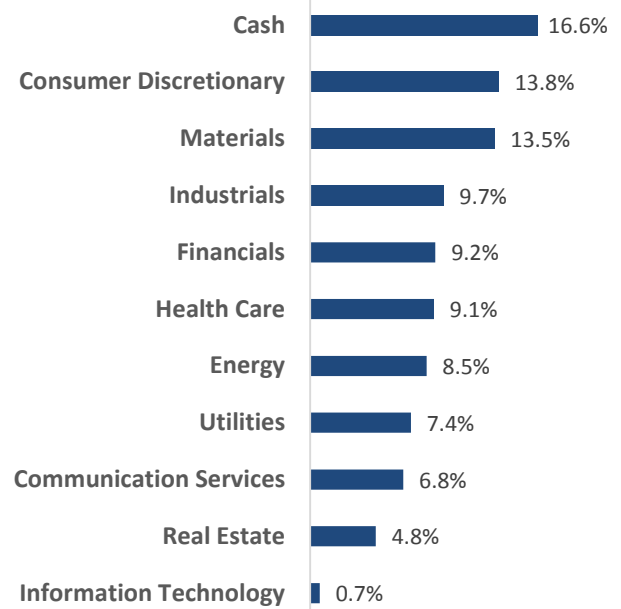
Over the month, we took some profits on Steadfast Group, which climbed +8.2%, and we also took profits on the Abacus Property Trust after participating in a placement of new shares. We used weakness in the share prices of Mayne Pharma and Nine Network to top up our holdings – in our view both look attractively priced and we expect them to do well in the next 3 to 5 years.

The expectation of further easing from global central banks has been the significant contributor to equity markets performances in 2019 with share price rises greatly outstripping corporate earnings growth. With the Australian sharemarket reaching a new record high in July, we believe it is a time for prudence and caution. The company reporting season in August will highlight that growth for many Australian-based companies remains fairly challenging, as increasing competition, slowing growth and increasing regulatory imposts make an impact on many sectors. We thus remain selective in our purchases, continuing to focus on companies we believe can do well in the next 3 to 5 years.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Aurizon	AZJ	4.4%
Crown Resorts	CWN	4.2%
Amcor	AMC	4.0%
Sonic Healthcare	SHL	4.0%
Steadfast	SDF	3.7%
Caltex	CTX	3.7%
Spark Infrastructure	SKI	3.3%
Pact	PGH	3.2%
GWA	GWA	3.1%
Tabcorp	TAH	3.0%

SECTOR ALLOCATION



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