

Investment Update & Net Tangible Assets Report

August 2019



NET TANGIBLE ASSETS (NTA)*		QVE	QV EQUITIES		
NTA before tax		\$1.12 (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	276.3M	
PERFORMANCE (as at 31.08.19)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK		
1 Month	-2.7%	-1.9%	-1.5%	Benchmark	S&P/ASX 300 Ex20 Accumulation
3 Months	-0.2%	-0.1%	+6.2%	Number of stocks	20 – 50
6 Months	+2.6%	+2.0%	+10.9%	Dividend Frequency	Half yearly
1 Year	-1.7%	-0.9%	+7.8%	Suggested investment time frame	5+ years
Since Inception Total Return p.a	+7.1%	+6.0%	+11.3%	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 equities experienced a challenging month in August as US-China trade tensions and global economic growth uncertainties came to the fore. All major bourses finished the month in negative territory, with the MSCI World index falling -2.2% for the month. The US S&P500 shed -1.8% over the month, led lower by companies exposed to global trade and any potential disruption in economic activity with the Energy, Manufacturing and Technology sectors leading the declines. Europe proved more resilient relative to global peers, shedding -0.5% as investors positioned themselves for a return of quantitative easing (QE) from the ECB to stimulate flagging economic growth in the Eurozone. Recent economic releases showed weakness in Germany's manufacturing industry which has left Europe's largest economy teetering on the verge of recession.

Escalating global uncertainties helped safe-haven assets rally strongly over the month, with the gold price up +7% over the month. Government bonds around the world also rallied significantly with the flagship US 10-year bond yield falling 0.5% to 1.5%, and the 2-10 year US yield curve inverting for the first time since 2007. Conversely, commodity prices fell on concerns over a softening economic growth outlook. The oil price fell nearly -8% while iron ore slumped -28% on fears of a slowdown in Chinese economic growth combined with supply coming back onstream courtesy of Brazil's Vale reopening previously suspended production. Copper, a bellwether for global manufacturing activity, continued its recent downward trajectory, falling a further -4% over the month.

The Australian sharemarket as measured by the ASX300 also had a soft month, shedding -2.3%. The Resources sector led the declines, falling -7.4% over the month, reflecting lower commodity prices, although the gold sector had a good month following the jump in the gold price. The Industrials segment of the market held up better and fell 1% with defensive sectors such as Healthcare performing well. The FY19 reporting season was fairly lacklustre with earnings growth remaining elusive in most sectors and many companies cutting costs to support margins, combined with fairly modest forward earnings guidance.

The ex20 segment of the market was also weak, recording a fall of -1.5% in August led by the Energy sector which fell 5.5% reflecting the lower oil price. The Financials sector was also softer as the share prices of many listed fund managers came off as sharemarkets fell. Conversely, sectors perceived by many investors as safe havens, such as the Real Estate and Health Care sectors, both managed to carve out a positive return for the month.

The **QVE portfolio** had a disappointing month, returning -2.7%, which was below the benchmark's return. The company also went ex a 2.2 cents fully franked dividend in August which is payable on 20 September. The main contributors to the underperformance were disappointing returns from Pact Group and Caltex, which fell despite posting results in line with their previous guidance and forecasting better earnings in the next financial year. Mayne Pharma also had a disappointing month after it wrote off \$351 m from its poorly timed acquisition of a generic business from Teva in 2016 and while its generic business continues to perform indifferently the company's branded drugs and contract services businesses continues to perform well. Ooh!Media fell heavily after the company downgraded its earnings for CY2019 due to recent poor advertising trends. Amcor was also softer over the month despite declaring a higher dividend and a USD 500m buyback and reiterating that it is on track to achieve USD 180m of synergies in the next 3 years from its recent merger with US packaging company Bemis.

While investors continue to focus on some of the negative trends apparent in the recent results of these companies, we continue to believe that their share prices reflect much of the bad news and that they represent very sound long-term value. All these companies have in place strategies that we believe will lead to higher earnings in the years ahead and, thus, we remain comfortable with the longer term prospects of all these companies.

Over the month, the QVE portfolio benefited from good returns generated by good quality companies such as Shopping Centres Australasia, Tabcorp, Aurizon and Sonic Healthcare.

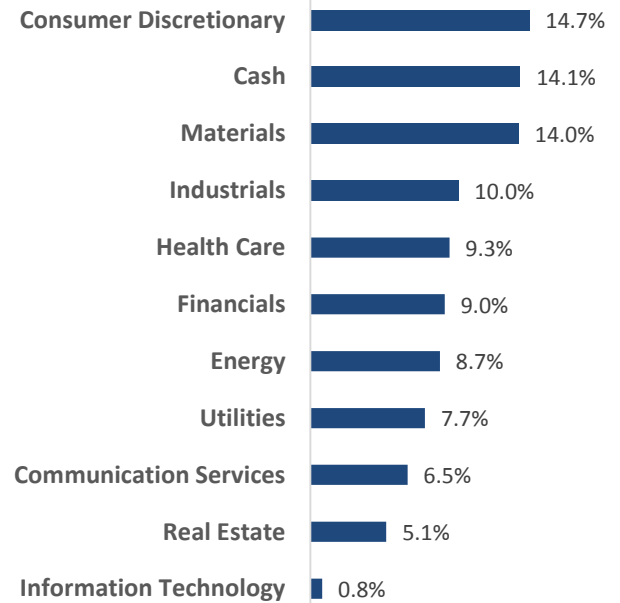
We trimmed the portfolio's holding in Spark Infrastructure following its solid run and deployed some of the proceeds into Ausnet, which we believe has a superior distribution outlook. We like Ausnet for its monopoly transmission assets in Victoria, with the company set to benefit from growing its electricity transmission and renewables connections from solar and wind installations. The company's stable earnings, conservative balance sheet and attractive valuation, as well as its yield of around 6%, make Ausnet an attractive long-term position for the Fund.

August served as a reminder of the increasing uncertainty both across the globe and domestically. The pivot toward further stimulus and monetary easing from the world's central banks only serve to highlight the softening economic growth conditions across the globe. As highlighted by the FY19 reporting season, the growth outlook for many companies remains modest and we continue to focus on good quality companies we believe will do well over the next 3-5 years and that, in our opinion, represent good long-term value.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Aurizon	AZJ	4.8%
Amcor	AMC	4.7%
Crown Resorts	CWN	4.5%
Sonic Healthcare	SHL	4.2%
Steadfast	SDF	3.9%
Caltex	CTX	3.5%
Tabcorp	TAH	3.3%
GWA	GWA	3.0%
Orica	ORI	2.9%
Pact Group	PGH	2.9%

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