

# Investment Update & Net Tangible Assets Report

September 2019



NET TANGIBLE ASSETS (NTA)* as at 30 Sept 2019		QVE	QV EQUITIES	
NTA before tax		\$1.13	ASX Code	QVE
NTA after tax		\$1.11	Listed	22 Aug 14
			Shares on issue	275.7M
			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 30.09.19)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	+0.9%	+1.0%	+1.5%
3 Months	+0.1%	+0.5%	+4.6%
6 Months	+2.0%	+1.8%	+11.5%
1 Year	-0.1%	+0.5%	+11.0%
Since Inception Total Return p.a	+7.1%	+6.1%	+11.4%

\*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

Following August's sell-off, global equity markets recovered their poise in September largely courtesy of renewed central bank stimulatory measures, with the MSCI World Index gaining +2.2% for the month. Performance was broad-based across the major bourses, with the US S&P500 returning +1.8% despite continued uncertainty regarding the US-China trade dispute and signs that economic growth in many parts of the world is slowing. As a result of these, the US Federal Reserve cut its key interest rate by 0.25% during the month, the Fed's second rate cut this year, in a bid to support economic growth. Europe's Stoxx50 was the best performing market over the month as it gained +4.3%, buoyed by further extraordinary actions announced by the European Central Bank. During the month not only did the ECB cut its lending rate from -0.4% per annum to a record low of -0.5% per annum, it also announced a new round of quantitative easing (QE) in a bid to boost flailing growth in the Euro Zone – with the new QE programme heralding the purchase of a further 20 billion euros worth of securities per month until growth is restored.

Domestically, Q2 GDP figures released early in September painted a fairly lacklustre picture with Australia's economic growth of +0.5% for the June quarter and +1.4% for the year showing the worst trend growth since March 2001. This scenario led to the RBA announcing another cut of 0.25% in its overnight rate to a record low of 0.75% in early October. Commodity prices were mixed over the month with the gold price shedding -3% following its strong run the past few months off the back of increased risk aversion, whilst iron ore gained +8% following its significant -28% correction in August. The oil price finished the month flat. However, this masked significant intra-month volatility following a drone attack on Saudi facilities which sent oil prices up +15% on the day. Later in the month, oil fell sharply on easing tensions in the Middle East, with the Saudis poised to restore disrupted production in the near future.

The Australian sharemarket as measured by the ASX300 had a solid month in line with its global peers, returning +1.9%. The Resources sector led the rise as it gained +2.9%, with both the Miners and Energy companies in favour as their share prices followed rises in iron ore and oil over the month. The Financials sector was similarly strong, led by the major banks as investors chased yield given the continued cuts in interest rates by the RBA.

The ex20 segment of the market also had a good month, posting a gain of +1.5%, led higher by Resources, with the Energy and Materials sectors gaining +6.3% and +1.9% respectively. Within the Industrials segment of the market, the Financial sector enjoyed a solid month gaining +2.5%. Gains were led by the listed fund managers, recovering from the previous month's sell-off as financial markets improved. Conversely, Healthcare shed -1.8%, led by a steep fall in high-flying stock Pro-Medicus. The radiology information provider fell -24% as the market reacted adversely to the company's founding directors selling down a portion of their shares – which seemed wise given the company's multiple of well over 100 times FY20 earnings. Mayne Pharma rebounded over the month as the market digested the company's August result which highlighted its improving earnings mix, with its branded drug business representing an increasing share of earnings. The ex20 REITs were softer, dropping -2.2% as global bond yields ticked a touch higher over the month as risk assets stabilised.

The QVE portfolio had a solid month, gaining +0.9%, albeit below the benchmark's return of +1.5%. Our caution towards the volatile Resources sector held back our relative performance. However, we remain very comfortable with this positioning, especially given the sector's total reliance on global economic growth to sustain current commodity prices. Our positions in good quality companies such as Mayne Pharma, Orica and Crown Resorts enjoyed a solid month. On the negative side of the ledger, the portfolio's holding in Z Energy impacted performance as the company's share price fell following an earnings downgrade courtesy of intense retail fuel price competition in NZ.

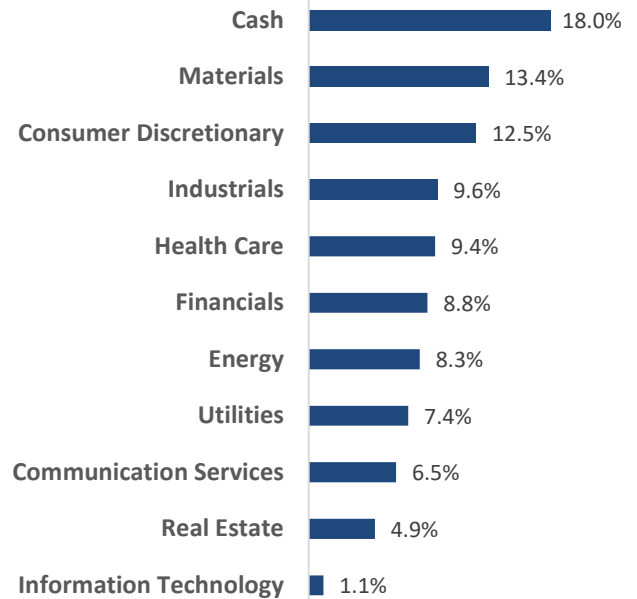
Over the month, we took some profits on a small portion of our holdings in stocks such as Integral Diagnostics, Aurizon and Steadfast, which have all rallied very strongly in recent months. We used this cash to continue to build our position in Ausnet, whilst also taking advantage of depressed valuations on both Clydesdale Bank, Mayne Pharma and Link Group – all of which look attractive in our view. We believe each of these companies are well positioned to improve earnings over the next 3-5 years.

The trend towards further stimulus and monetary easing from the world's central banks only serves to highlight the softening economic growth conditions across most of the globe. As highlighted by the FY19 reporting season and as our discussions with company executives confirms, the growth outlook for many companies remains modest and the environment for most of them fairly challenging. 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. We believe the portfolio is well positioned to navigate any challenging times the market may encounter, and we also continue to retain a healthy weighting in cash – some of which is now being used to buy back shares in the Company given that they are trading at a discount to NTA. During September, all shareholders should have received a 2.2 cents fully franked dividend for the June half.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Amcor	AMC	4.6%
Aurizon	AZJ	4.5%
Crown Resorts	CWN	4.4%
Sonic Healthcare	SHL	4.0%
Caltex	CTX	3.8%
Steadfast	SDF	3.5%
Tabcorp	TAH	3.4%
GWA	GWA	3.0%
Bank of Queensland	BOQ	3.0%
Orica	ORI	2.9%

## SECTOR ALLOCATION



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