

Monthly Investment Update & Net Tangible Assets Report

October 2019



NET TANGIBLE ASSETS (NTA)* as at 31 Oct 2019		QVE	QV EQUITIES	
NTA before tax		\$1.12	ASX Code	QVE
NTA after tax		\$1.11	Listed	22 Aug 14
			Shares on issue	271.6 M
			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 31.10.19)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-0.6%	-0.3%	+0.2%
3 Months	-2.4%	-1.3%	+0.2%
6 Months	-1.3%	-0.4%	+8.4%
1 Year	+4.2%	+3.7%	+19.9%
Since Inception Total Return p.a	+6.9%	+5.9%	+11.3%

*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

Despite the IMF downgrading its outlook for global economic growth to the lowest level since 2008, global equity markets enjoyed a positive month in October with the MSCI World Index gaining +2.0%, aided by the ongoing easing bias from the US Federal Reserve as it cut its key benchmark interest rate a further 0.25% to 1.75% - its third cut this calendar year. By doing this, the Fed is trying to reverse the current weakness in global manufacturing activity and to offset the impact of slowing investment as a result of current trade-related uncertainty. Some positive noises regarding progress on talks regarding the ongoing US trade war with China also helped investor sentiment over the month – although in truth a resolution seems some way off. The rise in global markets was led by the US S&P500 index which gained +2.2% thereby surpassing the record high reached in July.

Domestically, the RBA cut Australia's official overnight rate a further 0.25% to a new record low of 0.75%, the third cut in five months. Reflective of the sluggish domestic economy, retail sales numbers for the quarter came in at -0.1% and residential construction trends continue to weaken. This is despite initiatives designed to lift consumer spending and overall general economic activity, such as previous interest rate cuts and the Government's recent personal tax cuts. The broader Australian market as measured by the ASX300 had a more challenging month relative to its global peers slipping -0.4%, weighed down by weakness in both the Resources and the major banks.

The ex 20 segment of the market was relatively flat posting a return of +0.2%. The Materials sector had a soft month falling -1.3%, weighed down by the Miners in sympathy with lacklustre commodity prices. The Technology sector was also weak shedding -3.2% as some of the speculative froth evaporated with market darlings WiseTech and Afterpay down -25% and -20% respectively. Consumer Staples similarly had a challenging month, weighed down by both Bega Cheese and Costa Group which fell -21% and -18% respectively.

The AGM's of many companies held in Australia over the month also pointed to a more difficult domestic economy with most companies involved in sectors such as retail, construction and media pointing to flat to lower earnings in the current year due to softness in the Australian economy. On the positive side of the ledger, the Healthcare sector gained +3.4% with the sector boosted by Resmed which posted a strong quarterly set of numbers. Aged care operators Regis Healthcare and Estia both gained +10% on the likelihood of increased short-term Government funding to the aged care sector. The REITs sector continued to benefit from the current low interest rate environment, with the sector gaining +1.8% as investors search for income continues unabated.

The **QVE portfolio** had a soft month shedding -0.6%, with the portfolio weighed down by disappointing performance from Southern Cross Media and GWA Group which both fell after reporting mixed first quarter trading. Southern Cross Media's trading update revealed that advertising markets had started the year on a weak note with Australia's largest radio operator reporting revenue had fallen 8.5% for the first quarter. At its AGM held during the month GWA reported that softness in the housing market and customer destocking led to Q1 like-for-like sales to fall 8%. Despite this softness, the company stated that it remains on track for EBIT of \$80-85m, in line with market expectations and flat with the previous year as the company expects revenue synergies from newly acquired Methven, cost reductions and price increases to offset the softer housing market. We continue to remain attracted to both Southern Cross and GWA given their strong market positions and very capable management teams. Bank of Queensland (BOQ) also fell after reporting a weak FY19 result which was impacted by lower volumes and rising regulatory and compliance costs. However, as a regional bank we believe the bank remains well placed to benefit from the levelling of the playing field by the regulator to close the gap on its capital disadvantage relative to the major banks. We believe there is good upside to BOQ as new CEO George Frazis looks to refocus the bank on its more profitable businesses by streamlining many of its back office operations.

On the other side of the ledger Integral Diagnostics, Crown Resorts and Regis Healthcare all enjoyed a good month. Clydesdale Bank also recovered some lost ground with the stock rallying strongly during the month from what was, in our view, a hugely oversold situation and one which we had used to top up our holding in the bank. We believe Clydesdale - which rebranded to Virgin Money UK this month - with a valuation of 0.5x NTA and a PE of less than 6x next year's earnings, continues to represent compelling long term value.

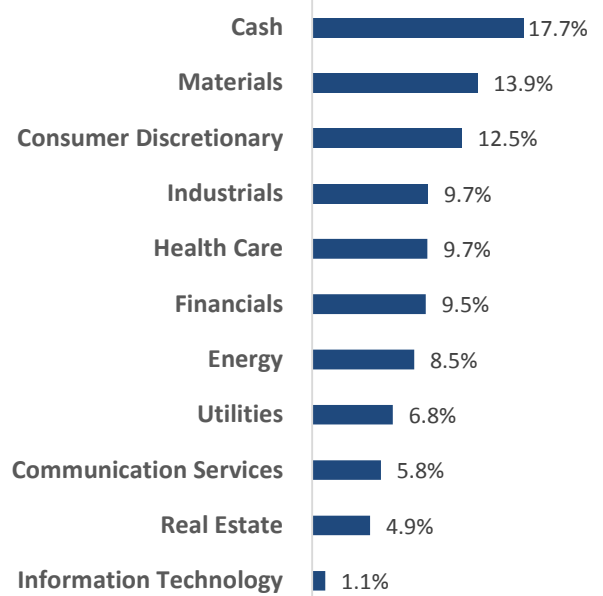
Over the month we continued to reduce our exposure to AGL – with the stock price firming thanks to its buyback - as we remain cautious about the impact of continued intense competition in the electricity market in the short term as well as with the company's long term earnings trajectory post the closure of Lidell in 2022. We took advantage of rises in the share prices of Regis Healthcare and Integral Diagnostics to take part profits given their strong runs. We also used weakness in the share prices of GWA, Ooh! Media, Bank of Queensland and Southern Cross Media to top up QVE's portfolio positioning in all of these well established, high-calibre companies while they are out of favour and at prices we believe are very attractive from a long term point of view.

As shown in the recent AGM season in Australia the slowing economic environment is impacting many companies while some sectors of the sharemarket – such as the IT and REIT sectors - continue to look over valued to us. We thus remain cautious and continue to focus on good quality companies that we believe represent good value while holding a good weighting in cash which is being used to make a share buyback with QVE's shares trading at a >10% discount to NTA.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Aurizon	AZJ	4.6%
Amcor	AMC	4.6%
Crown Resorts	CWN	4.5%
Sonic Healthcare	SHL	4.1%
Caltex	CTX	3.8%
Steadfast	SDF	3.6%
Tabcorp	TAH	3.5%
Orica	ORI	3.0%
Pact Group	PGH	3.0%
Bank of Queensland	BOQ	2.9%

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