

Monthly Investment Update & Net Tangible Assets Report

January 2020



NET TANGIBLE ASSETS (NTA)* as at 31 Jan 2020		QVE	QV EQUITIES	
NTA before tax		\$1.16	ASX Code	QVE
NTA after tax		\$1.14	Listed	22 Aug 14
			Shares on issue	271.3M
			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 31.01.20)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	+2.3%	+1.6%	+3.8%
3 Months	+3.9%	+2.8%	+5.5%
6 Months	+1.4%	+1.5%	+5.8%
1 Year	+9.4%	+7.3%	+25.3%
Since Inception Total Return p.a	+7.3%	+6.2%	+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

After surging earlier in the month on continued investor optimism, global equity markets pulled back late in the month over fears the impact the coronavirus could have on global economic growth. As a result, the MSCI World Index finished the month -0.6% lower. The US S&P500 which started the month in exuberant fashion as investors positioned for another year of easy monetary conditions ended flat as President Trump declared a US public health emergency. Europe's Stoxx50 and Japan's Nikkei felt the weight of the elevated risk aversion, shedding -2.7% and -1.9% respectively.

Fears of disruption to commodity demand in China as a result of the virus outbreak also impacted commodity prices over the month. The oil price dropped -13%, iron ore shed -6%, whilst copper, a bellwether for global economic activity, fell -10%. In addition, the AUD by virtue of its linkages to commodity prices endured a tough month falling -4% against the USD. The uncertainty helped the gold price enjoy a strong month as it rose +5%.

The Australian sharemarket as measured by the ASX300 enjoyed a very strong start to 2020 gaining +4.9% over the month and pushing through the 7,000 level for the first time in its history. The ex 20 segment of the market similarly enjoyed a strong month with a gain of +3.8%, albeit with mixed sector performance. The ex20 Resources edged out a return of +1.1%, courtesy of strength in the gold miners offsetting weakness amongst the base metal and energy plays. Within Industrials, the Healthcare sector was strong with Resmed gaining +14% after disclosing strong sales growth in the US, whilst Sonic Healthcare continued its strong run with a gain of +10% over the month. In an extension of the chase for the next big thing, many speculative companies within the Healthcare sector were similarly buoyant with speculative biotech plays such as Polynovo and Mesoblast returning +42% and +44% respectively over the month. In a similar fashion, the speculative tech plays such as Afterpay, Altium and Wisetech continued their ascents on very little news.

Over the month several companies such as Cimic, Downer and NIB all downgraded their earnings outlook for 2020 reflecting the difficult conditions in several sectors. Cimic fell -12% over the month after the construction company disclosed that it will abandon its Middle Eastern ventures and take a \$1.8b write down, stemming back from projects built during the Dubai property bubble at the turn of the century. Contractor Downer EDI shed -9% after cutting its full year profit guidance by \$65m due to cost blowouts on two of its projects. Private health insurer NIB shed -14% after downgrading its profit guidance on higher than expected medical claims. Coronavirus fears also weighed on the share prices of several tourism dependent companies with the likes of Qantas, Webjet, Sydney Airport, HelloWorld and Corporate Travel all enduring a challenging month.

The **QVE Portfolio** enjoyed a solid start to the year gaining +2.3%, albeit this was below the benchmark's runaway gains of +3.8%. Our caution to many of the REITs, which in our opinion continue look fully valued and the more speculative technology companies held back the portfolio's relative performance, however, we remain very comfortable with this positioning. The portfolio benefited from our holdings in good quality companies such as Steadfast, GWA, Sonic Healthcare, and Integral Diagnostics. Link enjoyed a strong month, jumping +16% after announcing the earnings accretive and synergistic acquisition of non-bank lender Pepper Group's European operations for \$322m. With the acquisition opening the door for growth in Europe, extending Link's core market reach outside of the UK.

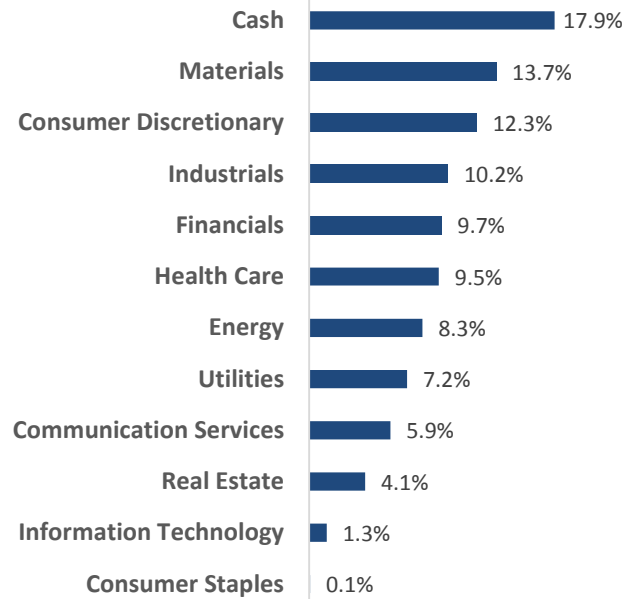
Over the month we took part profits in our holdings in Link and SkyCity following the strong run in the share prices of these companies. We used this cash to top up our holdings in good quality companies such as Crown Resorts and Sydney Airport. Both companies share prices came under pressure late in the month from fears linked to the coronavirus – although we believe their medium to long term outlook for both companies remains sound.

Given the continued mixed economic outlook going forward and the strong rally in sharemarkets over 2019 and the beginning of 2020 we believe that many stocks are beginning to look fairly stretched from a valuation point of view. In addition, the company reporting season in February will highlight that the growth outlook for many Australian-based companies remains fairly challenging, with increasing competition, slowing growth and increasing regulatory imposts impacting several sectors. We remain selective in our purchases and continue to hold a solid weighting to cash which we will seek to deploy on any weakness in the share prices of any good quality companies in the ex 20 sector of the stockmarket.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Crown Resorts	CWN	4.4%
Aurizon	AZJ	4.3%
Sonic Healthcare	SHL	4.3%
Caltex Australia	CTX	4.2%
Amcor	AMC	4.0%
Steadfast	SDF	3.7%
Tabcorp	TAH	3.4%
Virgin Money UK	VUK	3.3%
Pact Group	PGH	3.3%
GWA	GWA	3.2%

SECTOR ALLOCATION



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