

QV Equities Limited
(ASX: QVE)

Review

2 February 2023

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- 3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
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- 6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

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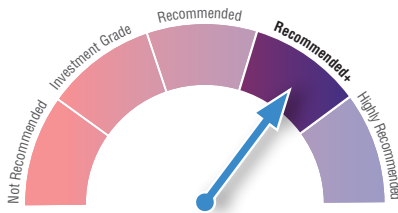
Contents

Product Summary.....	1
Investor Suitability	1
Recommendation	1
SWOT	2
Product Overview.....	3
Board & Investment Manager	4
Investment Process.....	6
Portfolio Positioning	9
Performance Analytics	11
Peer Comparison	14
Appendix A – Ratings Process	18
Appendix B – Managed Investments Coverage	19



Note: This report is based on information provided by the Manager as at September 2022.

Rating



Key Investment Information (as at 31 December 2022)

ASX Code	QVE
Share Price (\$)	0.905
Pre-tax NTA* (\$)	1.01
Post-tax NTA (\$)	1.04
Shares on Issue (m)	228.2
Market Cap (\$m)	206.8
Premium/Discount to Pre-tax NTA	-10.4%
Trailing 12-month Dividend Yield (net)	5.41%
Trailing 12-month Dividend Yield (grossed-up)	7.73%
Listing Date	August 2014
Investment Manager	Investors Mutual Limited
Investment Structure	Listed Investment Company
Dividend Frequency	Quarterly
Fees:	
Management Fee (p.a), ex GST	0.90% up to \$150m and 0.75% thereafter.
Performance Fee	na

*After tax on realised gains and before tax on unrealised gains.

Key Exposure

Underlying Exposure	The Company provides exposure to a diversified portfolio of predominantly ASX-listed securities outside the S&P/ASX 20 Index.
FX Exposure	The Company will be invested predominantly in ASX-listed securities and therefore will have little to no direct FX exposure.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

PRODUCT SUMMARY

QV Equities Limited (ASX: QVE) is a listed investment company (LIC) that seeks to provide investors exposure to a diversified portfolio of ASX-listed entities outside the S&P/ASX 20 Index with the goal of providing long-term capital growth and income. The Company listed in August 2014, raising \$184.6m through the issue of 184.6m fully paid ordinary shares at \$1.00 per share. Shareholders that participated in the IPO, also received a free attaching option for every share subscribed to with an exercise price of \$1.00 and an exercise date of 15 March 2016. As at 31 December 2022, the Company had a market cap of \$206.8m with 228.2m shares on issue. The portfolio is managed by Investors Mutual Limited (the "Manager"), an Australian based asset manager that was established in 1998 and had ~\$5b AUM as at 30 September 2022. The Manager is a value investor with the philosophy that an entity's share price will reflect its underlying value in the long-term and the Manager implements this investment philosophy across all its strategies. As a result the Manager seeks to invest in quality companies led by capable management, which are operating with competitive advantages, have recurring and predictable earnings with the ability to grow over time where securities can be purchased at an attractive price. The Manager has a fundamental, bottom-up approach with investment decisions based on the quality of a company and its earnings and the valuation. While cognisant of macro economic conditions and while the macro economic environment will have an impact on the earnings estimates and valuation of a company, the Manager does not seek to rotate in and out of sectors and stocks based on the macro economic conditions and does not seek to position the portfolio based on macro economic bets. The focus on ex-20 stocks seeks to provide investors exposure to a broader and more diversified range of investment opportunities than the S&P/ASX 300 Index where the top 20 stocks are heavily weighted to the Financial and Resource sectors. The Manager is paid an annual management fee of 0.90% p.a. (excluding GST) on the first \$150m of the NAV and 0.75% p.a. thereafter. No performance fee is applicable.

INVESTOR SUITABILITY

An investment in QVE is suitable for those investors seeking exposure to a value strategy and those seeking to diversify their portfolio from the top 20 ASX-listed stocks. As well as value, the Manager is focused on quality. A portfolio such as this will lag the benchmark index during periods when growth and momentum thematics are outperforming, however is expected to experience lower levels of volatility than the benchmark index and provide a level of capital preservation in falling markets. The portfolio has delivered on these characteristics. The portfolio offers investors exposure to a portfolio that provides a different return profile to benchmark index which is evidenced by the high tracking error of the portfolio. The Company has delivered a steadily growing fully franked dividend stream and is appropriate for those seeking a regular income stream with dividends paid quarterly. The Manager has a long-term investment horizon which is required to realise the full value of a value focused investment approach. As such, investors should also have a long-term investment horizon. We would suggest investors have an investment horizon of 5+ years.

RECOMMENDATION

Independent Investment Research (IIR) has reaffirmed the **Recommended Plus** rating for QV Equities Limited (ASX: QVE). QVE has been true to name as a value manager which has seen the portfolio underperform the benchmark index since listing with value stocks underperforming growth stocks in recent years. Despite the underperformance, the Company has continued to pay an increasing fully franked dividend and is one of the few LICs that pays a quarterly dividend. Given the expected interest rate rises in 2023, we would expect the portfolio to outperform a number of its peers with value stocks expected to outperform growth stocks in the current environment. The retirement of Anton Tagliaferro is a significant change to the investment team, however Simon Conn remains as a Co-Portfolio Manager of the QVE portfolio and has been with the Manager since its establishment in 1998 and therefore we are expecting there to be no changes the investment process and philosophy, however we will continue to monitor the investments and performance of the Company to ensure continuity of the strategy and process.

SWOT

Strengths

- ◆ The Manager's investment team is experienced with an average of 20 years' industry experience between the team of 12 with low levels of turnover of the senior team members promoting stability in the implementation of the investment process. We note that the Founder of the Manager, Anton Tagliaferro, has announced he will be retiring in March 2023. Given the senior investment team members have been with the Manager for an average 10 years we expect the implementation of the investment philosophy and approach to remain unchanged.
- ◆ The Manager has a disciplined investment process with clear investment parameters that ensure risk management within the portfolio construction process.
- ◆ The Company has been true to label with the Manager employing its value focused investment approach through all market conditions and has not wavered from its philosophy and strategy during periods of underperformance of value stocks.
- ◆ The Company moved from a semi-annual to a quarterly dividend commencing in FY21, providing shareholders a regular fully franked income stream. QVE is one of only a handful of LICs that provide a quarterly dividend.
- ◆ The Manager has a long-term investment horizon and seeks to generate capital and income growth over the long-term. In line with this philosophy, no performance fee is applicable.
- ◆ The Company had 2.5 years of dividend coverage based on the reserves as at 30 June 2022, the proposed FY23 dividend of 5.2 cents per share and the number on shares on issue at the date of this report. The Company also has a healthy franking credit balance for distribution to shareholders.
- ◆ The Board is majority independent with an independent Chairman, representing best practice. Further to this, the board has been stable.

Weaknesses

- ◆ The Company has traded at a discount to NTA consistently over the last four years, meaning those seeking to exit the Company have been unable to do so at fair value. The Company implemented a share buy-back program in September 2019, however this has had little impact in narrowing the discount to date. The discount has been highly correlated with the decline in NTA. This decline has been exacerbated by the underperformance of value stocks in recent years as growth and momentum stocks drove the market on the back of the favourable interest rate environment for this cohort of stocks. We expect the ability of the Company to pay a steadily increasing fully franked dividend, combined with the ability of the Company to show improved performance in a market more conducive to value investing may assist with the narrowing of the discount.
- ◆ The market environment in recent years has resulted in value stocks underperforming the broader market with growth and momentum stocks benefiting from the declining interest rate environment up until recently. This has resulted in the Company underperforming the benchmark index and not achieving its investment objective of outperforming the benchmark over rolling five-year periods.

Opportunities

- ◆ QVE provides investors the opportunity to access a value play in the listed environment with a focus on the domestic market.
- ◆ The Company provides the potential for an investor to diversify their broader portfolio with a portfolio of ex-20 stocks.
- ◆ The Company provides the potential for downside protection in falling markets with value focused strategies typically providing defensive characteristics.

Threats

- ◆ The Company may continue to trade at a discount for a sustained period of time. There has been a lot of agitation and activism regarding LICs that are trading at discounts resulting in a number of LICs restructuring or delisting. A prolonged discount may impact the longevity of the vehicle. At this stage the Company and the Manager remain committed to the LIC structure and do not envisage seeking to restructure the vehicle. With that said, the discount provides investors the potential to invest at a discount to the value of the portfolio, potentially providing additional capital gains in the event the discount can be narrowed.

- ◆ The Company typically pays out more dividends in a financial year than it generates in profit and as such a level of capital gains realisation is required to maintain and continue to grow the dividend. While the Company had a healthy dividend coverage as at 30 June 2022, the Company will need to continue to generate realised capital gains as the profits reserve only satisfies a portion of the dividend payment requirements. In the event the capital gains reserve is depleted, this may result in an increased risk of a dividend cut.
- ◆ During FY20, 1607 Capital Partners LLC (“1607”) became the largest shareholder of the Company, holding 10% of the shares on issue as at 30 June 2022. 1607 is an asset manager focused on closed-ended listed funds. While the Company has a relatively diverse shareholder base with the top 20 shareholders accounting for 26.7% of shareholders at 30 June 2022, in the event 1607 decide to reallocate funds, this may result in some volatility and further dislocation in the share price.

PRODUCT OVERVIEW

QV Equities Limited (ASX: QVE) is a listed investment company (LIC) that seeks to provide investors exposure to a diversified portfolio of ASX-listed entities outside the S&P/ASX 20 Index with the goal of providing long-term capital growth and income. The Company listed in August 2014, raising \$184.6m through the issue of 184.6m fully paid ordinary shares at \$1.00 per share. Shareholders that participated in the IPO, also received a free attaching option for every share subscribed to with an exercise price of \$1.00 and an exercise date of 15 March 2016. 27.9m options were exercised raising a further \$27.9m. The Company had a market cap of \$206.8m as at 31 December 2022.

The portfolio is managed by Investors Mutual Limited (the “Manager”), an Australian based asset manager that was established in 1998 and had ~\$5b AUM as at 30 September 2022.

The Manager is a value investor with the philosophy that an entity’s share price will reflect its underlying value in the long-term and the Manager implements this investment philosophy across all its strategies. As a result the Manager seeks to invest in quality companies led by capable management, which are operating with competitive advantages, have recurring and predictable earnings with the ability to grow over time where securities can be purchased at an attractive price.

The Manager has a fundamental, bottom-up approach with investment decisions based on the quality of a company and its earnings and the valuation. While the Manager is aware of the benchmark, the investment decisions are made on a stock specific basis. While cognisant of macro economic conditions and while the macro economic environment will have an impact on the earnings estimates and valuation of a company, the Manager does not seek to rotate in and out of sectors and stocks based on the macro economic conditions and does not seek to position the portfolio based on macro economic bets from a top-down perspective.

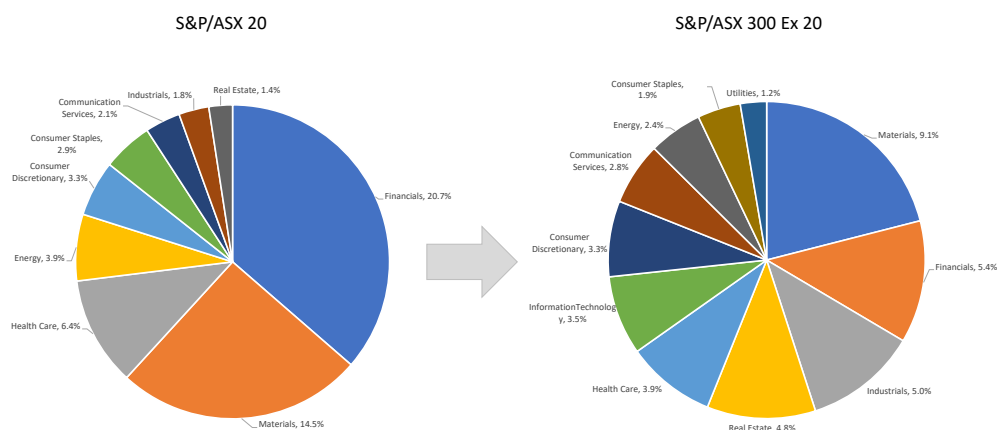
The Manager has a disciplined investment process with detailed portfolio construction guidelines that provide for in built risk management with the guidelines ensuring an adequate level of diversification in the portfolio by both stock and sector. The stock holding limitations ensure the risk associated with a single stock is limited to a maximum of 7.5% at any given time. This allows for winners to run given the limit of a 5% weighting to an individual stock at the time of investment, but ensures the portfolio is not heavily exposed to an individual stock at any given time with the Manager trimming the exposure in the event of share price strength resulting in the security accounting for in excess of 7.5% of the portfolio.

The Company seeks to generate capital and income growth over the long-term. The Company has delivered income growth to date through an increasing dividend, however recent portfolio declines have seen the NTA (before tax) back near IPO levels. While not tied to performance incentives for the Manager, an investment objective of the Company is to outperform the benchmark index over rolling five year periods. To date the Manager has not achieved this objective in any five year period. We do note that the Company has operated through a period in which value stocks have underperformed for a number of years. There will be periods over the long-term where value stocks underperform and outperform.

The focus on ex-20 stocks seeks to provide investors exposure to a much broader and diversified range of investment opportunities with the ASX 300 Index heavily weighted to the top 20 stocks which are in turn concentrated to the Financial and Resource sectors. The below chart shows the sector weightings of the two indices as at 30 September 2022 which highlights the differences in the diversification of the indices. Financials and Materials are the

largest sector weightings in both indices, however they represent 35.2% of the S&P/ASX 20 Index and 14.5% of the S&P/ASX 300 Ex 20 Index.

Sector Weighting of S&P/ASX 20 & S&P/ASX 300 Ex 20 Indices (as at 30 September 2022)



Source: Iress, IIR

The Manager has a long-term investment approach and therefore typically has low levels of portfolio turnover. The Company has had an average annual portfolio turnover of 21.5% over the last five financial years.

The Company pays a quarterly, fully franked, dividend with the Company moving from a semi-annual to quarterly dividend commencing in FY21. The Company has paid a steadily increasing ordinary dividend throughout its history with the Company proposing a dividend for the FY23 period of 5.2 cents per share, an 8% increase on FY22. The proposed dividend represents a dividend yield of 5.7% (grossed-up 8.2%) based on the share price as at 31 December 2022 of \$0.905. The Company has a healthy level of dividend coverage based on the Company’s reserves as at 30 June 2022 and a healthy franking credit balance to distribute to shareholders. Maintenance of the dividend will require the capital gains reserve to be maintained at a sufficient level.

The Manager is paid an annual management fee of 0.90% p.a. (excluding GST) on the first \$150m of the NAV and 0.75% p.a. thereafter. No performance fee is applicable. As at 30 June 2022, the Company had an MER of 1.18%.

BOARD & INVESTMENT MANAGER

Board

QVE’s Board is comprised of five Directors, three of which are independent of the Manager. The Independent Directors are joined by Anton Tagliaferro and Simon Conn, who have been managing the portfolio since the Company listed. The Directors all have significant experience in financial markets and/or funds management putting them in a good position to oversee the operations of the Company and the execution of the investment mandate.

The Board has been stable for the last six years with Jennifer Horrigan and Simon Conn the latest Directors to be appointed in April and June 2016, respectively. Peter McKillop and Anton Tagliaferro have been on the Board since the Company listed in 2014.

Board of Directors			
Name	Position	Independence	Appointed to Board
Peter McKillop	Chairman	Independent	April 2014
Jennifer Horrigan	Director	Independent	April 2016
Eamonn Roles	Director	Independent	August 2019
Anton Tagliaferro	Director	Non-Independent	April 2014
Simon Conn	Director	Non-Independent	June 2016

Investment Manager

The portfolio is managed by Investors Mutual Limited (the "Manager"). The Manager was established by Anton Tagliaferro in May 1998 and currently offers eight Australian equity funds (listed and unlisted) with ~\$5b AUM as at 30 September 2022. The Manager is currently 70% owned by Natixis Investment Managers, a company that employs a multi-affiliate approach with more than 20 active managers under its umbrella and \$1.2 trillion AUM as at 30 June 2022. Natixis Investment Managers is a wholly owned subsidiary of Group BPCE, a French based global financial services group. The remaining 30% of the Manager is owned by the Founder and employees of the Manager.

The investment team comprises 12 investment professionals led by Anton Tagliaferro, the founder of the Manager. The team has been relatively stable with an average tenure with the Manager of 9.25 years. While there has been some turnover in the analyst ranks, the senior team members have been stable. Anton has announced that he will be retiring in March 2023 with his responsibilities being transferred to other Portfolio Managers in the team. The transition has been planned and well executed with new Portfolio Manager's given plenty of time to transition into the role before Anton departs.

There are currently seven Portfolio Managers (excluding Anton) and four analysts. Portfolio Managers are allocated to investment strategies. Portfolio Managers draw upon the input from the dedicated sector analysts (which include both Analysts and Portfolio Managers) as well as potential input from the other Portfolio Managers. All investment strategies are based on the same firm-wide research approach and investment philosophy. Consequently, investment ideas for any particular investment strategy can flow from all members of the investment team.

As mentioned above, the Manager has eight strategies. Each strategy has two Lead Managers or a back-up manager in the event there is only one Lead Manager. Further to this, each sector and stock is covered by two analysts, a lead analyst and a back-up analyst. The back-up sector and stock analysts, combined with the dual Lead Manager or backup manager structure ensures continuity of process and a greater depth of input and views.

Analyst accountability for stock recommendations is relatively high, with variable remuneration linked directly to the performance of stocks that appear in the final portfolio.

With regards to QVE, the portfolio has historically been managed by Anton Tagliaferro and Simon Conn. With the retirement of Anton, Marc Whittaker will be taking on the role of Co-Portfolio Manager with Simon. The experience of the two Portfolio Managers is detailed below.

- ◆ **Simon Conn** - Simon has been a Portfolio Manager of the QVE portfolio since its inception in 2014. Simon was a founding member of the investment team, joining the Manager upon its establishment in 1998. Simon has been a Senior Portfolio Manager in the small and mid cap sector since 2002. In addition to QVE, Simon is currently the Lead Portfolio Manager for the Future Leaders Fund, the Smaller Companies Fund and the Small Caps Fund.
- ◆ **Marc Whittaker** - Marc joined the Manager in 2016 and is currently the Co-Portfolio Manager of the Future Leaders Fund and now the QVE portfolio. Marc is also responsible for analysing various small cap sectors including Health Care, Consumer Staples and Industrials. Marc also works with Anton and Tuan with respect to small cap opportunities for the Private Portfolio Fund. Prior to joining the Manager, Marc worked for 6 years as a Portfolio Manager at Milford Asset Management and has been working in Australian equities since he commenced his career in 1999.

Investment Team				
Name	Position	Strategy Responsibility	Industry Experience (years)	Tenure with Manager (years)
Anton Tagliaferro	Investment Director	All	36	24
Hugh Giddy	Senior Portfolio Manager & Head of Investment Research	Australian Share Fund, Concentrated Share Fund	30	12
Simon Conn	Senior Portfolio Manager - Mid & Small Caps	Future Leaders Fund, Smaller Companies Fund, QVE	27	24
Daniel Moore	Portfolio Manager	Australian Share Fund, back-up manager for Concentrated Share Fund	16	12
Michael O'Neill	Portfolio Manager	Equity Income Fund	15	12
Marc Whittaker	Portfolio Manager	Future Leaders Fund, Private Portfolio Fund, QVE	23	6
Tuan Luu	Portfolio Manager	Equity Income Fund	27	5
Tim Wood	Portfolio Manager & Head of ESG	All Industrials Share Fund	20	3
Lucas Goode	Analyst & Portfolio Manager	Smaller Companies Fund	13	4
Bruce Du	Analyst	na	17	6
Liam Cummins	Analyst	na	15	2
John Parathyas	Analyst	na	10	1

INVESTMENT PROCESS

Investment Philosophy

The Manager's investment philosophy is based on the belief that an entity's share price will reflect its underlying value in the long-term. Accordingly, the Manager seeks to target quality entities led by capable management, which are operating with competitive advantages, have recurring and predictable earnings with the ability to grow over time and whose securities can be purchased at an attractive entry price. The Manager believes that the underlying quality and regular earnings stream of an entity is important as it enables both the payment of dividends to shareholders and reinvestment into the business for future growth.

The Manager further believes that markets are not fully efficient and there will be times that the price of an entity's securities will not reflect what the Manager believes to be that entity's true underlying and intrinsic value. It is these situations which provide the Manager with the opportunity to build long-term portfolio positions in quality entities at attractive prices. Accordingly, a key focus of the Manager when researching and analysing entities for the portfolio will be quality and value.

The Manager has an active, bottom-up approach to identifying, researching and valuing entities. The Manager's approach is systematic, disciplined and focuses on finding entities that meet its investment criteria and then determining an appropriate valuation for those entities. The Manager believes that the underlying value of an entity is best determined by quantifying and valuing the sustainability, quality and growth potential of an entity's future earnings stream.

The Manager intends to select investments for the portfolio which it believes have one or more of the following characteristics:

- ◆ provide an absolute real return over the long term to investors;
- ◆ will pay a regular income stream; and
- ◆ are less volatile than the market in which they trade which should help minimise the impact of a falling market on the value of the investment.

Investment Process

When assessing investment opportunities, the Manager's team of analysts will undertake a comprehensive bottom-up approach in identifying, researching and valuing quality entities. The Manager's approach in identifying opportunities for the portfolio is systematic and

disciplined and focuses on finding those entities that meet the investment criteria set by the Company and then determining an appropriate valuation for those entities. This is the same approach that has been applied by the Manager since its establishment in 1998 in the management of its strategies.

The investment process can be broken down into five stages: (1) Initial screening; (2) Review process; (3) Assessment and valuation; (4) Quality score; and (5) Portfolio construction. The process is detailed below.

1) Initial Screening

The Manager runs a quality screening process on the investment universe as an initial filter to generate the Investment Grade universe, which comprises those stocks that warrant further consideration. Stocks are screened for market cap, debt levels and earnings. The Manager does not invest in speculative or pre-revenue companies.

2) Review Process

Following the initial screening phase, the Manager reviews the investment grade universe which has been identified each week to seek out potential opportunities which are likely to generate a return for the Portfolio. It is within this phase that the Manager will seek to generate a list of entities that will be subjected to in-depth, fundamental analysis in order to identify whether they are appropriate for the Portfolio.

3) Assessment & Valuation

The Manager subjects those entities which have been selected for further consideration in the review process to a rigorous analytical process and will place a particular emphasis on the business, the people and the price of the relevant entity. The detailed assessment of each entity is a five step process:

- ◆ Segmental analysis - analysis of the entity’s assets, income, areas of activity and geographic region;
- ◆ Company contact - open communication between senior management of the entity and the Manager’s analysts on a regular basis;
- ◆ Stock research reports - which provide a detailed snapshot of the company, its risks, strengths, micro and macro factors, growth profile and corporate governance details is prepared by the Manager;
- ◆ Valuation - the Manager undertakes an internal valuation of the entity considering, for example, EBITDA, net tangible assets, etc; and
- ◆ Price targets - entry and exit points for acquiring and disposing of securities in the entity as well as a guide to the potential return the Manager expects from a particular entity.

4) Quality Score

In this phase, the Manager scores each entity on a range of factors including management, financial strength and transparency of earnings. The quality scores are used to rank the Manager’s long term assessment of the entity. While scoring is subjective, it is internally peer reviewed by each analyst in the Manager’s investment team. The scores range from 4-20.

Quality Score	
Score Range	Quality
>13.5	Very High
12-13.5	High
10-12	Average
8.5-10	Low
<8.5	Low

The goal of the Quality Score is to rank stocks based on the analyst’s assessment of a company across four key areas with each segment being scored out of 5 across ten factors:

- ◆ Franchise/competitive position;
- ◆ Management;
- ◆ ESG; and
- ◆ Financial strength.

5) Portfolio Construction

The Manager will construct the portfolio based on the outcomes of the above analysis. The Company will typically hold 20 to 50 securities that fall outside the S&P/ASX 20 Index. In the event a security moves into the S&P/ASX 20 Index, the Manager has three years to dispose of the security. The three-year period is to account for the fact that some times stocks may enter and exit the S&P/ASX 20 Index within a short period of time.

The weighting of a stock in the portfolio is determined by an assessment of both fundamental risk and the valuation upside. The stocks are classified into four tiers as detailed in the below chart.

Portfolio Weighting Tiers	
	Valuation Criteria
Tier 1	Undervaluation: 15%+
Tier 2	Undervaluation: 10%+
Tier 3	Undervaluation: 5%+
Tier 4	Entering or exiting a position Undervaluation: <5%

The Tiers determine the position sizing with Tier 1 stocks being allocated the largest weighting. The Manager has maximum buy limits for stocks based on the allocated tiers, as detailed in the below table. The Manager has a maximum buy limit on all stocks of 5% of the value of the portfolio at the time of purchase with a maximum portfolio weighting of 7.5%. In addition to stock weighting limits the Manager applies sector weight limits with a maximum weighting to an individual sector of 15% above the benchmark index at the time of purchase which can drift to a maximum of 20% above the benchmark index weighting. The portfolio construction limits ensure a diversified portfolio is maintained by both stock and sector.

Maximum Buy Limits	
Tier 1	5%
Tier 2	3%
Tier 3	2%
Tier 4	Not purchased

The key investment guidelines for the portfolio in addition to the above portfolio construction guidelines are tabled below. The Manager can hold up to 25% cash and 5% of the portfolio may be invested in unlisted securities as long as the securities are proposed to be listed within 12-months of purchase. The Manager may also use derivatives, including futures and options, for the purposes of:

- ◆ offsetting risk;
- ◆ as an alternative to purchasing the physical security; or
- ◆ to seek to take advantage of opportunities to profit from time to time.

While not a substantial part of the portfolio, the Manager does write options over some stocks in the portfolio to generate additional income.

Key Investment Guidelines	
Investment Universe	S&P/ASX 300 Ex 20 Index
Number of Positions	Typically 20 to 50
Maximum Exposure to Individual Investments	Maximum 5% of NAV at time of purchase.
Cash Limit	Up to 25% of the portfolio can be held in cash.
Derivatives	Derivatives, including options, may be used for hedging purposes or to generate additional income or replicate underlying positions.
Unlisted Securities	Up to 5% of the portfolio may be invested in unlisted securities so long as the securities are proposed to be listed within a 12-month period from the time of investment.
Short Selling	Not permitted.
Borrowing	Not permitted.

PORTFOLIO POSITIONING

As detailed above, investments are based on fundamental, bottom-up analysis and are stock specific with the Manager holding stocks that meet its investment criteria. The Manager does not seek to outperform the benchmark index through holding over and under weight positions in stocks or sectors. As such, there is an element of conviction in stock selections as is highlighted by the top holdings chart below. Some of the smaller holdings may be underweight the benchmark index, however typically speaking the portfolio has an overweight position in stocks when compared to the benchmark index weightings.

Top 10 Holdings (as at 30 September 2022)				
Company Name	Ticker	QVE Portfolio	S&P/ASX 200 Index	Active Weight
Amcors PLC	AMC	5.55%	1.39%	+4.16%
Aurizon Holdings Limited	AZJ	5.52%	0.81%	+4.71%
Orica Limited	ORI	4.88%	0.76%	+4.12%
Ampol Limited	ALD	4.60%	0.87%	+3.73%
Coles Group Limited	COL	3.65%	0.00%	+3.65%
The Lottery Corporation Limited	TLC	3.35%	1.19%	+2.16%
Sonic Healthcare Limited	SHL	3.26%	1.87%	+1.39%
Skycity Entertainment Group Limited	SKC	3.22%	0.11%	+3.11%
Brambles Limited	BXB	3.05%	2.02%	+1.03%
Pact Group Holdings Ltd	PGH	2.94%	0.03%	+2.91%
		40.03%	9.04%	+31.0%

Source: Investors Mutual Limited, Iress.

The portfolio provides a differentiated portfolio to the benchmark which is further highlighted by the sector allocations. As at 30 September 2022, the largest sector allocation was to Materials with 16.1% of the portfolio allocated to this sector. While this was the largest sector weighting it is still heavily underweight the benchmark index weighting. We note that excluding cash the allocation increases to 18.5%, which represents a 3.8% underweight position to the benchmark index. The QVE portfolio was also heavily underweight the Information Technology, Financials and Real Estate sectors at 30 September 2022. The most significant overweight position was to Energy through its positions in four energy stocks, the largest of which being in Ampol Limited (ASX: ALD).

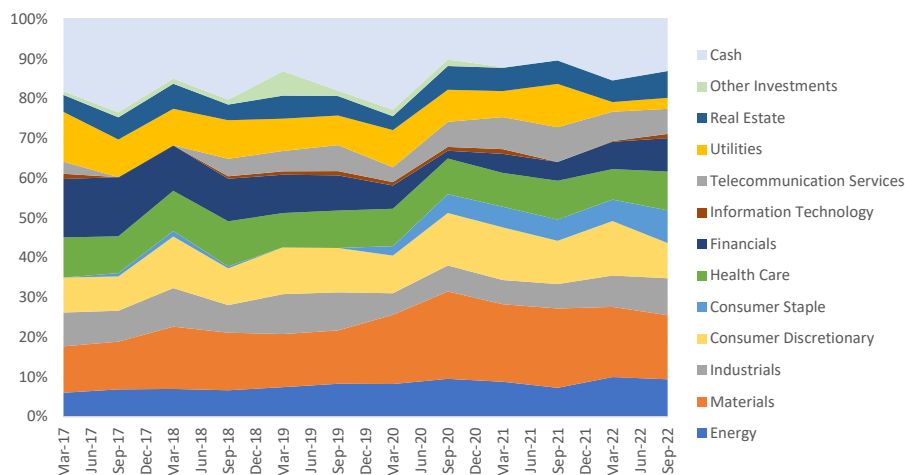
Sector Allocation (as at 30 September 2022)			
Sector	QVE Portfolio	S&P/ASX 300 Ex 20 Index	Active Weight
Communication Services	6.30%	4.24%	+2.07%
Consumer Discretionary	8.84%	7.44%	+1.41%
Consumer Staple	8.23%	4.61%	+3.62%
Energy	9.39%	5.08%	+4.31%
Financials	8.41%	14.25%	-5.84%
Health Care	9.76%	8.95%	+0.81%
Industrials	9.29%	10.24%	-0.94%
Information Technology	1.07%	7.91%	-6.84%
Materials	16.12%	22.37%	-6.26%
Real Estate	6.75%	11.82%	-5.07%
Utilities	2.80%	3.10%	-0.30%
Cash	13.04%	0.00%	+13.04%

Source: Investors Mutual Limited

The below chart shows the sector allocation of the portfolio from 31 March 2017 to 30 September 2022. As is highlighted, the portfolio is diversified by sector with most GICs sectors represented on a regular basis. As is evident from the below chart, the Company has maintained a relatively high cash balance over the period.

Materials is the largest sector in the benchmark index and has been one of the larger exposures of the portfolio over QVE's history. We note that the Manager does not often invest in mining stocks and when it does it invests in companies with an established earnings profile. The Manager does not invest in pre-revenue or speculative companies.

Historical Sector Allocation (31 March 2017 to 30 September 2022)*

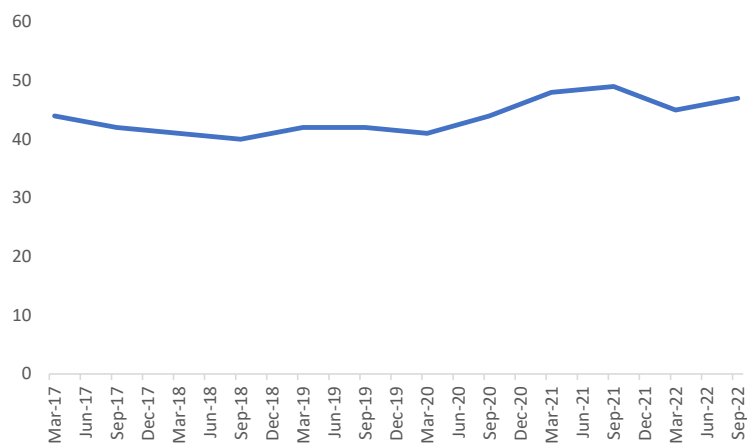


*Based on semi-annual allocations as at 31 March and 30 September.

Source: Investors Mutual Limited

The portfolio is expected to typically comprise 20 to 50 positions. This has been the case as is highlighted by the below chart with the portfolio typically being at the higher end of the number of positions guide. With a maximum individual investment limit of 5% of the portfolio at cost, a maximum cash weighting of 25% and the risk management employed in the portfolio, we would expect the portfolio to typically have 40+ positions.

Number of Stocks in the Portfolio (31 March 2017 to 30 September 2022)



Source: Investors Mutual Limited

Portfolio turnover has historically been low and this is expected to continue given the long-term nature of the investment approach with patience required for the full impact of value investing to be realised.

Annual Portfolio Turnover

FY17	20.4%
FY18	18.7%
FY19	18.5%
FY20	23.4%
FY21	21.5%
FY22	26.3%
Average	21.5%

Source: Investors Mutual Limited

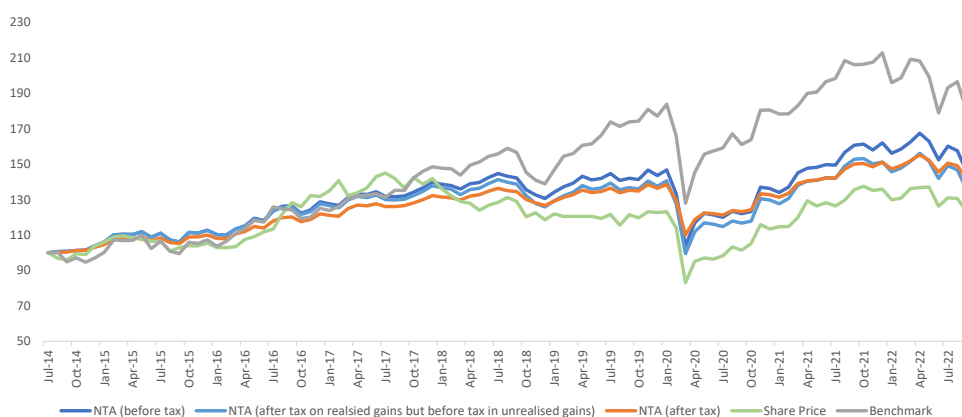
PERFORMANCE ANALYTICS

The below provides an analysis of the performance of the QVE NTA and share price compared to the benchmark index (S&P/ASX 300 Ex 20 Accumulation Index). In the below Indexed Cumulative Total Return chart we have provided the NTA on a before tax, after tax on realised gains but before tax on unrealised gains and after tax. For the purposes of our performance analysis in this section, we will focus on the NTA (before tax) as this provides the performance of the portfolio after fees but before tax, providing the performance of the portfolio on a like-for-like basis with the benchmark index which is pre-tax.

Over its history the NTA and share price have underperformed the benchmark index. We note that the Company does not charge a performance fee and therefore is not seeking to outperform to generate additional fees, however, one of the Company’s objectives is to outperform the benchmark index over a rolling five-year basis.

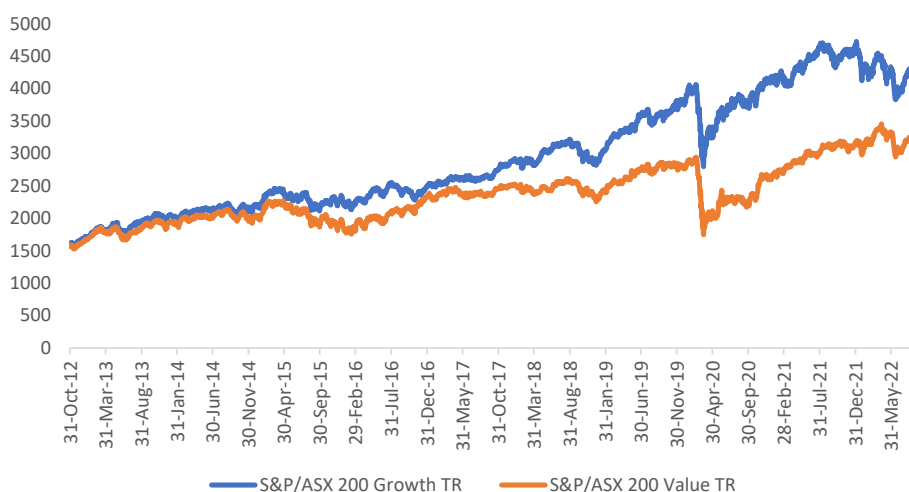
The NTA (across all measures) began to underperform the benchmark in August 2017 and has continued to underperform during a period where value stocks more broadly underperformed the broader market. We have provided the performance of the S&P/ASX 200 Value and Growth Total Return Indices below, which highlights the underperformance of value stocks over the period.

Indexed Cumulative Total Returns (to 30 September 2022)



Source: QVE, Iress, IIR.

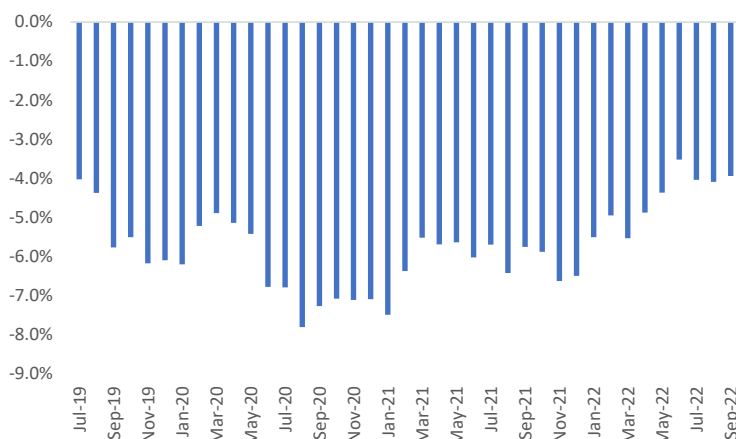
S&P/ASX 200 Value & Growth Total Return Index Performance (to 30 September 2022)



Source: S&P Down Jones Indices

The underperformance of value stocks in recent years has led to the portfolio underperforming the benchmark index over rolling five-year periods in all periods since listing to 30 September 2022.

QVE NTA (before tax) Excess Return over the Benchmark over Rolling Five-Year Periods (Since listing to 30 September 2022)



The below table shows the performance metrics of the Company compared to the benchmark index as at 30 September 2022. While the NTA (before tax) has underperformed the benchmark index over the longer-term, the NTA (before tax) outperformed over the 12-months to 30 September 2022 with an increasing interest rate environment proving beneficial for value stocks.

With a quality and value investment approach, you would expect the portfolio to experience lower volatility than the market. This has been the case for QVE with the NTA (before tax) experiencing lower volatility than the benchmark index across all periods. The share price has also experienced periods of lower volatility despite the dislocation from the NTA. The Company provides exposure to a portfolio that provides a differentiated return to the benchmark index as is evidenced by the relatively high tracking error over all periods.

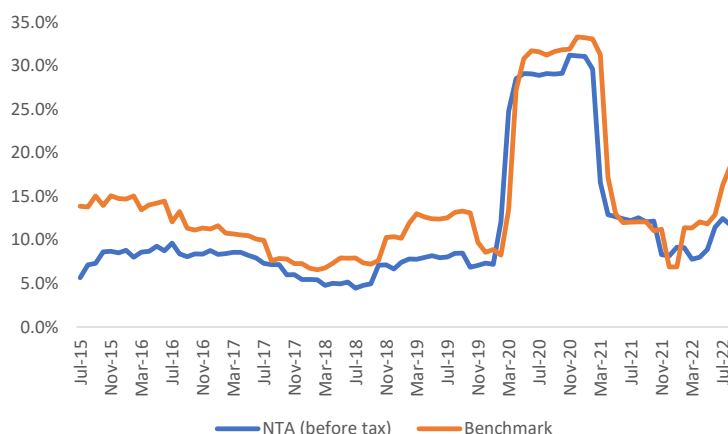
Performance Metrics to 30 September 2022

	NTA (before tax)	NTA (after tax on realised gains but before tax on unrealised gains)	Share Price	S&P/ASX 300 Ex 20 Acc. Index
Cumulative Total Returns:				
1 year	-9.4%	-11.3%	-9.2%	-12.6%
3 year (p.a.)	0.8%	-0.3%	0.5%	1.2%
5 year (p.a.)	2.0%	0.8%	-2.1%	5.9%
Since Listing (p.a.)	4.7%	3.8%	2.6%	7.5%
Standard Deviation:				
1 year	13.7%	13.3%	12.6%	19.5%
3 year (p.a.)	20.0%	19.8%	22.3%	22.3%
5 year (p.a.)	16.0%	15.9%	18.4%	18.4%
Since Listing (p.a.)	13.3%	13.2%	15.7%	16.0%
Sharpe Ratio:				
1 year	-0.97	-1.14	-1.04	-0.85
3 year (p.a.)	-0.15	-0.21	-0.15	-0.12
5 year (p.a.)	-0.12	-0.19	-0.32	0.11
Since Listing (p.a.)	0.06	-0.01	-0.08	0.22
Tracking Error:				
1 year	9.3%	9.6%	9.3%	na
3 year (p.a.)	7.2%	7.3%	9.2%	na
5 year (p.a.)	6.7%	6.6%	9.5%	na
Since Listing (p.a.)	6.6%	6.6%	11.3%	na

As mentioned above, we would expect the portfolio to experience lower volatility than the benchmark index given the focus on quality and value. Based on the performance metrics over varying periods to 30 September 2022, the portfolio demonstrated lower volatility than the benchmark index, however this is at a point in time. We look at the rolling 12-month standard deviation below to determine if the portfolio consistently experiences lower volatility

than the market. As the chart demonstrates, the portfolio has consistently experienced lower volatility than the benchmark index over its history.

Rolling 12-month Standard Deviation (since listing to 30 September 2022)



Another feature of a value strategy is that it is expected that the portfolio will provide a level of capital preservation in down markets. The below looks at the market capture ratios for the QVE portfolio, represented by the NTA (before tax), and the share price. The market capture analysis shows that the portfolio has provided a level of protection in down markets with the portfolio falling less than the benchmark index across all periods to 30 September 2022. The portfolio gives up some of the upside to achieve this with an Up Market Capture ratio of less than 1.0 across all periods.

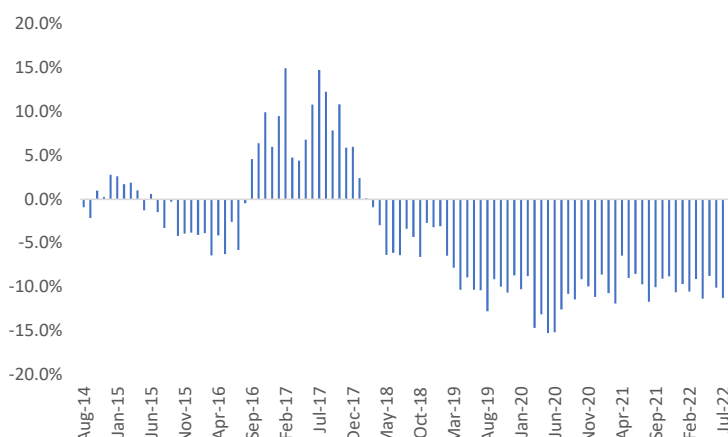
Market Capture Analysis (as at 30 June 2022)

	NTA (before tax)	Share Price
Down Market Capture Ratio		
1 year	0.56	0.56
3 year	0.72	0.71
5 year	0.74	0.83
Since Listing	0.65	0.57
Up Market Capture Ratio		
1 year	0.43	0.43
3 year	0.71	0.69
5 year	0.64	0.55
Since Listing	0.64	0.5
Market Capture Ratio		
1 year	0.76	0.77
3 year	0.98	0.97
5 year	0.87	0.66
Since Listing	0.99	0.87

Premium/Discount

The Company has traded at a discount to the NTA (before tax) for a large part of its history. The discount is highly correlated to when the NTA started to underperform the market. The Company has implemented a number of measures in an attempt to narrow the discount, including increasing the dividend frequency from semi-annual to quarterly and the Company commenced a share buy-back program in September 2019. While these measures have stopped the discount from widening further, there has been limited impact on narrowing the discount to date. We expect the continued growth in dividends combined with improved performance and strong shareholder engagement will be the keys to narrowing the discount.

Historical Premium/Discount (based on month-end data)



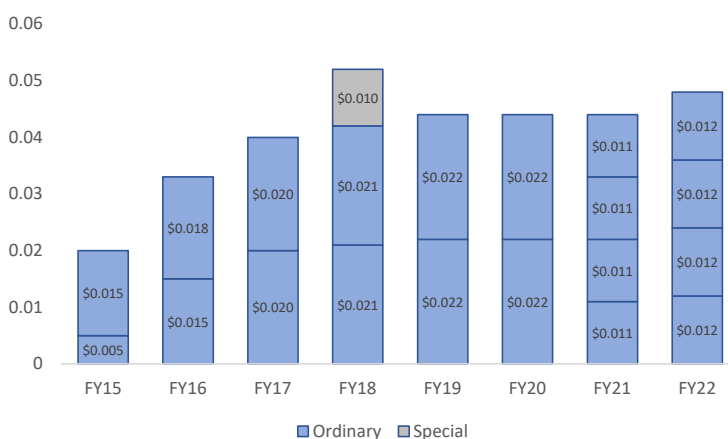
Dividends

The Company has paid a steadily increasing ordinary fully franked dividend since listing. As detailed below, the Company moved from a semi-annual dividend to a quarterly dividend in FY21. The Company has paid one special dividend throughout its history.

On 19 October 2022, the Company announced a proposed quarterly dividend of 1.3 cents per share for FY23, with a total dividend of 5.2 cents per share, fully franked. This would represent an 8.3% increase on the FY22 dividend and represents a dividend yield of 5.7% based on the share price at 31 December 2022 (8.2% grossed-up).

The Company pays dividends from the capital gains reserve and profits reserve. The capital gains reserve represents realised gains from long-term equity investments while the profits reserve represents transfers from retained earnings. As at 30 June 2022, the Company had 2.5 years of dividend coverage based on the current number of shares on issue and the proposed FY23 dividend of 5.2 cents per share. The Company also had a healthy level of franking credits.

Dividends Declared by Financial Year



PEER COMPARISON

The below provides a comparison of the performance and key features of QVE and its peer group. All LICs and LITs in the peer group have a focus on mid and small cap domestic listed securities. QVE is one of the LICs/LITs that has a longer track record with OPH being the newest LIC/LIT, listing in 2018. We note that OPH converted the unlisted fund to a listed trust and therefore has a track record that extends before 2018, however the performance metrics only refer to the performance of the trust as a listed trust.

QVE is at the smaller-end from a market capitalisation perspective with MIR being the largest LIC/LIT in the peer group with a market capitalisation of \$546.6m at 30 September 2022.

LIC/LIT Peer Group							
LIC/LIT	Ticker	Structure	Listing Date	Market Cap (\$m)*	Investment Universe	Investment Style	Dividend Frequency
ECP Emerging Growth Limited	ECP	LIC	Aug-14	18.3	Ex 50	Quality, Growth	Semi-annual
Forager Australian Shares Fund	FOR	LIT	Dec-16	139.0	All cap mandate but investments have historically been skewed to mid and small cap stocks.	Value	Semi-annual
Mirrabooka Investments Limited	MIR	LIC	Jun-01	546.6	Ex 50	Quality, Value	Semi-annual
Ophir High Conviction Fund	OPH	LIT	Dec-18	494.6	Ex 50	Quality, Value	Semi-annual
QV Equities Limited	QVE	LIC	Aug-14	206.1	Ex 20	Quality, Value	Quarterly
WAM Research Limited	WAX	LIC	Aug-03	277.3	All cap mandate but investments have historically been skewed to mid and small cap stocks.	Value, Growth	Semi-annual

*As at 30 September 2022.

From a fee perspective, QVE's fees are at the lower-end of the scale given no performance fee is charged. Only QVE and MIR do not charge a performance fee. We view the lack of performance fee as a positive given the nature of the QVE investment approach.

Peer Group Fees				
LIC/LIT	Ticker	Management Fee, ex GST	Performance Fee	Performance Hurdle
ECP Emerging Growth Limited	ECP	1.00%	20%	8% p.a.
Forager Australian Shares Fund	FOR	0.91%	10%	8% p.a.
Mirrabooka Investments Limited	MIR	0.46%	na	na
Ophir High Conviction Fund	OPH	1.12%	20.50%	50% ASX Small Ordinaries Acc Index/50% ASX Midcap 50 Acc Index
QV Equities Limited	QVE	0.90% for first \$150m and 0.75% thereafter	na	na
WAM Research Limited	WAX	1.00%	20%	ASX All Ordinaries Acc Index

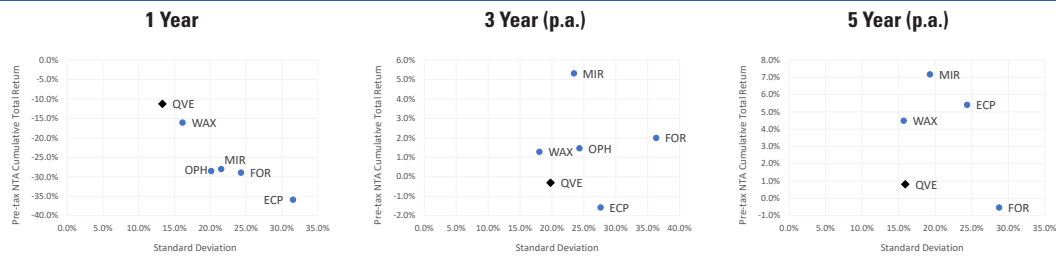
Over the three and five years to 30 September 2022, the QVE portfolio (represented by the pre-tax NTA which includes tax on realised gains) has lagged a number of its peers, however has outperformed its peers over the 12-months to 30 September 2022, with the QVE portfolio declining significantly less than its peers. While QVE has underperformed on an absolute basis over the medium-to-long term, the portfolio has experienced lower levels of volatility when compared to most of its peers. This is further highlighted by the risk return charts below.

Pre-tax NTA*/NAV Performance Metrics (to 30 September 2022)						
	ECP	FOR	MIR	OPH	QVE	WAX
Cumulative Total Pre-tax NTA*/NAV Returns:						
1 year	-35.9%	-28.9%	-28.0%	-28.5%	-11.3%	-16.0%
3 year (p.a.)	-1.6%	2.0%	5.3%	1.5%	-0.3%	1.3%
5 year (p.a.)	5.4%	-0.5%	7.2%	na	0.8%	4.5%
From 31 August 2014 (p.a.)	0.4%	na	0.6%	na	0.3%	0.5%
Standard Deviation:						
1 year	31.5%	24.3%	21.5%	20.1%	13.3%	16.1%
3 year (p.a.)	27.6%	36.3%	23.4%	24.3%	19.8%	18.0%
5 year (p.a.)	24.4%	28.7%	19.3%	na	15.9%	15.7%
From 31 August 2014 (p.a.)	20.7%	na	16.3%	na	13.3%	12.8%

*After tax on realised gains but before tax on unrealised gains.

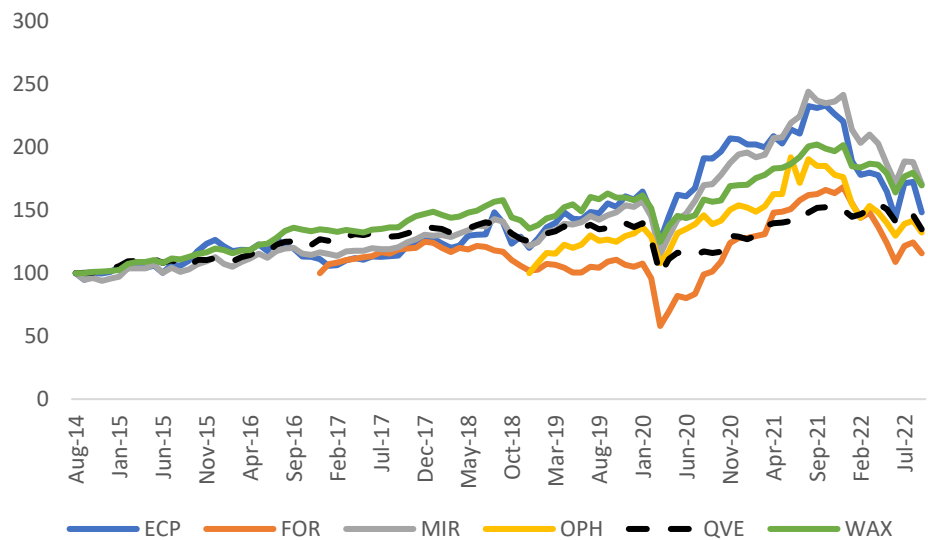
The below highlights the risk/return of the peer group portfolios (represented by the pre-tax NTA, which includes tax paid on realised gains but before tax on unrealised gains) over the one, three and five year periods to 30 September 2022. The charts highlight that QVE has offered an attractive risk/return profile when compared to its peers over the 12-month period, albeit with negative returns. While the return has lagged over the longer-term periods, the QVE portfolio has experienced low volatility when compared to the peer group portfolios.

Risk/Return Charts (to 30 September 2022)



The below chart shows the cumulative total pre-tax NTA returns of the peer group since QVE was listed in August 2014. Of the five other LICs/LITs in the peer group, three have a history back to August 2014, while OPH and FOR were listed after this date. QVE's pre-tax NTA has lagged the peer group since late 2019 with the portfolio underperforming post the COVID-19 market shock with the traditional value stocks out of favour as interest rates declined to emergency levels. However as highlighted above, with the changing economic environment, value stocks have been back in favour with QVE outperforming over the short-term.

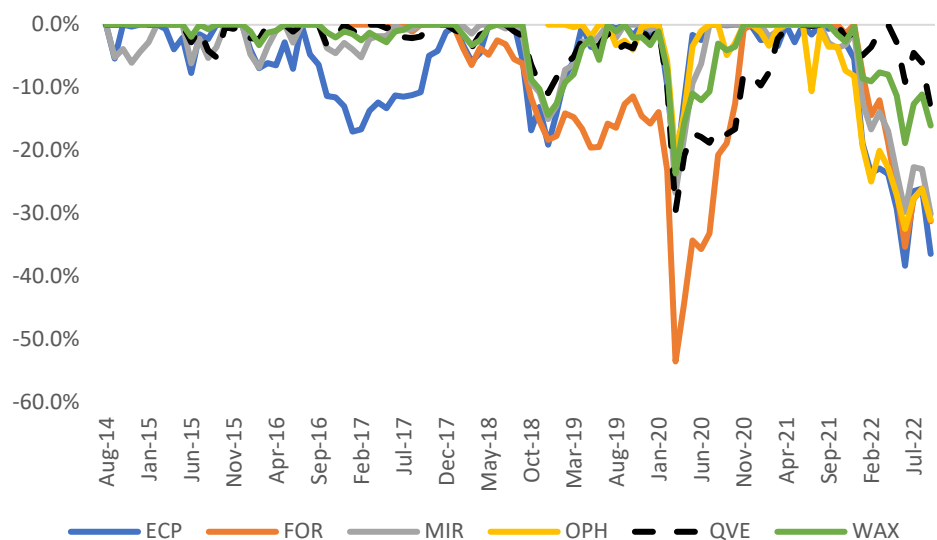
Cumulative Total Pre-tax NTA*/NAV Return



*After tax on realised gains but before tax on unrealised gains.

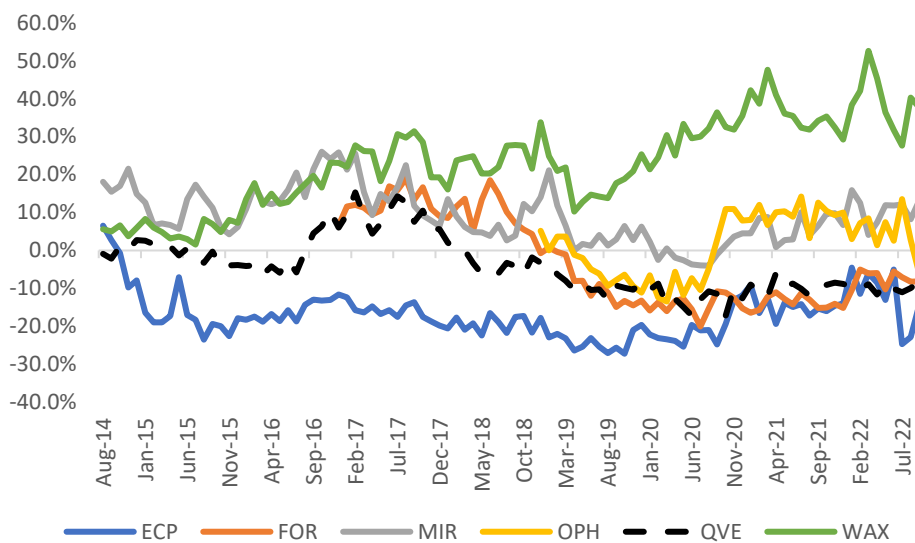
From a drawdown perspective, QVE's pre-tax NTA experienced larger drawdowns than a number of its peers in 2020 and took longer to recover, however has experienced much lower drawdowns than the peer group in the 2022 market declines.

Drawdown Analysis



QVE has traded at a discount to pre-tax NTA sine 2018 and has traded at one of the larger discounts in recent years, however while the discount still remains it appears to have steadied. WAX continues to trade at a substantial premium with MIR being the only other LIC/LIT trading at a premium at 30 September 2022.

Historical Premium/Discount to Pre-tax NTA* of Peer Group

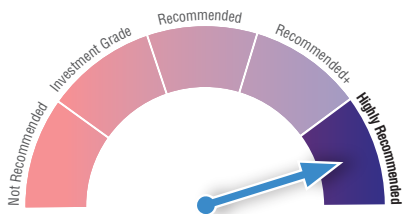
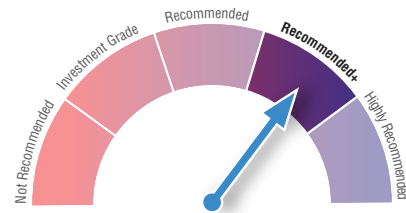
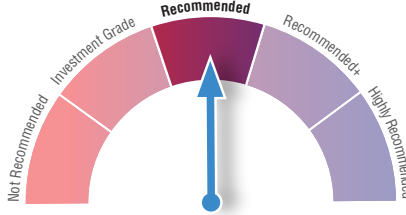
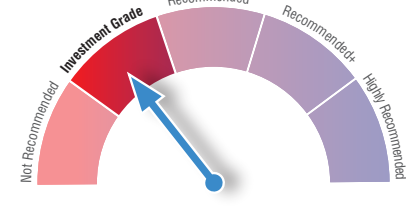
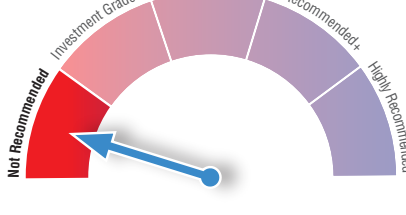


*Includes tax paid on realised gains.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

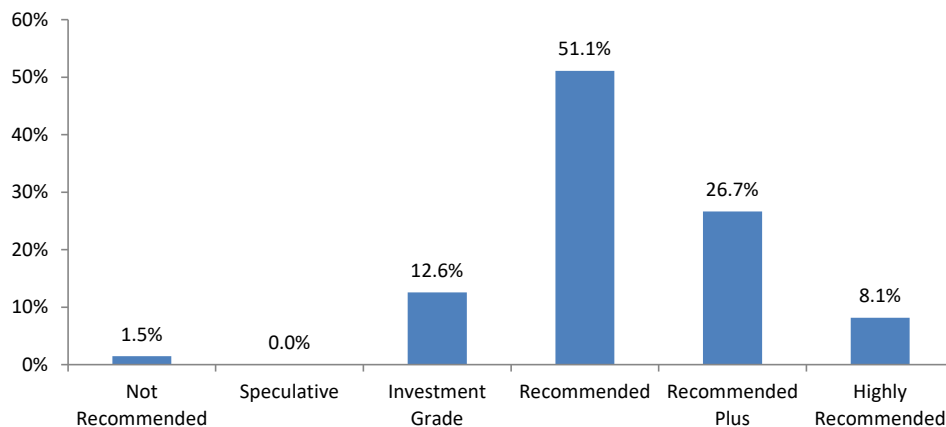
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>70–79</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Investment Grade</p> 	<p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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