

Monthly Investment Update & Net Tangible Assets Report

September 2020



NET TANGIBLE ASSETS (NTA)* as at 30 September 2020		QVE	QV EQUITIES	
NTA before tax		\$0.92	ASX Code	QVE
NTA after tax		\$0.97	Listed	22 Aug 14
			Shares on issue	254.2M
			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 30.09.20)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-1.1%	-0.5%	-3.6%
3 Months	+0.5%	+0.9%	+2.3%
6 Months	+17.4%	+11.9%	+25.9%
1 Year	-14.1%	-8.9%	-7.3%
Since Inception Total Return p.a	+3.3%	+3.5%	+8.1%

*The before and after tax NTA numbers relate to the provision for tax on net profit in addition to deferred tax on the unrealised gains/losses 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/losses 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 five consecutive months of strong gains the MSCI World Index recorded its first monthly loss since the pandemic broke out in March with a loss of -3% in September. Investors confronted much uncertainty with the reality of a second coronavirus wave through both the US and Europe, ambiguity on the prospects for additional stimulus measures from Governments around the world, coupled with concerns of overheating in the stockmarket, particularly in the technology sector. The US S&P500 index fell -4% over the month from its record high reached in August. The NASDAQ index fell -5% and fell briefly into correction territory as concerns over the rich valuations for technology stocks outweighed some of the unbridled enthusiasm. Similarly, Europe's Stoxx50 fell -4% as the continent weighs the prospects for re-introducing lockdown measures amidst a backdrop of disappointing Eurozone economic data, evidenced by declining PMI Services data which fell into contractionary territory with a reading of 47.6 (from 51.9). The US Dollar gained +3% against the Aussie Dollar, whilst the Gold price pushed through \$2,000 for the first time as demand for safe haven assets remained.

Weighing on sentiment was the stalemate between the Democrats and Republicans over the new US stimulus package. Passing any new stimulus bills has become increasingly complicated as the November election approaches with little clarity given the split electorate and the increasingly insidious political backdrop in the US. Similarly in Australia the scaling back of both the JobKeeper and JobSeeker allowances from late September weighed on local sentiment at a period when the economy has only regained half of the workforce lost from pre-pandemic levels. Encouragingly, Australia appears to have the second wave of the coronavirus infections largely under control. In commodity markets, the oil price fell over -10% in September as the future demand outlook remains subdued, whilst the iron ore price shed -4% following its record run on supply curtailments in Brazil due to the pandemic.

In line with its global peers, the broader Australian sharemarket as measured by the ASX300 broke a five-month winning streak by falling -3.6% in September, with both the major Banks and Resources companies weighing heavily on the market. Similarly, the ex20 segment of the market endured a challenging month falling -3.6%. All sectors finished the month lower, with the exception of the Healthcare sector which finished +1% higher, buoyed by defensive companies with recurring cashflows such as Sonic Healthcare. The ex20 Resources sector fell -7% as weaker base metal prices weighed on the mid cap mining sector, whilst the Energy sector fell -11% in sympathy with weakness seen in the oil price. The Financials sector fell -10% led by QBE Insurance falling -19%. This was after the Court of England and Wales ruled in favour of policy holders regarding the interpretation of their policy wording for disease compensation, meaning the company is liable for compensation as businesses in the UK went into lockdown. IOOF fell -26% over the month following announcements of its \$1.4b takeover of wealth giant MLC and a significant capital raising shortly thereafter. In addition, Zip Co the BNPL provider fell -33% after online payments giant PayPal announced the launch of its Pay-in-4 credit platform – heralding its entrance into the BNPL space. The Technology sector fell -6%, weighed down by sector heavyweight AfterPay which fell -13% off the back of the PayPal news, rendering its perceived unbridled growth outlook in the BNPL space questionable. The Consumer Staples sector fell -7% as sector heavyweight A2 Milk fell -17% after revealing significant disruptions to its 'daigou' reseller distribution channels through China as a result of COVID-19 and infant formula producer Bubs fell -19% in sympathy.

The **QVE Portfolio** had a mixed month shedding -1.1%, although this was far better than the benchmark's fall of -3.6%. The portfolio's caution to many of the highly volatile Resource companies, in addition to much of the speculative froth within the Technology sector – notably the BNPL plays, held the portfolio in good stead over the month. Ampol and Orica had a sub-par month although we maintain our positive view in these well established and well managed companies. Encouragingly, our holdings in SkyCity, Sonic Healthcare, Orora, Amcor and Nine Entertainment all finished the month with their share prices firmly higher. We used the ensuing volatility to our advantage by trimming our holdings in stocks such as Sonic Healthcare and SkyCity into strength, using the cash opportunistically to add to our holdings in Alumina and Metcash and buying a stake on weakness in Cleanaway - one of Australia's largest waste management companies.

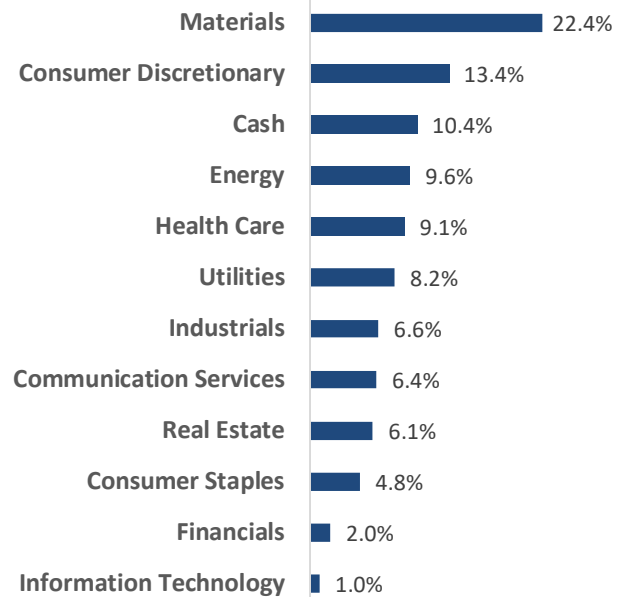
Major uncertainties remain about the sustainability of economic growth as government income support and self-imposed bank interest deferrals are scheduled to taper in the next 6 months. Given Australia's strict travel restrictions, we anticipate unemployment will remain relatively high going into 2021 and given record household debt in Australia, this could affect the level of demand across certain sectors of the economy as well as cause a substantial pick up in non-performing bank loans.

We thus maintain a cautious stance and are continuing to focus on companies that, in our view, have a strong franchise, experienced capable management and a resilient business that can continue to generate healthy cash flows through uncertain economic times. While the portfolio's performance continues to lag the current market, we remain comfortable with the way the portfolio is positioned in light of the uncertainties ahead.



KEY EQUITY INVESTMENTS	ASX Code	Weight
Amcor	AMC	5.0%
Crown Resorts	CWN	4.6%
AusNet	AST	4.6%
Orica	ORI	4.5%
Aurizon	AZJ	4.5%
Ampol	ALD	4.5%
Tabcorp	TAH	4.4%
Pact	PGH	3.9%
Sonic Healthcare	SHL	3.6%
Coles	COL	3.5%

SECTOR ALLOCATION



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Release authorised by Company Secretary, Zac Azzi.

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