

08 July 2015

## A note from the Chairman

Sentiment in investment markets has swung widely in the past six months.

From January to April, the dominant view was Europe would suffer a recession with deflation. As a result, interest rates plummeted - and the "hunt for yield" drove share prices higher.

By May, economic data from Europe had come in stronger than had generally been expected. With continuing gains also in US job numbers, market interest rates rose sharply and most share markets sold off.

In late June, the Greek financial crisis, which had been building up for years, came to a head; volatility intensified; bond yields dropped; and shares weakened.

No-one can say with confidence how the Greek financial crisis will play out or how it will affect investment markets. Greece's indebtedness is huge; and its government has been extremely confrontational in its dealings with creditors.

On the other side of the coin, however, the risks of financial contagion spreading from Greece to other members of the euro-zone are likely to be significantly less than they would have been several years ago when the euro-zone as a whole was experiencing a sovereign debt crisis.

Perhaps the safest view to take is that, unless Greece's intransigence is followed by copy-cat action elsewhere in Europe, the financial crisis in Greece isn't likely to result in sustained major damage to the European or global economy.

As and when Greece's financial problems slip from world-wide attention, the prevailing sentiment in investment markets could well return to where it was in May and early June - leaving investors mainly focusing again on two main issues.

The first is how much will the US central bank (the Fed) raise its cash rate over the next couple of years. At this stage at least, the Fed is saying any such moves would likely be gradual.

The second is what effects increasing bond yields might have on share markets. Experience suggests when bond yields move modestly higher and the cause is stronger economic growth (and rising profits), shares can continue to move higher.

The volatility in investment markets and the short-term gloom created by the Greek crisis will provide opportunity for patient and skilled investors, such as the Manager of QV Equities, to find stocks that offer prospect of good returns over the medium and long term.



**Don Stammer**  
*QV Equities Chairman*

**For further up to date information on the company and its investment philosophy, please go to: [www.qvequities.com](http://www.qvequities.com)**

# Investment Update & Net Tangible Assets Report



JUN 2015

NET TANGIBLE ASSETS (NTA)	Pre Option Dilution	Diluted for QVE Options
NTA before tax	\$1.0536*	\$1.0281**
NTA after tax	\$1.0346*	\$1.0181**

\*The NTA per share is as at 30 June 2015. The before and after tax numbers relate to the provision for deferred tax on the unrealised 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. \*\*This NTA per share is calculated allowing for the dilution effect assuming all outstanding options are exercised.

PERFORMANCE	QVE's NTA after tax	BENCHMARK
1 Month	-1.9%	-6.9%
Since Inception (22 Aug 14)	+6.8%	+2.4%

- Global equity markets ended the month weaker on news of a breakdown in negotiations between the Greek Prime Minister and the nation's creditors, with the likelihood of Greece exiting the Euro Zone looking a reality. This sparked a sell-off across most global equity markets with the MSCI World Index down -2.5%, the US S&P500 and Nikkei both down circa -2%. The biggest downward pressure however, came unsurprisingly from the Euro region with the FTSE 100 and Euro Stoxx 50 down over -6% and -4% respectively. Bond markets were also sold off during June with 10 year yields in the US, UK, Germany & Australia rising around 0.25% over the month.

- The Australian sharemarket was also impacted with the ASX300 Accumulation index falling -5.3% during June. All sectors were lower with the most severe sell-off coming from the Consumer Discretionary space, down -11%, led by profit downgrades from Flight Centre and Nine Entertainment. Materials shed -8% as key commodity prices came under renewed pressure. Overall defensive, high yield sectors fared relatively better, with Telcos, Banks and REITs falling far less than the overall market down -1.3%, -2.3% and -4% respectively.

- The ex 20 sector of the market was also badly hit with the ex 20 Index posting a -6.9% decline for the month. The QVE portfolio held up much better than this during the month with the portfolio posting a -1.9% decline, thanks to our continued focus on good quality companies as well as our low exposure to the more volatile, cyclical companies. During the month several of our holdings such as Pact Group, Sonic Healthcare, Energy Developments and Steadfast all performed well despite the weakness in the sharemarket.

- We took advantage of weakness in June to top up on the portfolio's holdings in building materials company Fletcher Building, fuel distributor Caltex and the owner of NZ's leading classified site, Trade Me. In our opinion all these companies are well positioned to grow their earnings in the years ahead thanks to various initiatives being undertaken by each company's respective management teams.

- In our view, the QVE portfolio is well positioned to withstand the current uncertainty in the market thanks to its diversified portfolio of good quality shares, the vast majority of which will continue to pay attractive dividends for the foreseeable future. The portfolio is currently sitting on just over 25% in cash and it is our intention to use this selectively to buy into good quality stocks that appear attractive during the current bout of weakness in the sharemarket.

QV EQUITIES	
ASX Code	QVE
Option Code	QVEO
Listed	22 Aug 14
Shares on issue	193.5 mil
Options Exercised	8.9 mill
Options Outstanding	175.7 mil

#### Benchmark

S&P/ASX 300 Ex20 Accumulation Index

#### Number of Stocks

20 – 50 ASX listed securities which fall outside the S&P/ASX 20 Index

#### Suggested investment time frame

5+ Years

#### Dividend Frequency

Half-Yearly

#### Options expiry

15 March 2016

#### Investment Objective

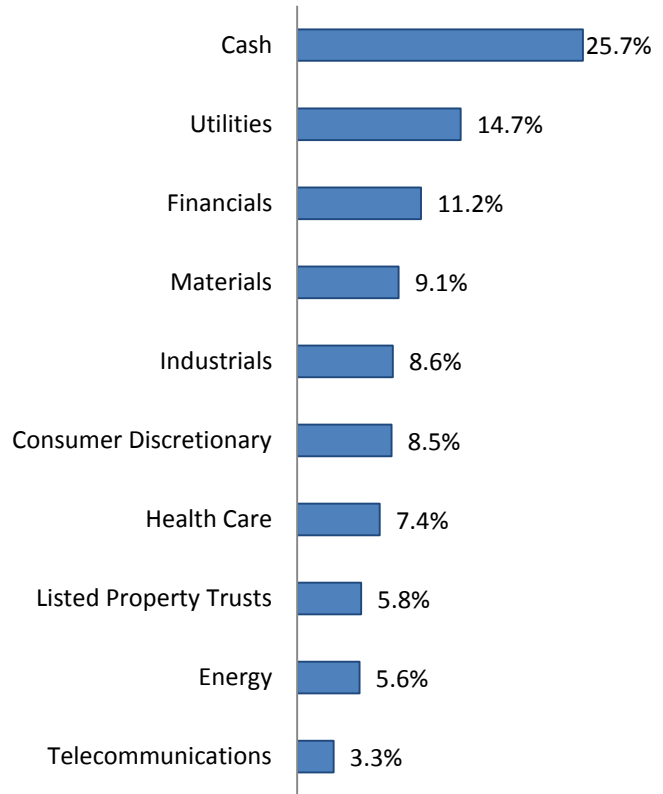
To provide a rate of return which exceeds the return of the relevant benchmark on a rolling 4 year basis





KEY EQUITY INVESTMENTS	P/E 2016	YIELD 2016
AGL Energy	14.2	4.8%
Sonic Healthcare	19.4	3.6%
Energy Developments	14.3	5.8%
Orica	13.4	4.5%
Steadfast Group	14.0	4.1%
Bank of Queensland	12.6	6.0%
GWA Group	13.9	5.7%
Fletcher Building	13.2	5.1%
Ansell	13.	2.5%
ASX Ltd	18.9	4.7%

## SECTOR ALLOCATION



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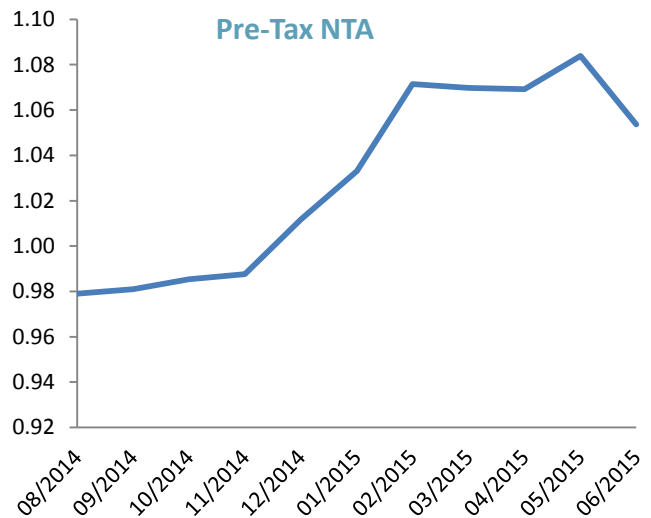
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