# Investment Update & Net Tangible Assets Report

## July 2017

QV Equities Ltd.

| NET TANGIBLE ASSETS (NTA)* | QVE-ASX |
|---|---|
| NTA before tax cum div | 1.19 |
| NTA after tax cum div | 1.15 |

*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.

| PERFORMANCE | QVE's NTA (pre tax) | QVE's NTA (after tax) | BENCHMARK |
|---|---|---|---|
| 1 Month | -2.0% | -1.2% | -1.5% |
| 3 Months | -1.4% | -0.6% | -0.5% |
| 6 Months | +2.7% | +4.1% | +6.1% |
| 1 Year | +5.3% | +7.0% | +4.3% |
| Since Inception Total Return p.a | +9.1% | +8.1% | +9.5% |

| QV EQUITIES | |
|---|---|
| ASX Code | QVE |
| Listed | 22 Aug 14 |
| Shares on issue | 275.1m |
| 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 4 year basis |

*The above returns are after fees and assumes all declared dividends are reinvested. Due to the Company's turnover being below $25 million the Company's corporate tax rate reduced to 27.5% from 1 July 2017.*

## SHAREMARKET COMMENTARY

The MSCI World Index continued to advance, gaining +2.4% over the month of July, its 9th consecutive month of gains. The US sharemarket continued to set record highs with the S&P500 recording a healthy gain of +2.1% and the tech heavy NASDAQ index up +3.4%. In contrast, Europe's Stoxx 50 and Japan's Nikkei index recorded softer months returning +0.3% and -0.5% respectively as the weaker US dollar weighed on sentiment.

The US dollar (USD) fell to its lowest level in almost 2 years falling -3% in July to be down -7% over the past 6 months. Recent weakness has been attributed to scepticism surrounding the Trump administration, a lack of progress on policy reform as well as continued speculation that the new President may be indicted for irregularities leading up to the election last November. In addition, continued low US inflation has cast doubts over further interest rate increases by the Fed Reserve any time soon. The weakness in the USD is providing a boost to US exporters, whilst it is a headwind for most global exporters to the US.

Over the month, the Australian dollar gained +4% against the weaker USD and +2.7% on a trade weighted basis. The AUD/USD has now risen +7% over the past 6 months to touch the 80-cent mark again during July. Commodity prices rebounded in July with the iron ore price gaining +14% as investors reacted to strong Chinese construction data and a pledge by the Government to cut down on steel overcapacity. The oil price also rebounded, gaining +8% for the month following a recent OPEC meeting in which the cartel agreed to increase compliance with previously agreed production cuts.

Despite good gains in the Financials and Resource sectors, the broader market as measured by the ASX300 Index finished the month relatively flat. Over the month, the ASX top 20 drove market returns as the Financials sector, led by the major banks, rallied +2.3% after APRA unveiled its long awaited new capital requirements that were much less onerous than initially feared while the Resource sector surged +5% on higher commodity prices. These gains were offset by weakness in companies with offshore earnings, such as Healthcare companies CSL and Sonic and packaging company Amcor. Defensive sectors such as the Utilities sector where also weaker as the Australian 10yr bond yield spiked to +2.7% in the latter part of the month.

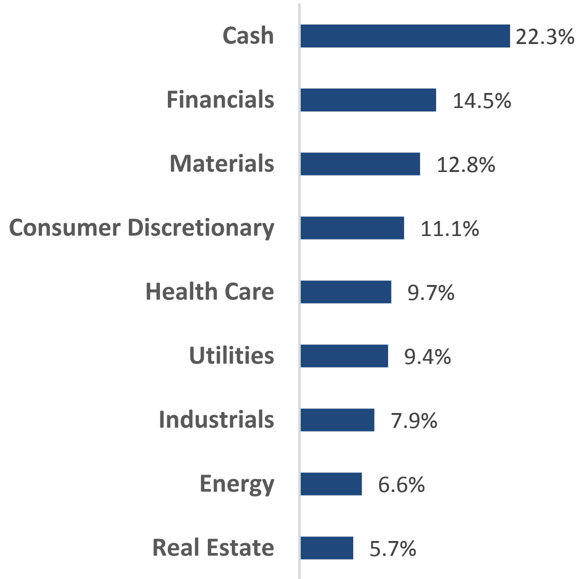
The **QVE portfolio** fell -2.0% over the month reflecting weakness in the benchmark and our virtual zero weighting to the volatile Resources sector, which rallied strongly as commodity prices rebounded during the month. Whilst some of our holdings such as Ansell, Sonic and Amcor were impacted during the month because of the higher Australian dollar, we believe the strong competitive position of these companies as well as their earnings and dividend outlook for the next 3 to 5 years has not changed and we remain very comfortable holding these stocks. Furthermore, our holdings in high yielding stocks Spark Infrastructure, Bunnings Warehouse Trust and Shopping Centres Australia were also weaker as Australian bond yields spiked higher in July on the back of some RBA comments. We used weakness in these companies (all on yields of 6% with long term growth) to top up on the portfolio's existing holdings as we do not believe Australian interest rates will increase significantly for the foreseeable future.

Over the month, we took the Information Technology sector weighting of the QVE portfolio to zero by selling the portfolio's holdings in stocks such as Integrated Holdings at very good profits for the portfolio. We believe these stocks looked fully valued and have been rerated partly because of the record breaking Nasdaq in the US, which in our view is now well on its way to bubble territory.

Most Australian companies will report their earnings in coming weeks and this will give investors a good insight into how companies are travelling in the current uneven economic conditions. The reporting season always throws up opportunities as investors react to short term news and we remain alert to taking advantage of on any opportunities as they appear. We continue to hold a higher than normal cash weighting in the portfolio which we intend to use to selectively buy further shares in good quality companies at times of weakness.

| KEY EQUITY INVESTMENTS | ASX Code | Weight |
|---|---|---|
| Bank of Queensland | BOQ | 3.4% |
| Sonic Healthcare | SHL | 3.3% |
| Clydesdale Bank | CYB | 3.3% |
| Pact Group | PGH | 3.2% |
| Fletcher Building | FBU | 3.2% |
| Ansell | ANN | 3.1% |
| Steadfast | SDF | 3.1% |
| Spark Infrastructure | SKI | 3.0% |
| Caltex | CTX | 3.0% |
| Tox Free | TOX | 2.9% |

## SECTOR ALLOCATION

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