

QV Equities Investor Update

1 November 2017



IML INVESTORS
MUTUAL LTD

QV Equities Limited

- ❑ Listed 22 August 2014
- ❑ Managed by Investors Mutual
- ❑ Focused on Ex-20 stocks
- ❑ Experienced Board with independent majority
- ❑ Focus on long-term capital growth & income

- ❑ Ownership update: Natixis Global Asset Management

Awards:

- ❑ Finalist: Professional Planner/ Zenith Awards 2017 – LIC of the Year
- ❑ Golden Calf (Small Caps) Award Winner- Australian Fund Manager Awards
- ❑ Morningstar Fund Manager of the Year – Small Cap



Investor needs:

- ☐ Capital preservation
- ☐ Reasonable capital growth
- ☐ Income focused

Investment Philosophy: focus on quality

We seek to buy and own:

Companies with a competitive advantage,

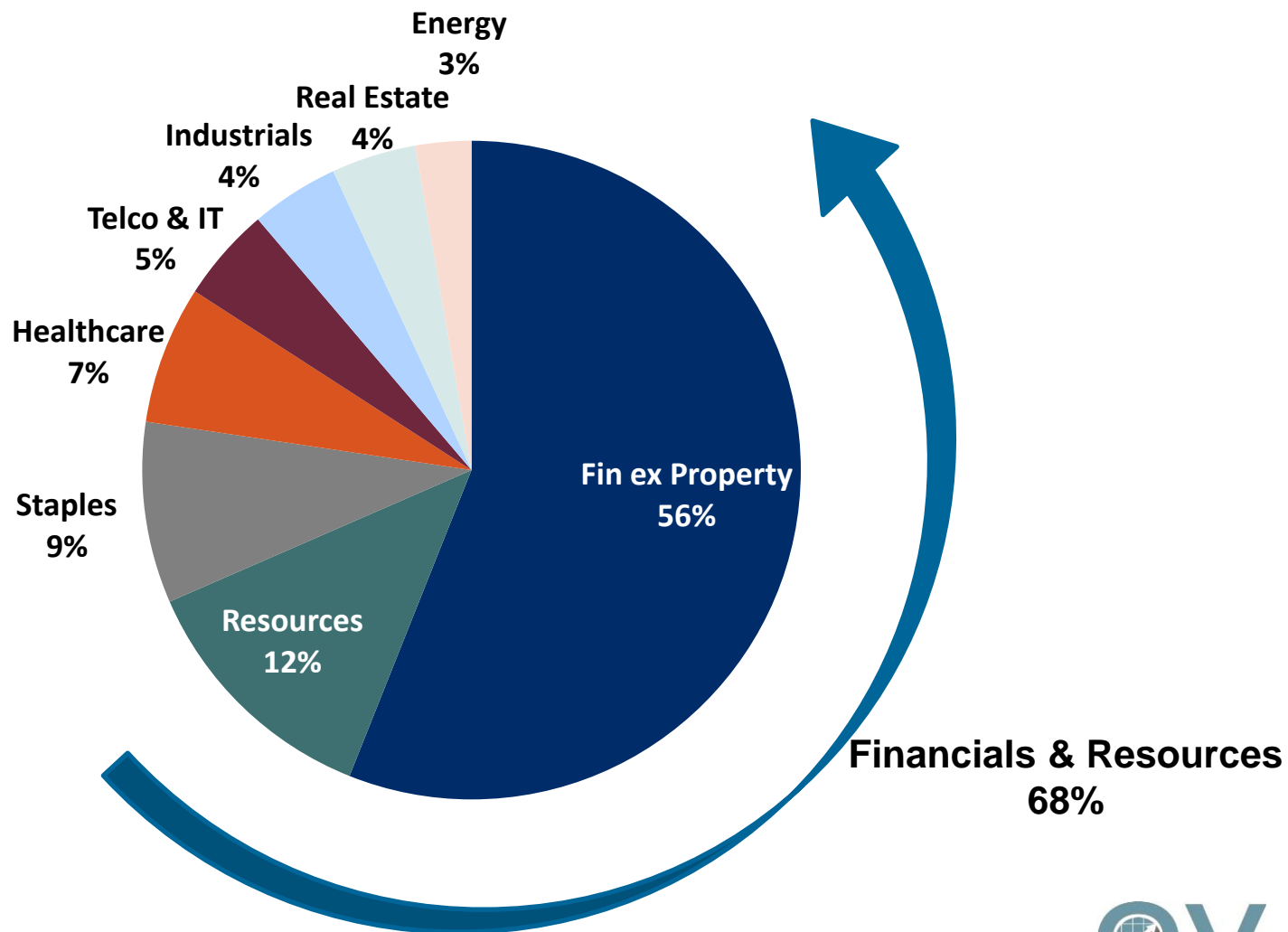
with recurring earnings,

run by capable management,

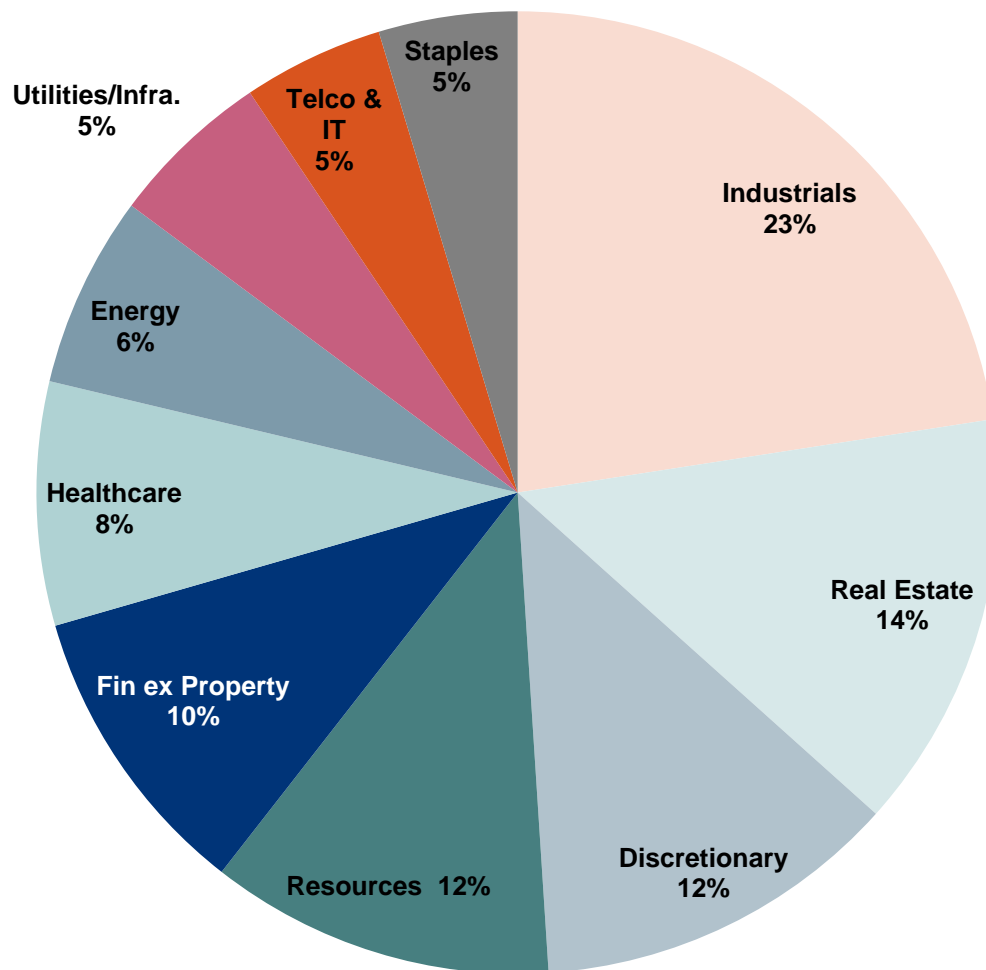
that can grow,

.....at a reasonable price.

ASX 20- Dominated by Financials & Resources



ASX ex20- More diverse sectors



Why focus on an Ex 20 managed portfolio?

- ❑ More diverse in terms of industry sectors
- ❑ Less researched opportunities
- ❑ Investors typically not exposed to this segment
- ❑ Solid yields on offer
- ❑ Often leaders in their field
- ❑ IML has a long record of significant value add in this segment

- ❑ **Quality** industrial stocks
- ❑ Companies that can **grow** over time
- ❑ Companies with reliable **income** streams

Contributors to performance – since QVE inception

❑ Energy Developments (takeover)



❑ Duet (takeover)



❑ Chorus

❑ AGL Energy



❑ Sonic Healthcare



❑ Steadfast



QV Equities – Investment Outlook

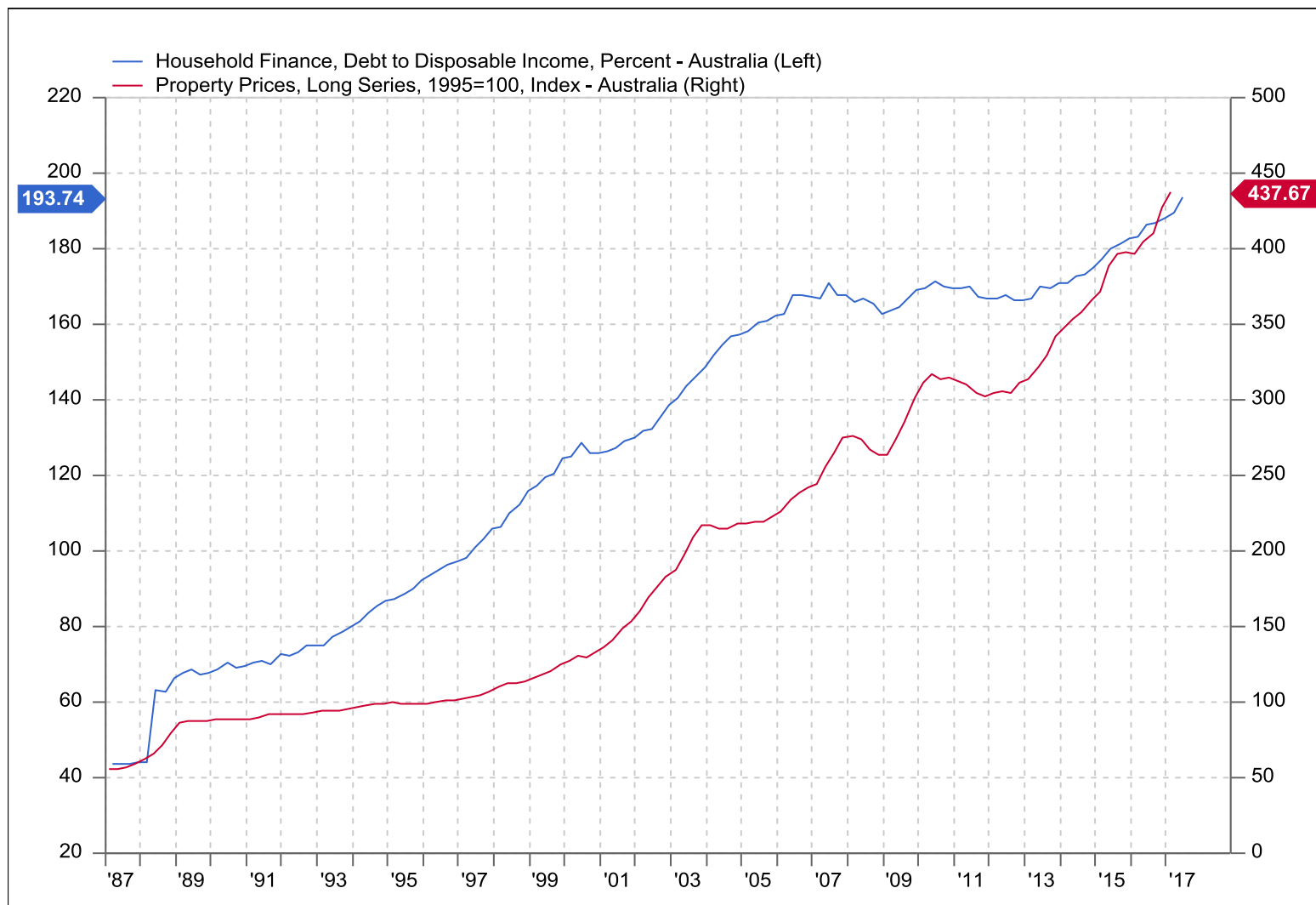


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Where are we today?

- ❑ Global economies growing steadily
- ❑ Australian economy lacklustre
- ❑ Interest rates globally at record lows
- ❑ Earnings outlook remains challenging for many Australian companies

Australian Housing: Household debt increases as property prices climb



It's challenging out there!

- Telcos
- Supermarket sector
- Wagering
- Discretionary Retail
- Traditional media

Reporting Season Mixed

- ❑ Resources profits stronger
- ❑ Industrial stocks mixed
- ❑ Banks: lacklustre growth

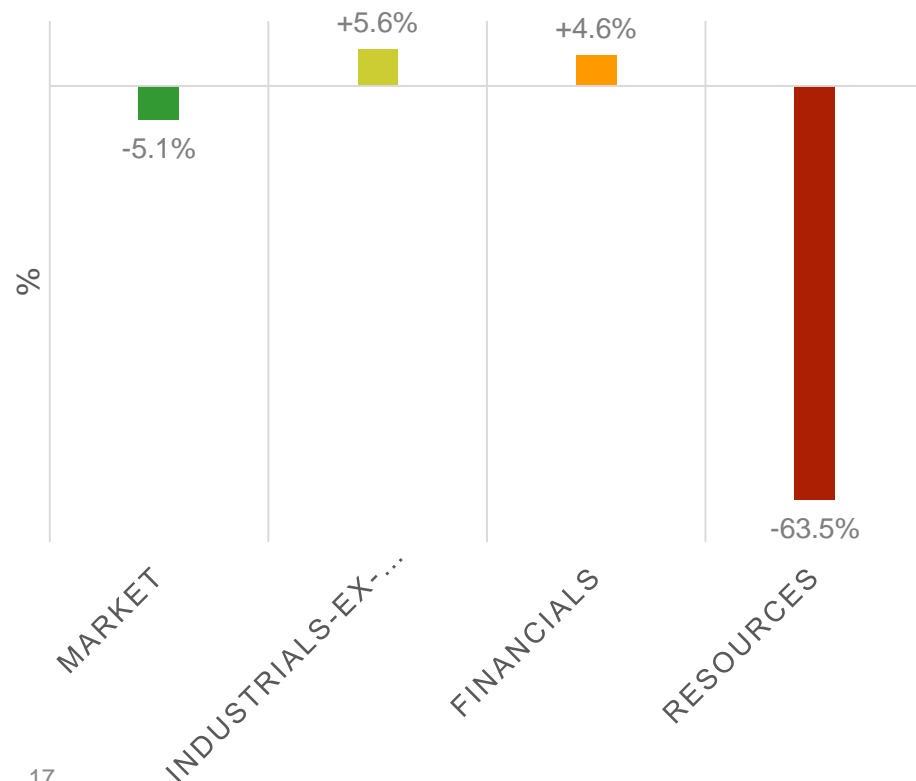
→ *Active stock selection remains key*

Iron Ore price- Last 2 years

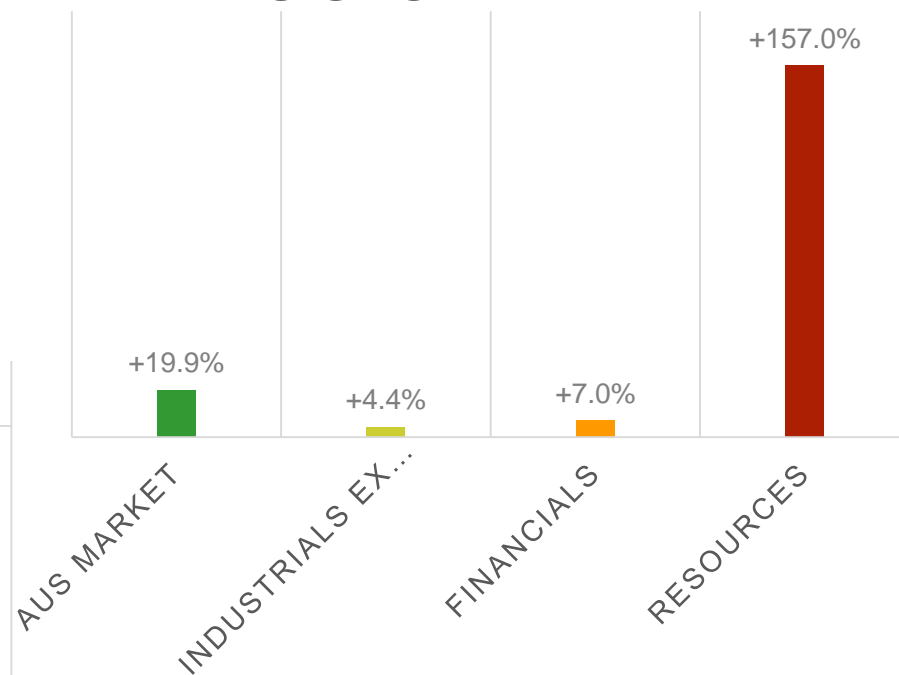


Composition of ASX 300 EPS Growth- last two financial years:

EPS GROWTH FY16



EPS GROWTH FY17



Investment Implications

- ❑ We remain cautious of Resource shares
- ❑ Earnings growth is patchy
- ❑ Looking for company specific growth

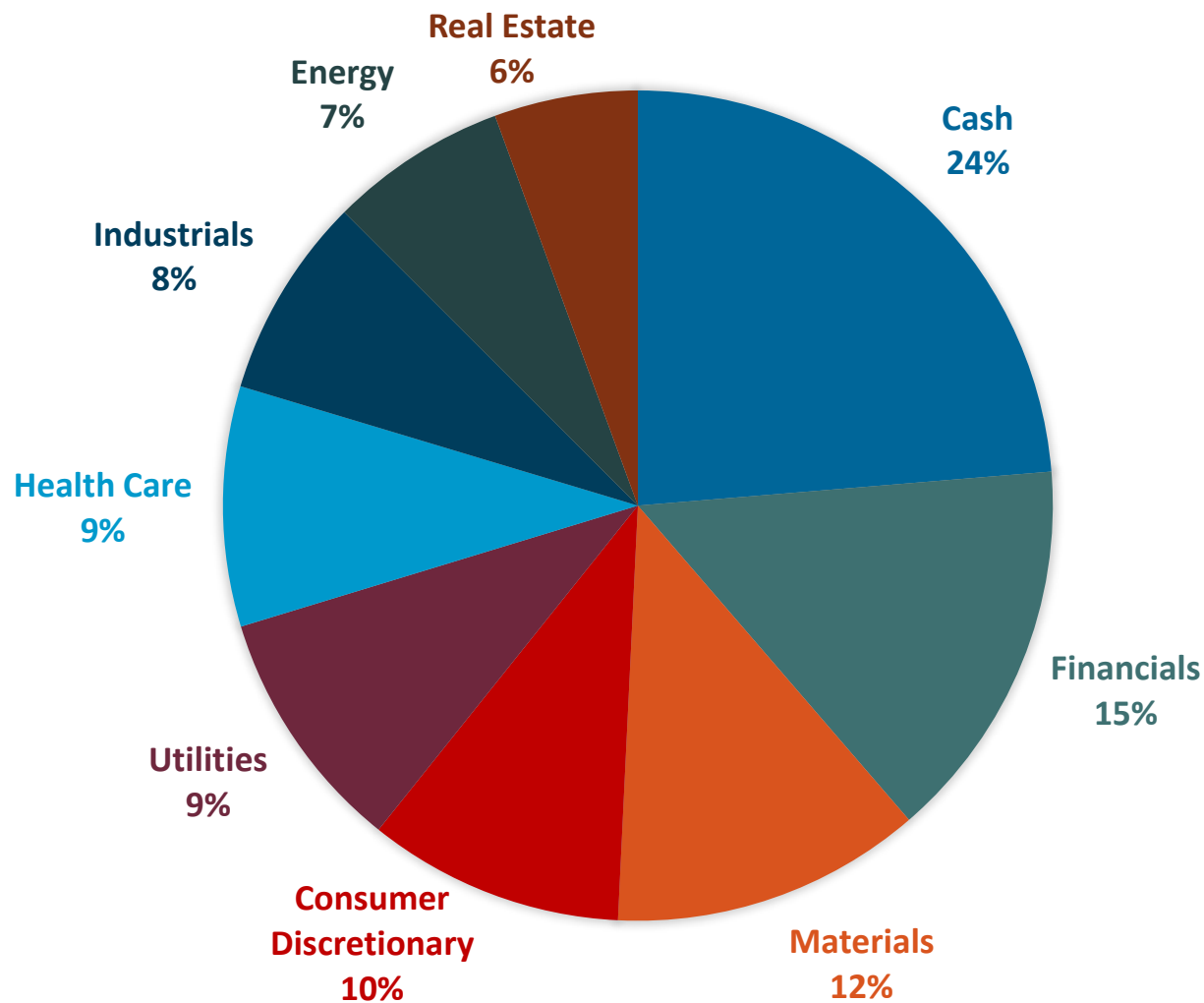
Positioning – growing in a low growth economy

| Company specific initiatives | |
|------------------------------|----------------------------|
| Cost-outs → | Clydesdale Bank |
| Acquisitions → | Pact |
| Contracted growth → | Shopping Centres Australia |
| Market share gains → | Ansell |
| Restructuring → | Fairfax |

Key stocks weights– as at 30 September 2017

| KEY EQUITY INVESTMENTS | ASX Code | Weight |
|------------------------|----------|--------|
| Clydesdale Bank | CYB | 3.7% |
| Spark Infrastructure | SKI | 3.5% |
| Bank of Queensland | BOQ | 3.5% |
| Pact Group | PGH | 3.3% |
| Sonic Healthcare | SHL | 3.2% |
| Fletcher Building | FBU | 3.2% |
| Caltex | CTX | 3.2% |
| Ansell | ANN | 3.2% |
| Steadfast | SDF | 3.1% |
| Tox Free Solutions | TOX | 3.1% |

QVE Portfolio Weights — as at 30 September 2017



Attraction

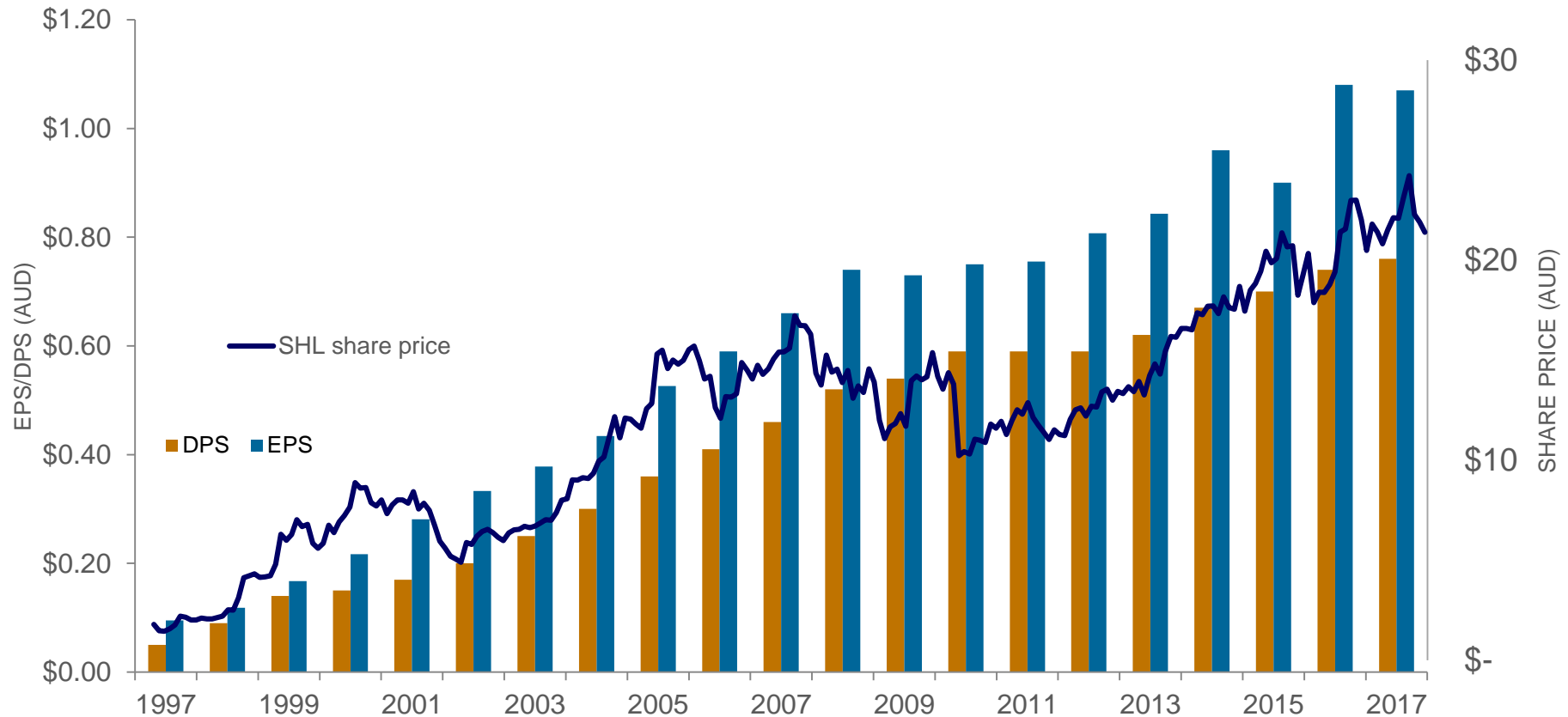
- ❑ Ageing population
- ❑ New tests constantly developed
- ❑ Prevention is cheaper than cure!

Where?

- ❑ No. 1 in Australia
- ❑ No. 1 in Germany
- ❑ No. 1 in Switzerland
- ❑ No. 1 in UK
- ❑ No. 3 in US

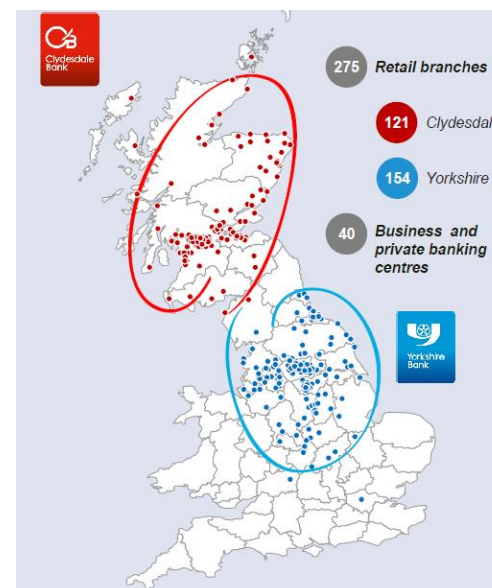


Sonic Healthcare (SHL)





- ❑ Opportunities to cut costs, return capital and gain market share
- ❑ 90% deposit funding, 75% of lending in retail and 25% in SME
- ❑ Substantial cost savings
- ❑ CYB could release \$0.75 cps excess capital



Disciplined focus on quality: Pact Group



- ❑ Largest manufacturer of rigid plastics in Australasia
- ❑ Long-term blue chip customers
- ❑ Majority of revenues from defensive consumer end-use products
- ❑ Growing in contract manufacturing and materials handling
- ❑ Growth via bolt-on acquisitions
- ❑ FY18 PE 15.4x ; yield 4.7%



Disciplined focus on quality: Shopping Centres Australasia



- ❑ Long-term leases (WALE 15yrs+) with fixed annual increases
- ❑ Quality anchor tenant in WOW (60% of rent) with non-discretionary specialties
- ❑ Strong balance sheet (gearing 34%) & strong cashflows
- ❑ FY18 yield of 5.9% and growing dividends



QVE Portfolio- 12 month positive contributors to performance

❑ GWA

❑ Orica

❑ Steadfast

❑ Pinnacle Investments

❑ Ansell

❑ AGL

❑ Spark Infrastructure



QVE Portfolio- disappointing performers past 12months

☐ Mayne Pharma

☐ Myer

☐ Fletcher Building

Disappointing performer: Mayne Pharma



- ❑ Global pharmaceutical company with three key divisions
- ❑ US generics business highly competitive
- ❑ Branded drugs and their contract services businesses growing strongly
- ❑ Significant R&D pipeline of new drugs targeting end market sales > \$6bn
- ❑ Trades on PE 10.7x with a strong balance sheet

Disappointing performer: Fletcher Building



- ❑ Manufacturer of construction and building products in NZ and Australia
- ❑ Owns the Formica brand which it manufactures globally
- ❑ A leading distributor to the “trade” in NZ (*Placemakers*) and Australia (*Tradelink*)
- ❑ FBU also has a “construction” division – which has caused recent downgrades
- ❑ The company has made provisions of over NZ\$300m for construction losses
- ❑ The rest of the business continues to perform well
- ❑ Excluding ‘one off’ construction losses the company trades on less than 12x

QVE portfolio activity- Recent buys:

| Recent buys |
|------------------|
| Pact Group |
| Coca Cola Amatil |
| Propac |
| Clearview |
| Crown |

QVE portfolio activity- Recent Sells

| Recent Sells |
|---------------------|
| Flight Centre |
| Integrated Research |
| Amaysim |
| Link |
| Chorus |

Income continues to represent an important part of investors' return

- Focus on companies which can sustain/grow their dividends

| Company | FY18 Yield |
|----------------------------|------------|
| SCA Property Group | 5.9% |
| Spark Infrastructure | 5.8% |
| Bank of Queensland | 6.0% |
| Contact Energy | 5.7% |
| Hotel Property Investments | 6.4% |
| Genesis Energy | 7.1% |
| Southern Cross Media | 6.0% |
| Pact Group | 4.7% |
| GWA | 5.5% |

Performance & NTA – as at 30 September 2017

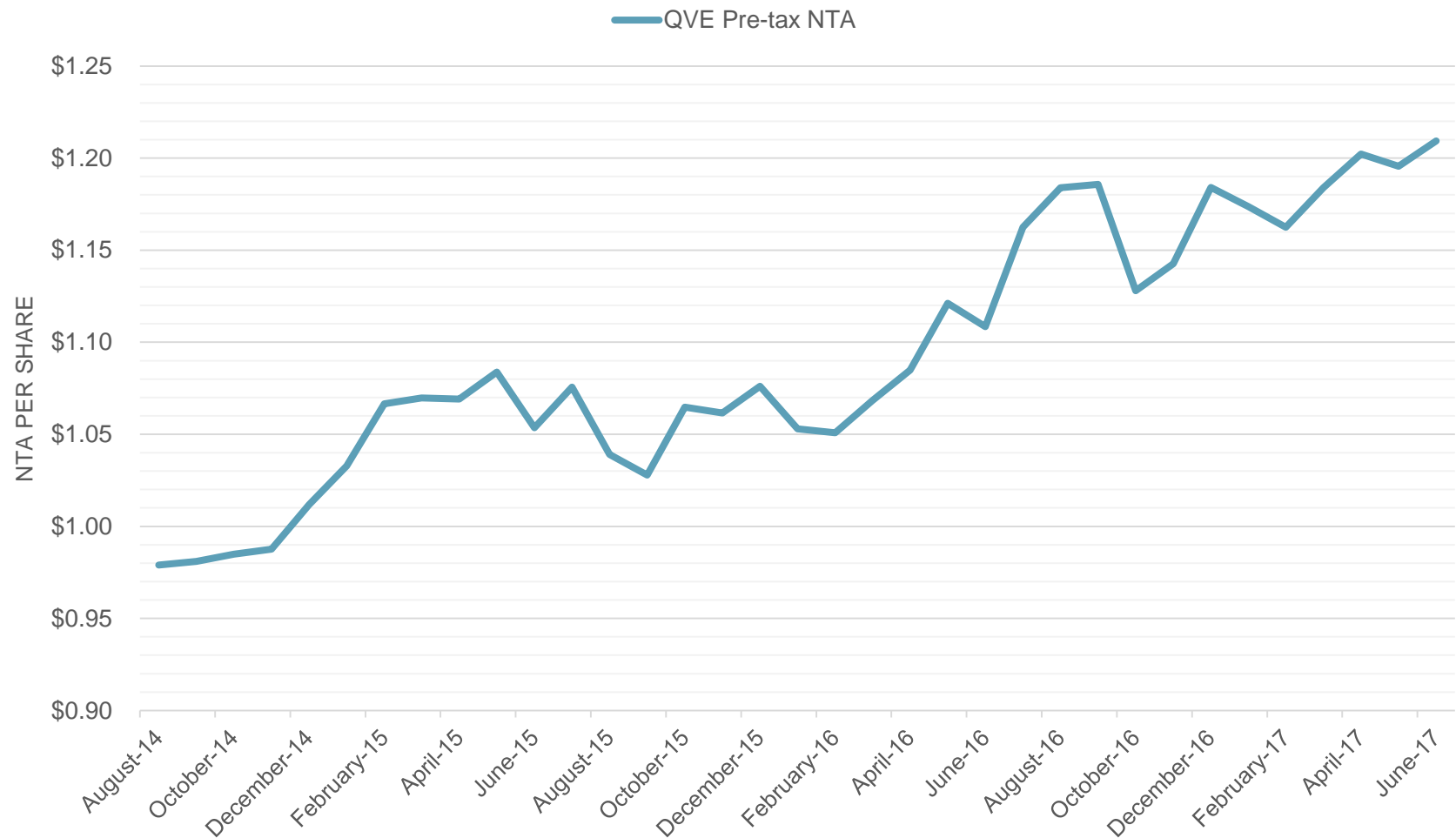
| NET TANGIBLE ASSETS (NTA)* | QVE-ASX |
|----------------------------|---------|
| NTA before tax cum div | 1.19 |
| NTA after tax cum div | 1.15 |

| PERFORMANCE* | QVE's NTA (pre tax) | QVE's NTA (after tax) | BENCHMARK |
|----------------------------------|---------------------|-----------------------|-----------|
| 1 Month | +0.3% | +0.4% | -0.1% |
| 3 Months | -1.9% | -0.8% | +1.4% |
| 6 Months | +0.3% | +1.3% | +3.6% |
| 1 Year | +3.4% | +5.3% | +8.8% |
| Since Inception Total Return p.a | +8.7% | +7.7% | +10.0% |

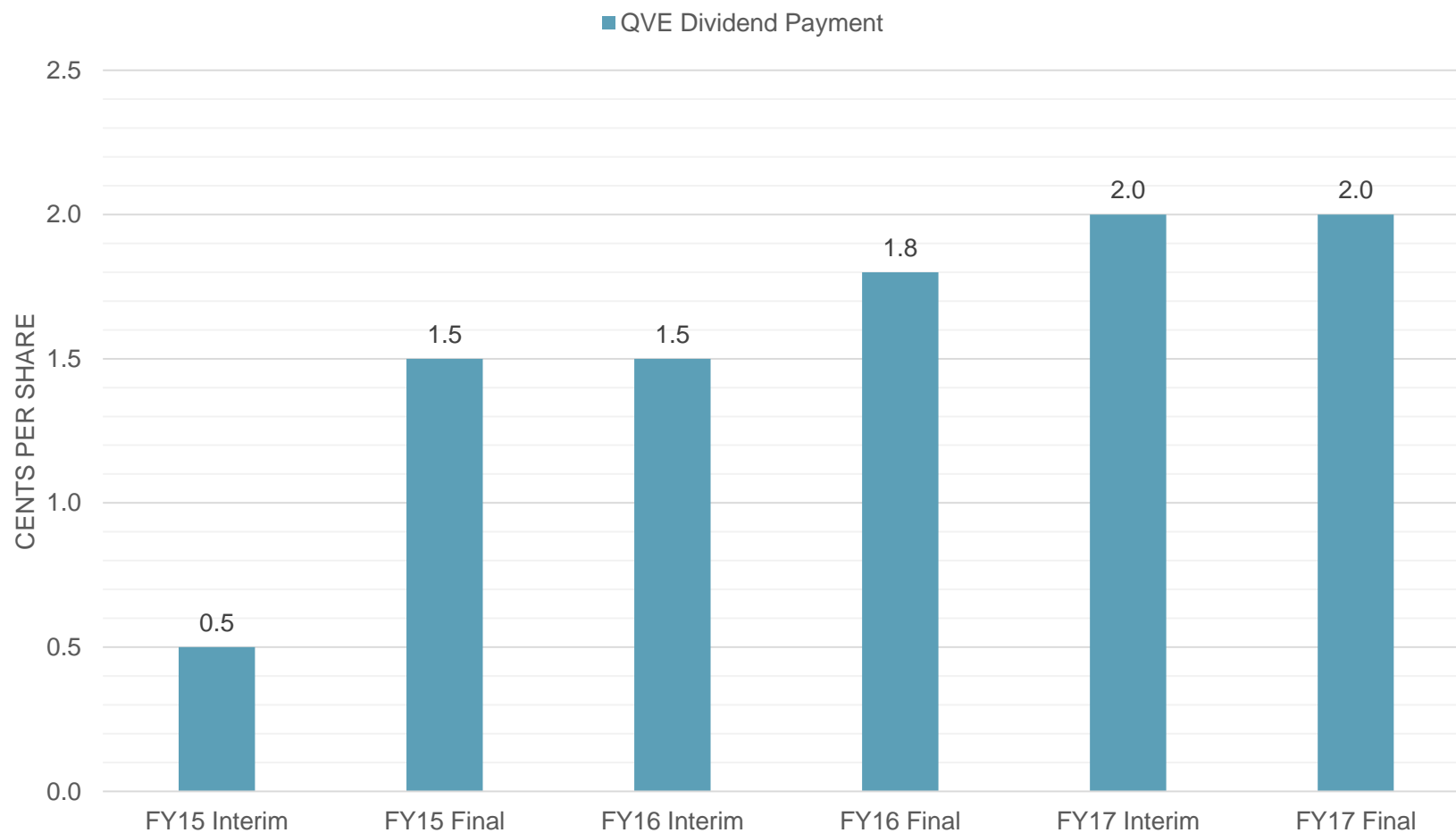
The above returns are after fees and assumes all declared dividends are reinvested. Due to the Company's turnover being below \$25 million the Company's corporate tax rate reduced to 27.5% from 1 July 2017. *Performance is calculated to 30 September 2017. Past performance is not indicative of future performance.

*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.

Historical NTA



Historical Dividends to QVE Shareholders



The relevance of QVE in your portfolio

- ❑ More diverse investment opportunity set
- ❑ Investors typically underweight in the ex 20 segment
- ❑ Less researched opportunities
- ❑ Good yields on offer
- ❑ IML has a long record of significant value add in this segment....

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