

QV Equities Investor Update

March 2018



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

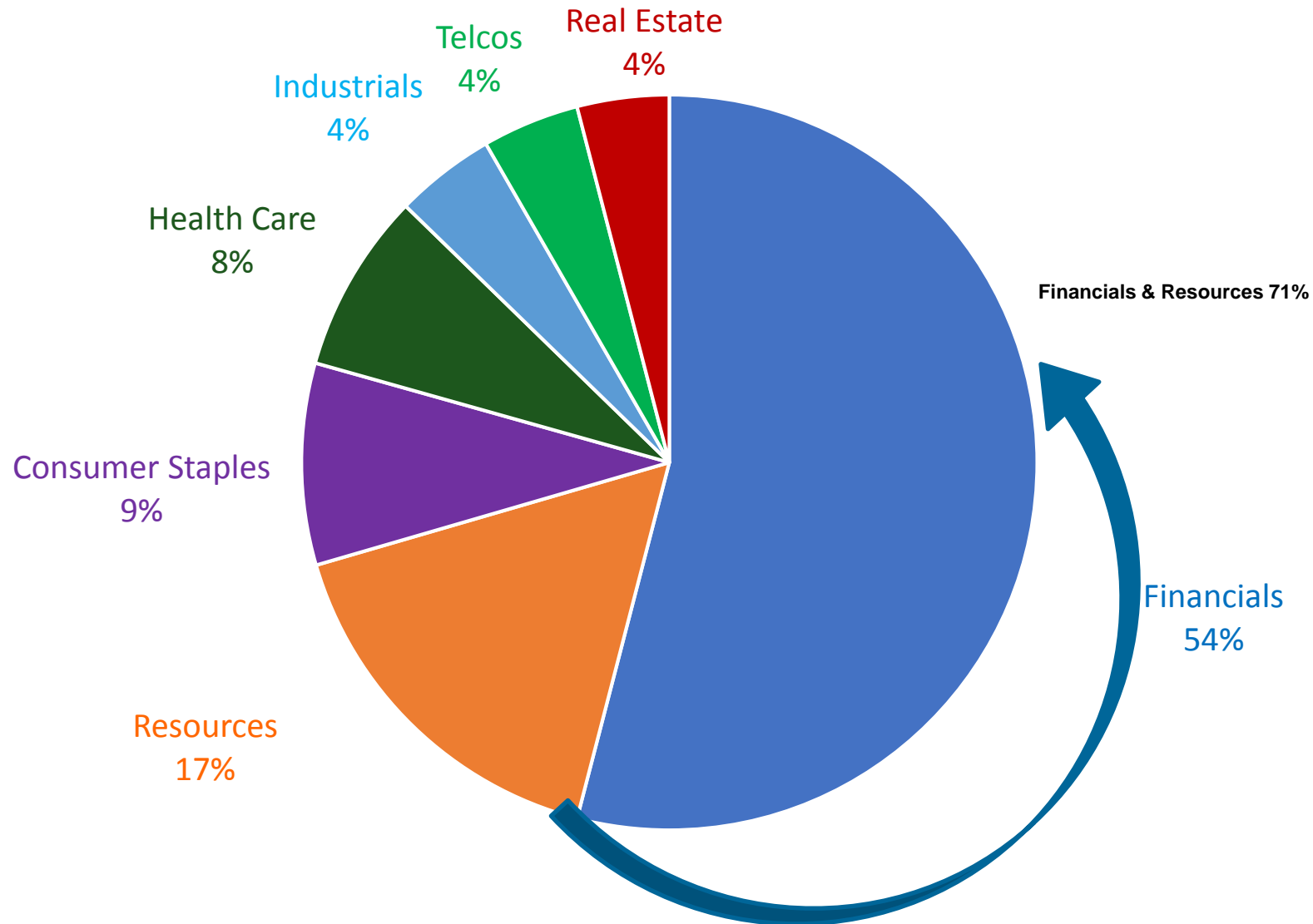
- ❑ Ownership update: Natixis Investment Managers

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 2017 – Small Cap
- ❑ Financial Standard Investment Leadership Award – Small Cap

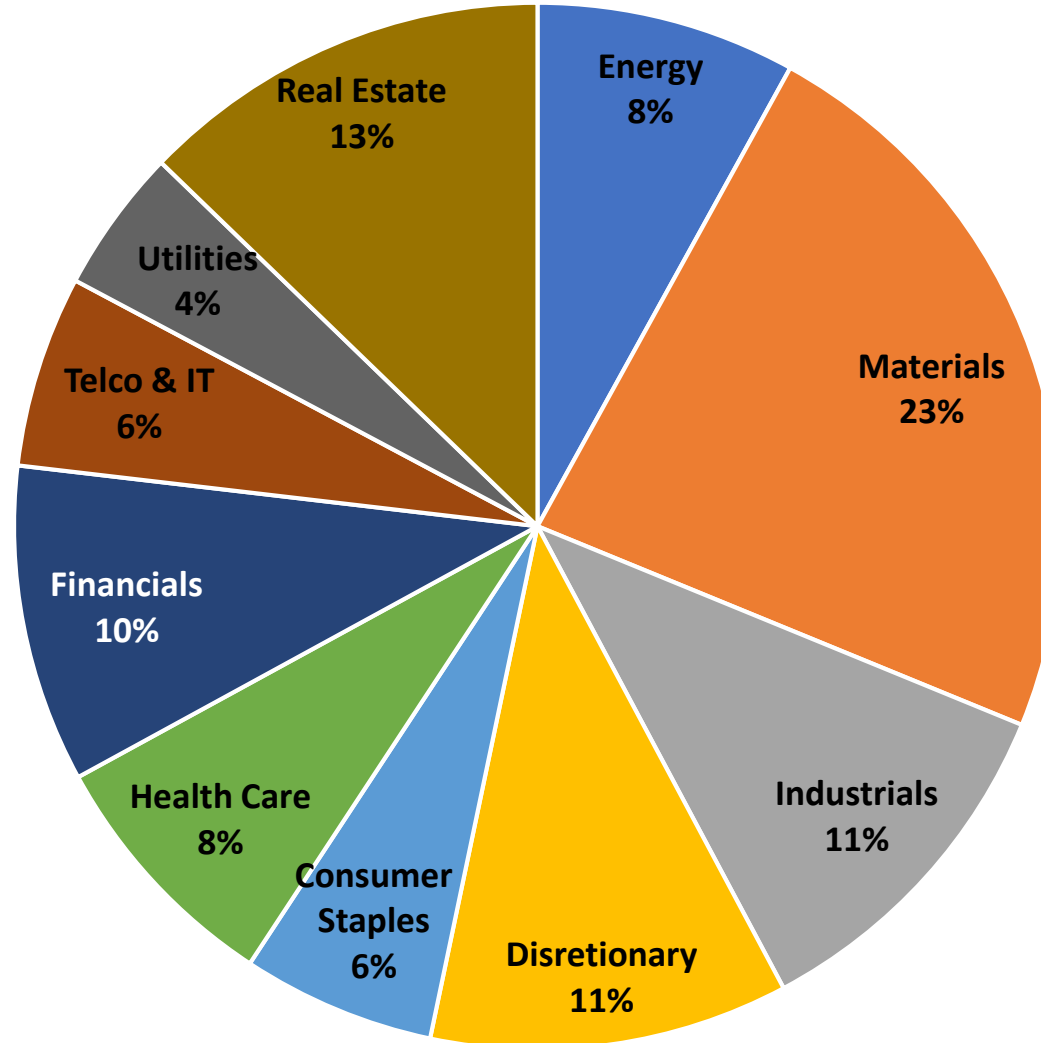


ASX 20- Dominated by Financials & Resources



Source: Factset as at 28 February 2018

ASX ex 20 - More diverse sectors



Source: Factset as at 28 February 2018

Why focus on an Ex 20 managed portfolio?

- ❑ More diverse in terms of industry sectors
- ❑ Less researched opportunities
- ❑ Investors typically underweight in this segment
- ❑ Solid yields on offer
- ❑ IML has a long record of significant value add in this segment

Retail investor needs:

The portfolio aims or seeks to provide the following:

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

Capital is not guaranteed. Capital growth and income objectives are made on a reasonable basis and are not a guarantee of actual outcomes or performance

Investment Philosophy: focus on quality

We seek to buy and own:

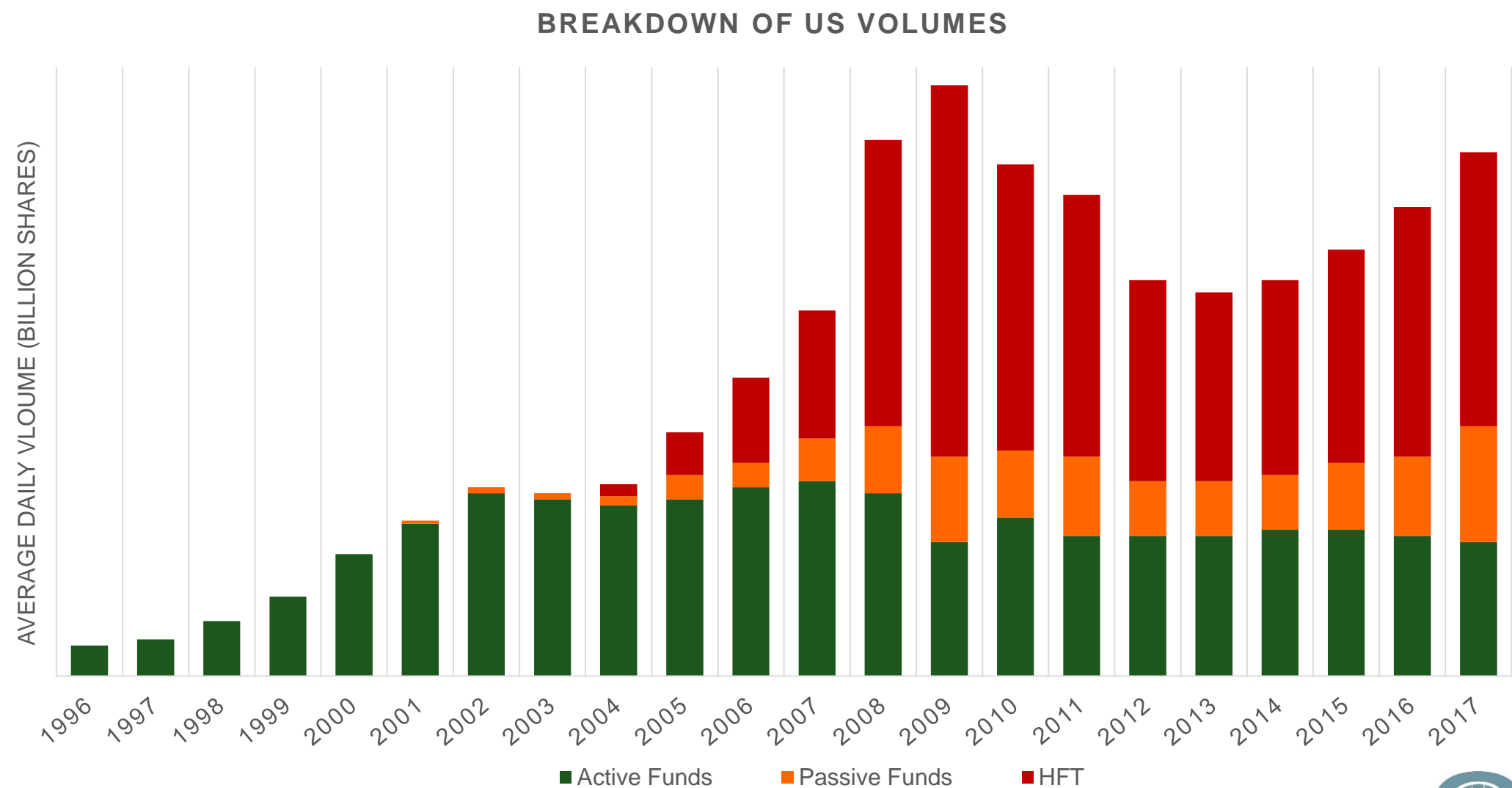
Companies with a competitive advantage,

with recurring earnings,

run by capable management,

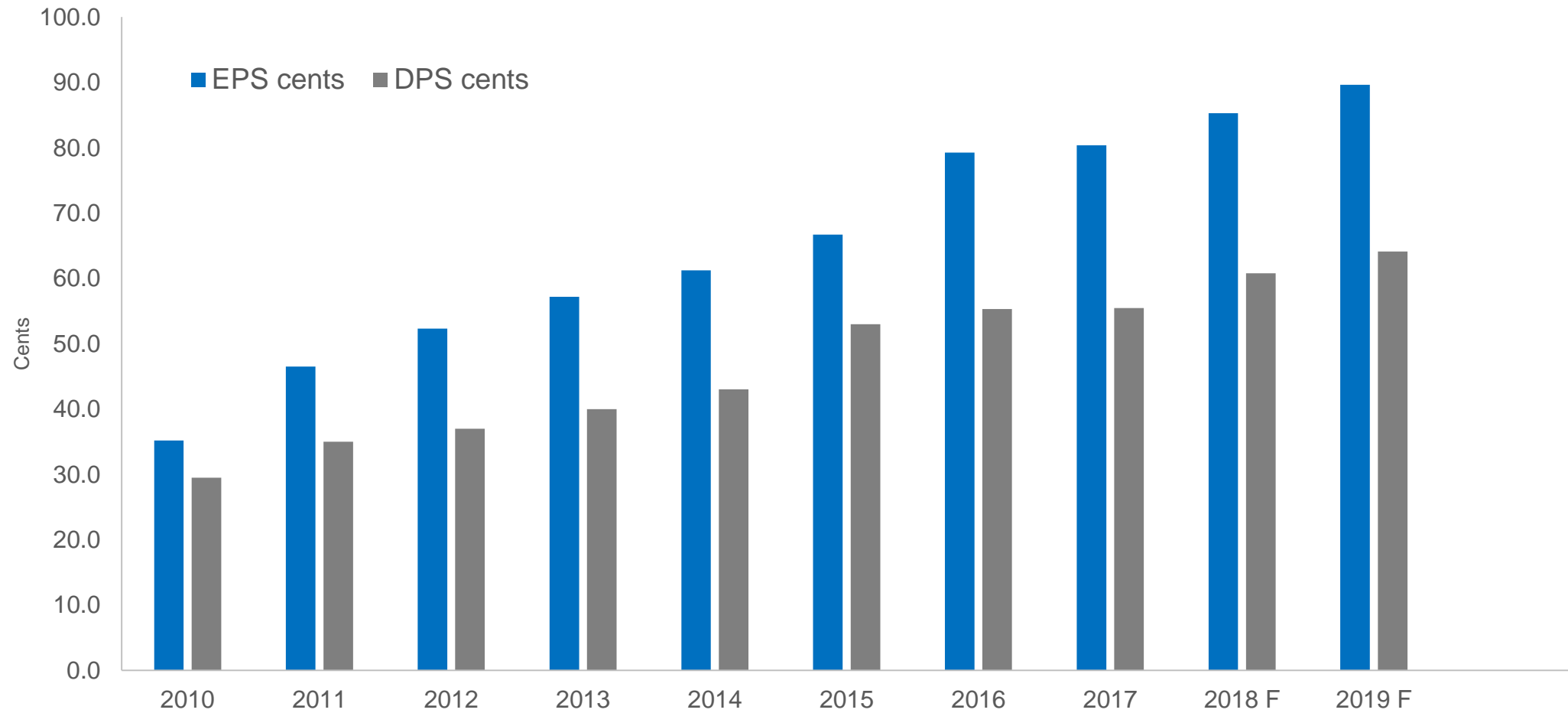
that can grow,

.....at a reasonable price.



Applying the rules

Market	Investor
Short term focus	Long term focus
Momentum driven	Valuation driven
Upgrade / Downgrade mania	Disciplined focus on 'quality'
Daily information flow	In-depth research

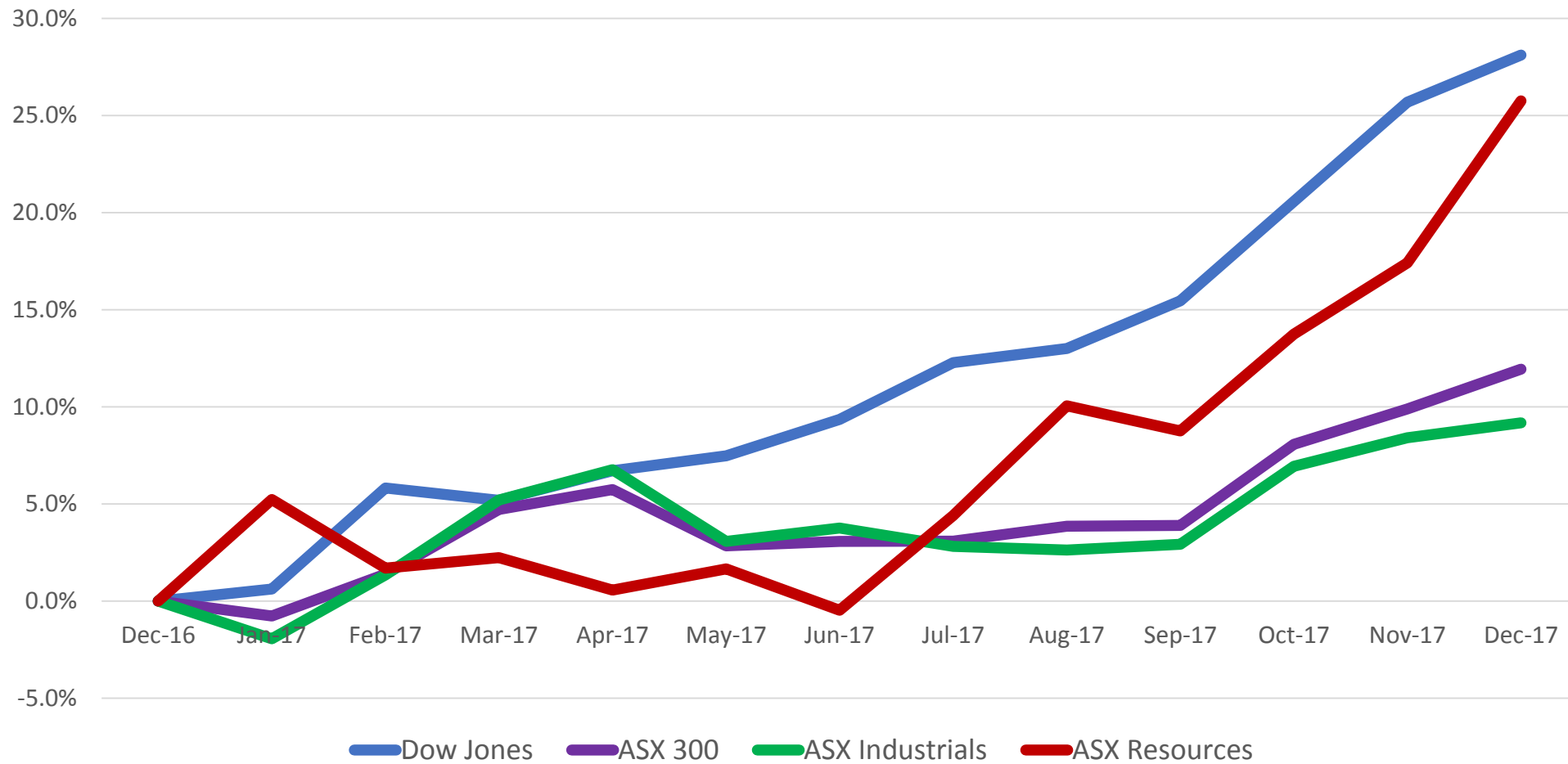


Short term gyrations



Source: IRESS

2017: ASX v Dow Jones



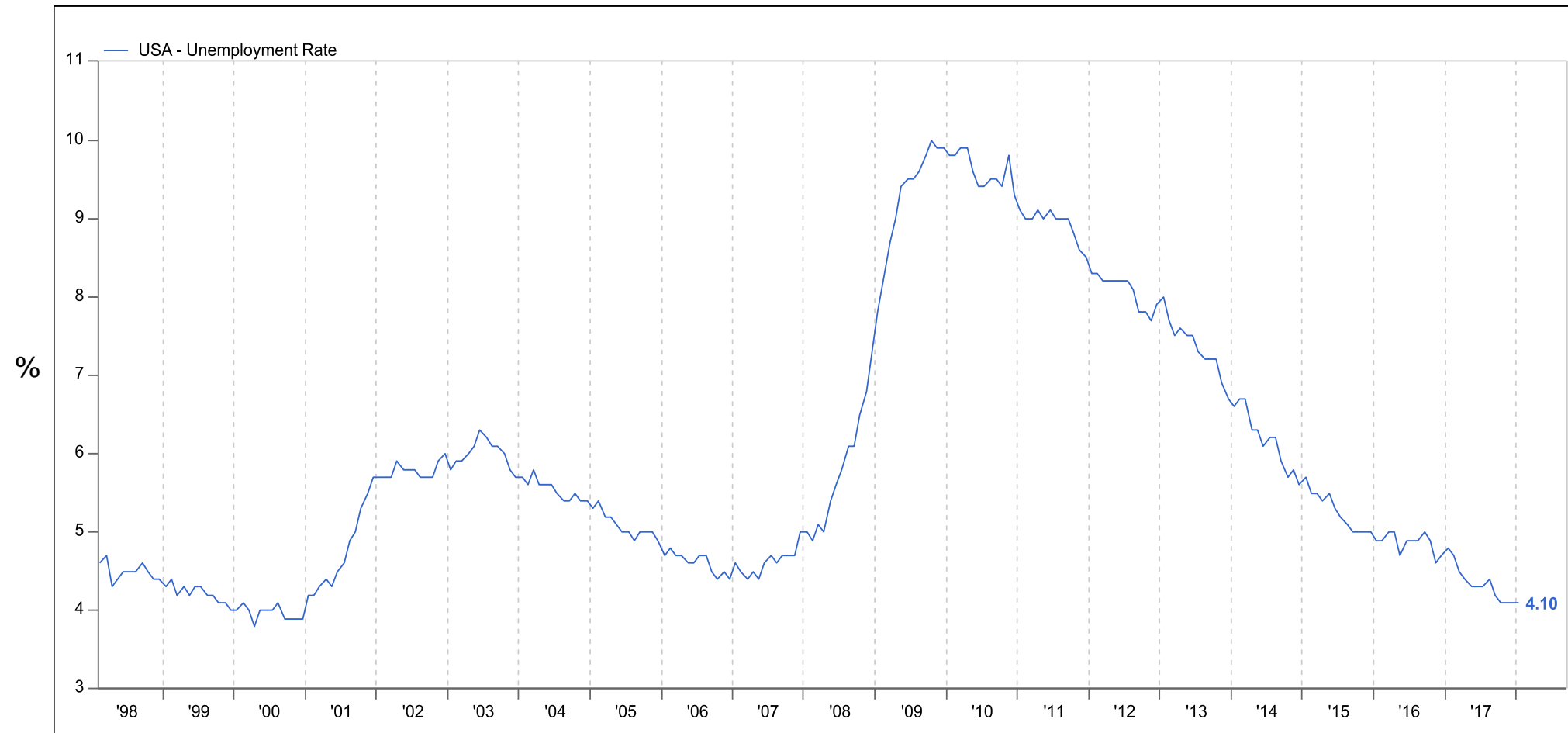
Where are we today?

- ❑ Global economies growing steadily
- ❑ Record low interest rates
- ❑ Ongoing volatility in the sharemarket
- ❑ Caution and being selective remains the key

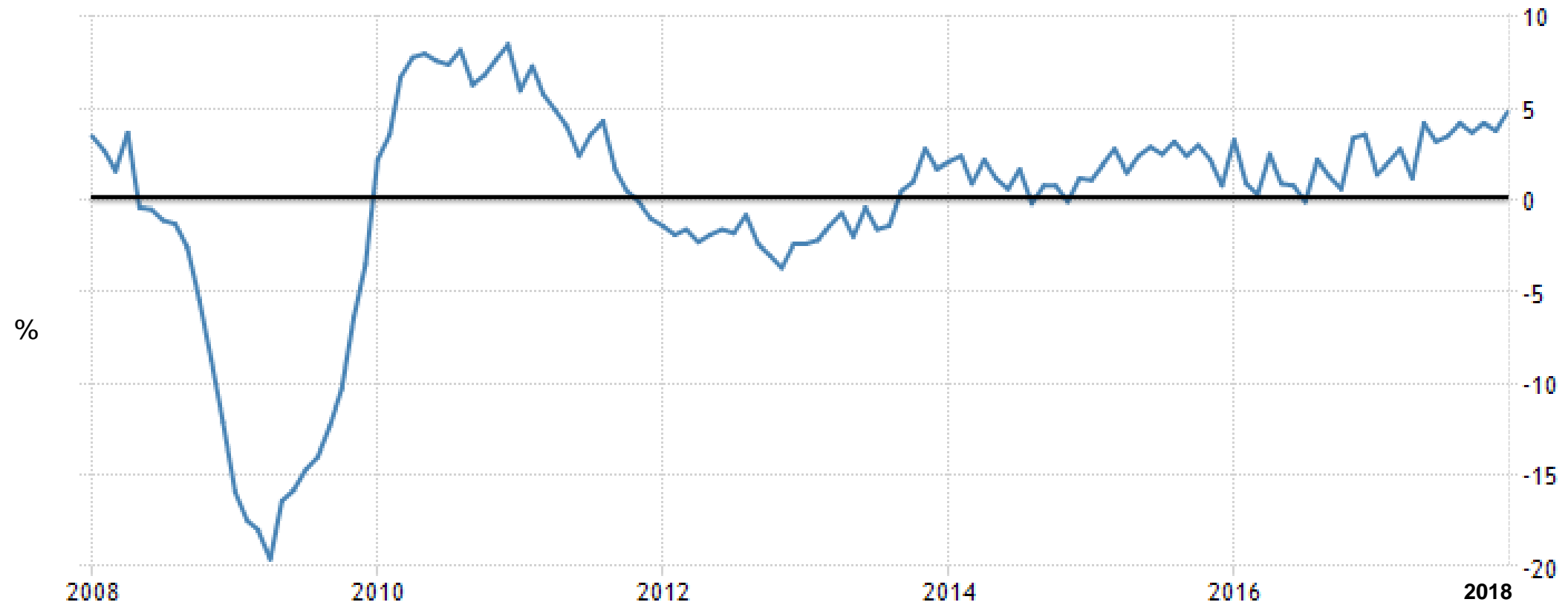
Economic update

- ❑ US economy continues to grow
- ❑ European recovery broadens
- ❑ China still on track
- ❑ Overall global growth outlook positive

US Unemployment rate – last 20 years



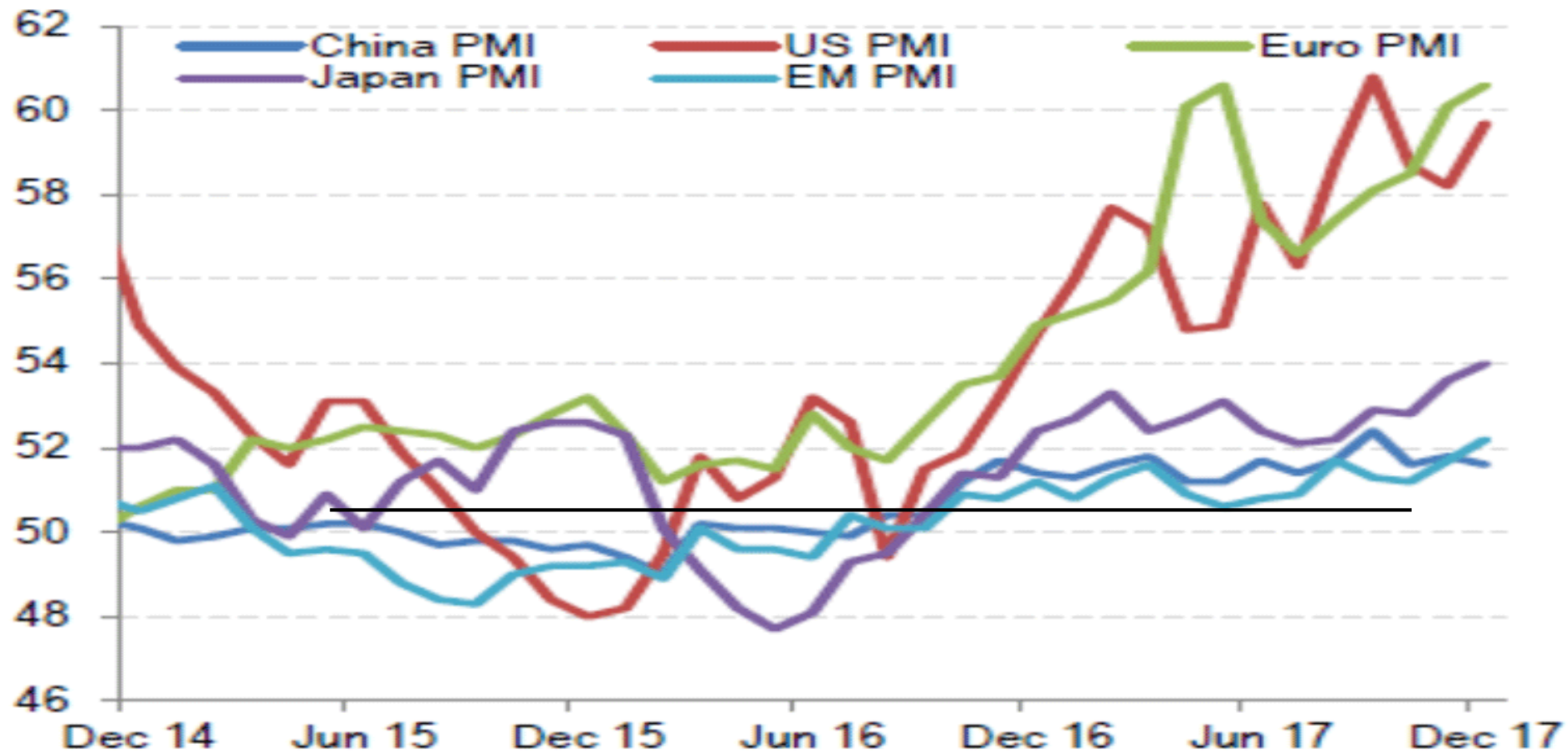
European Industrial Production



China GDP Annual growth since 2008



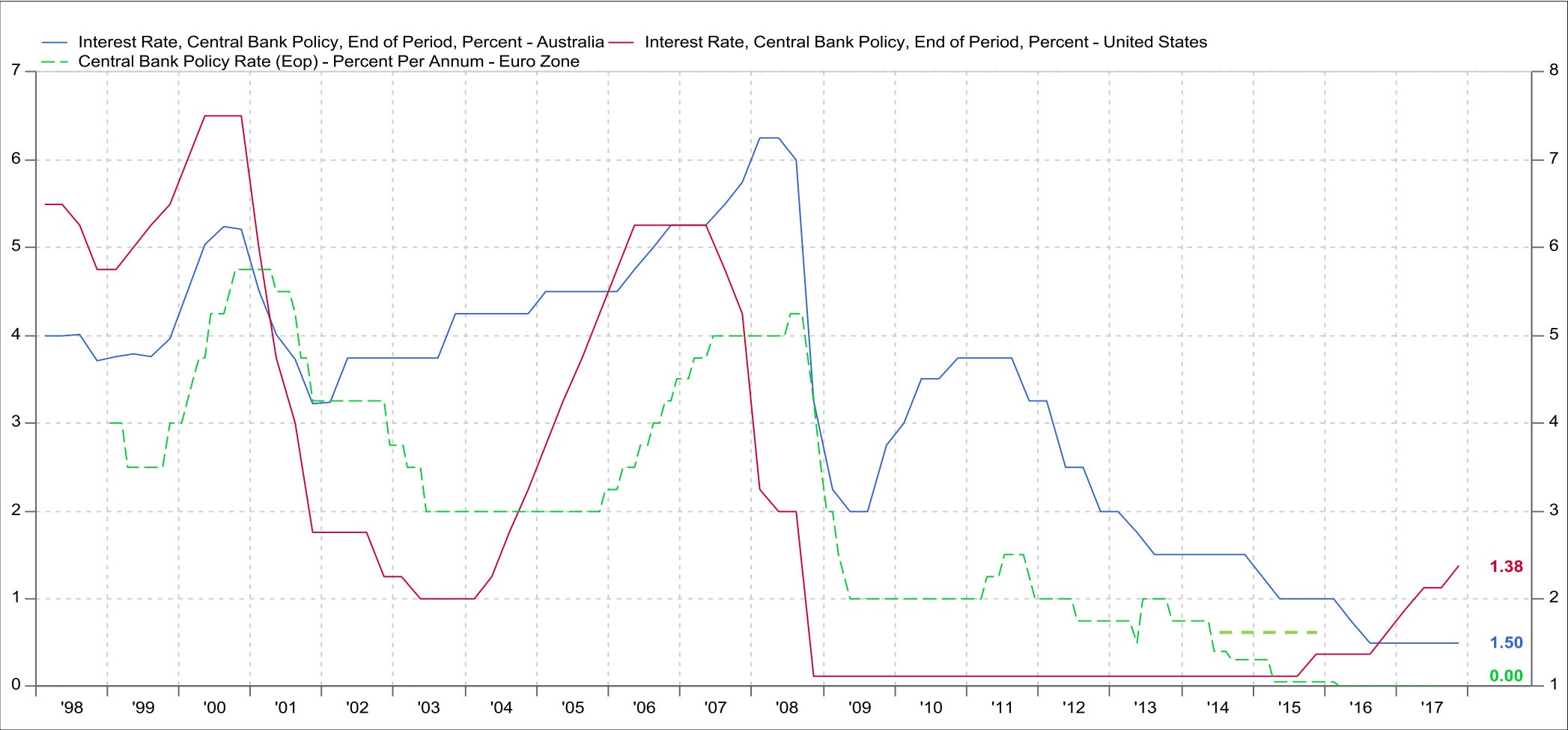
Manufacturing PMI Indexes



Current Issues

- ☐ Interest rates, ending of QE and inflation
- ☐ Government debt levels
- ☐ Consumer debt
- ☐ Excessive speculation

Cash rates in the last 20 years



Source: Factset;
As at 28 February 2018



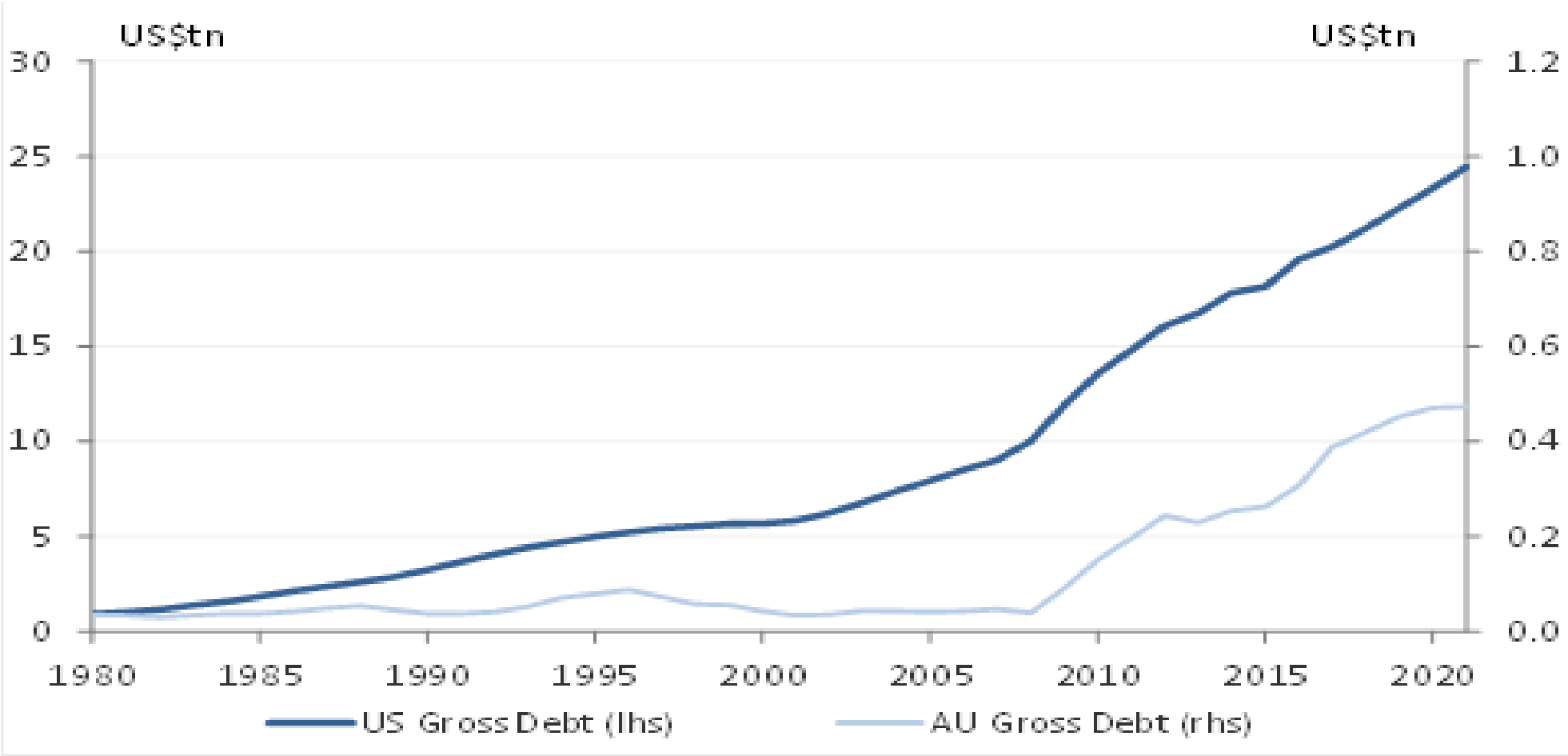
For low inflation

- Overcapacity
- China
- Technology
 - Industry
 - Consumer

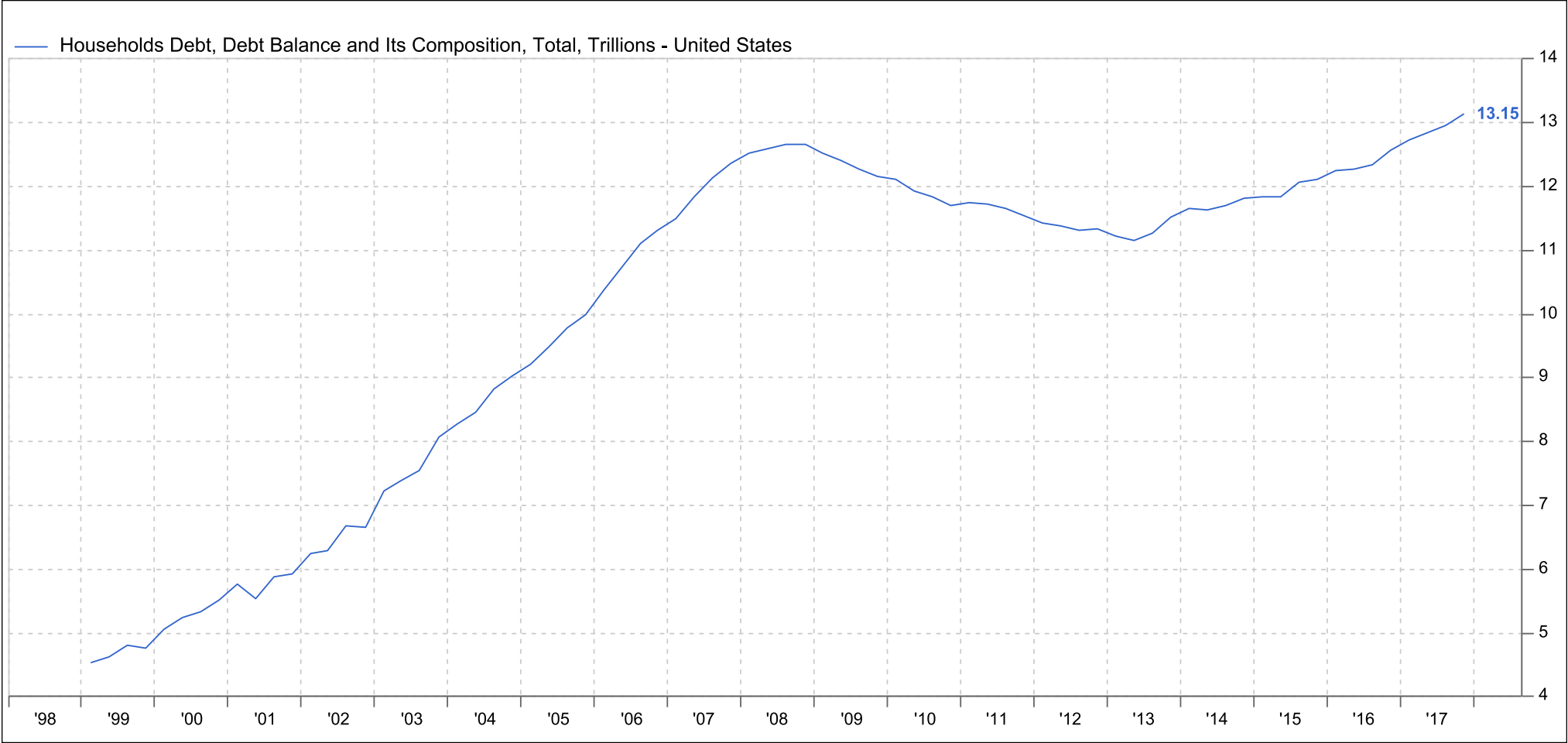
Against low inflation

- Low unemployment
- US stimulus
- US tariffs ??

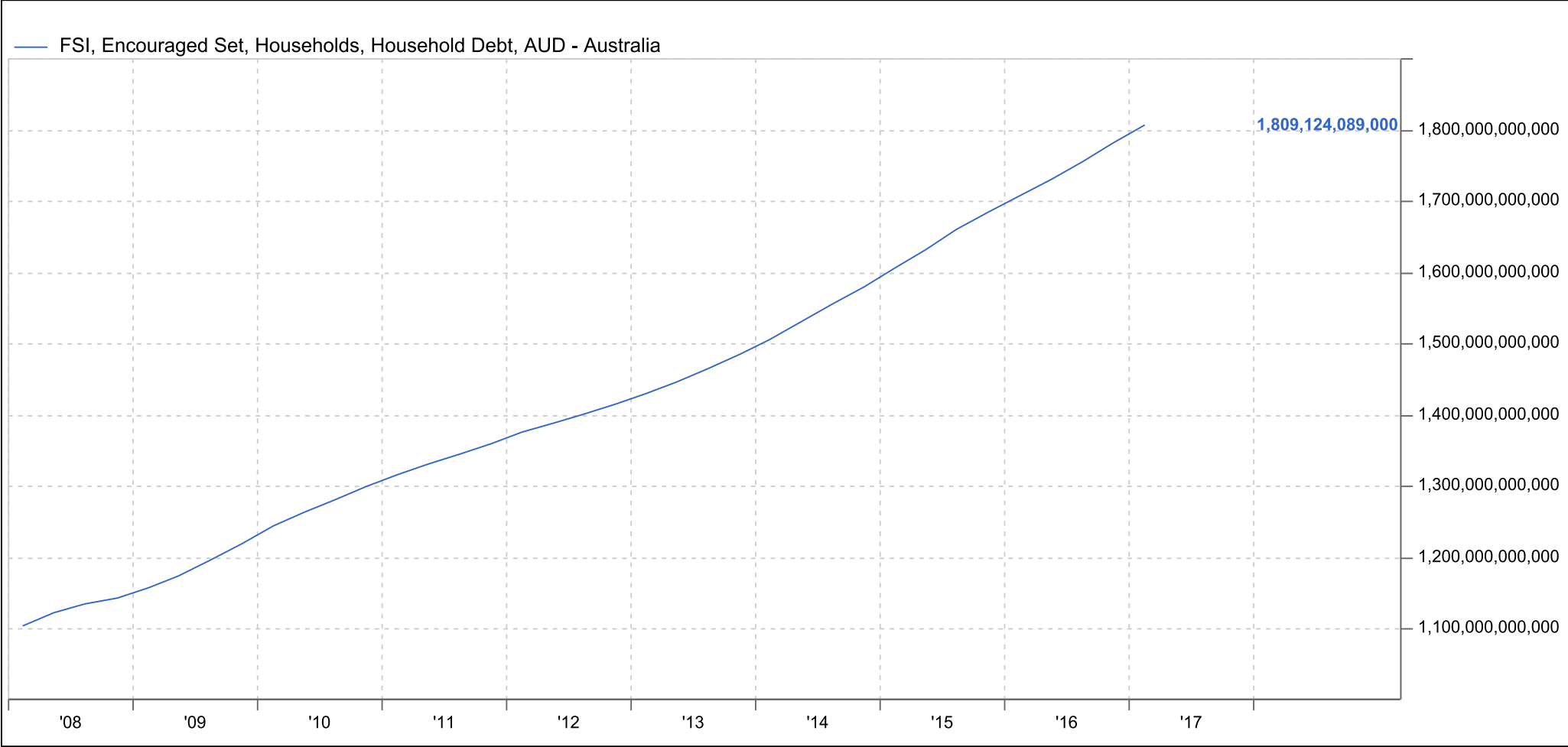
Government debt levels : US and Australia lead the way !



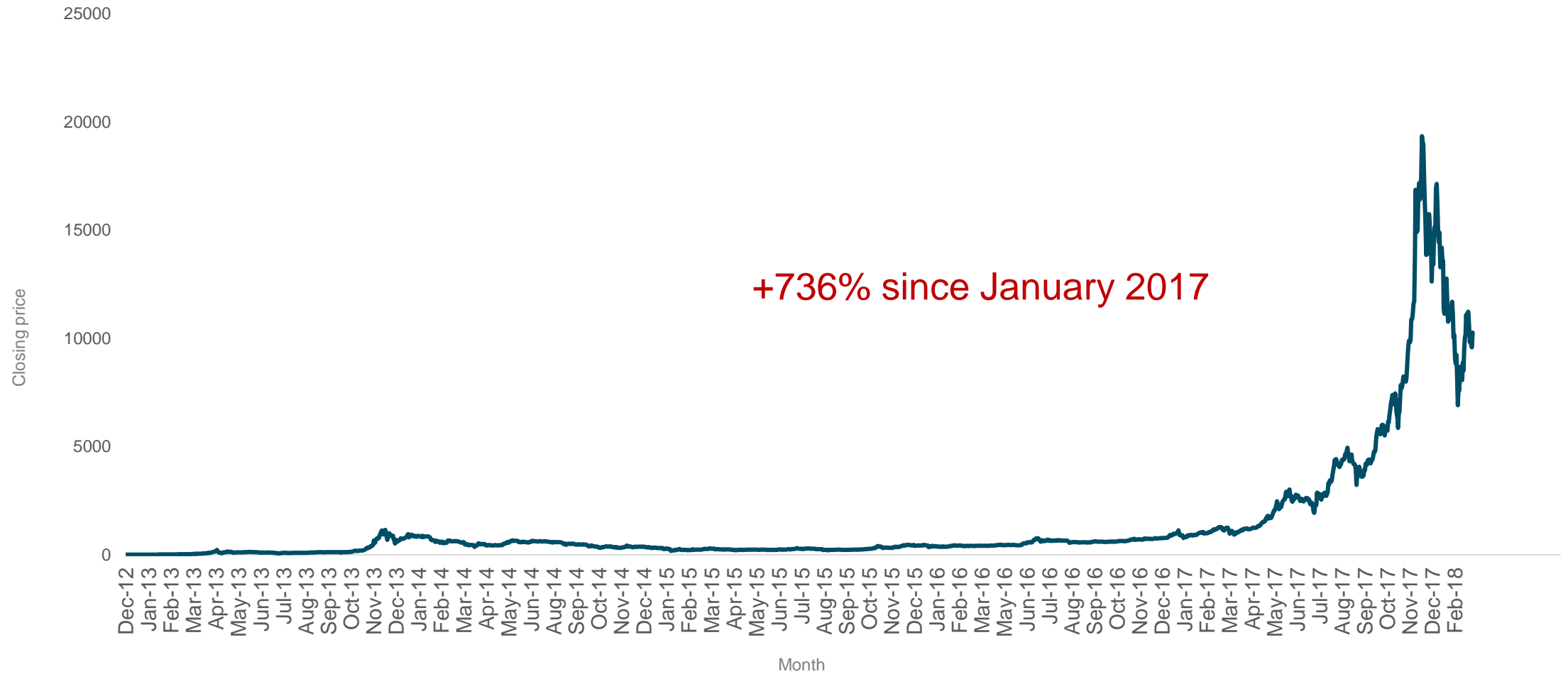
US household debt



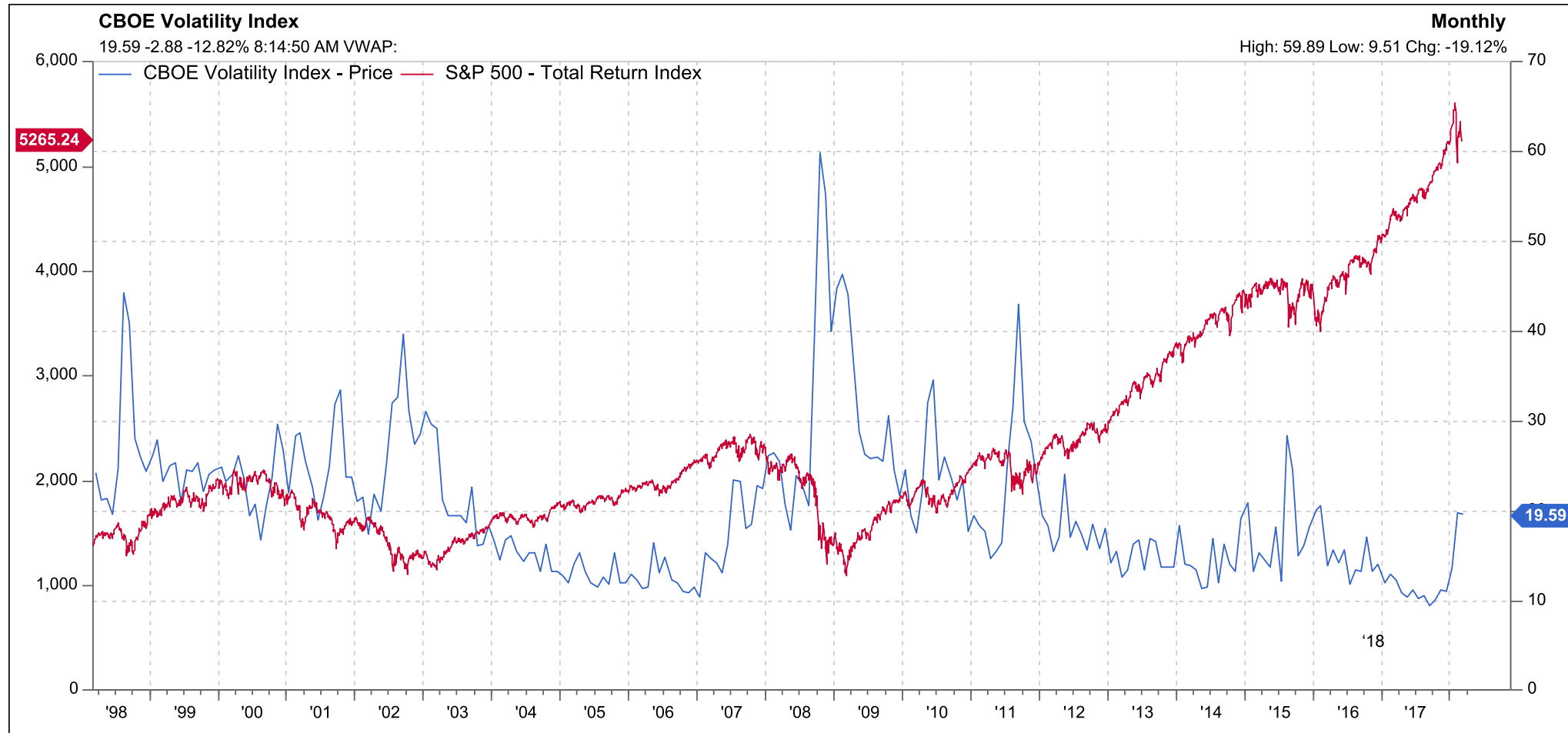
Australian household debt



Bitcoin – the urge to speculate never disappears



VIX at record low



Factors that influenced the Australian sharemarket in 2017

- ❑ US stockmarkets surged to new records on Trump's tax cuts
- ❑ Commodities recovered
- ❑ Interest rates still at record lows

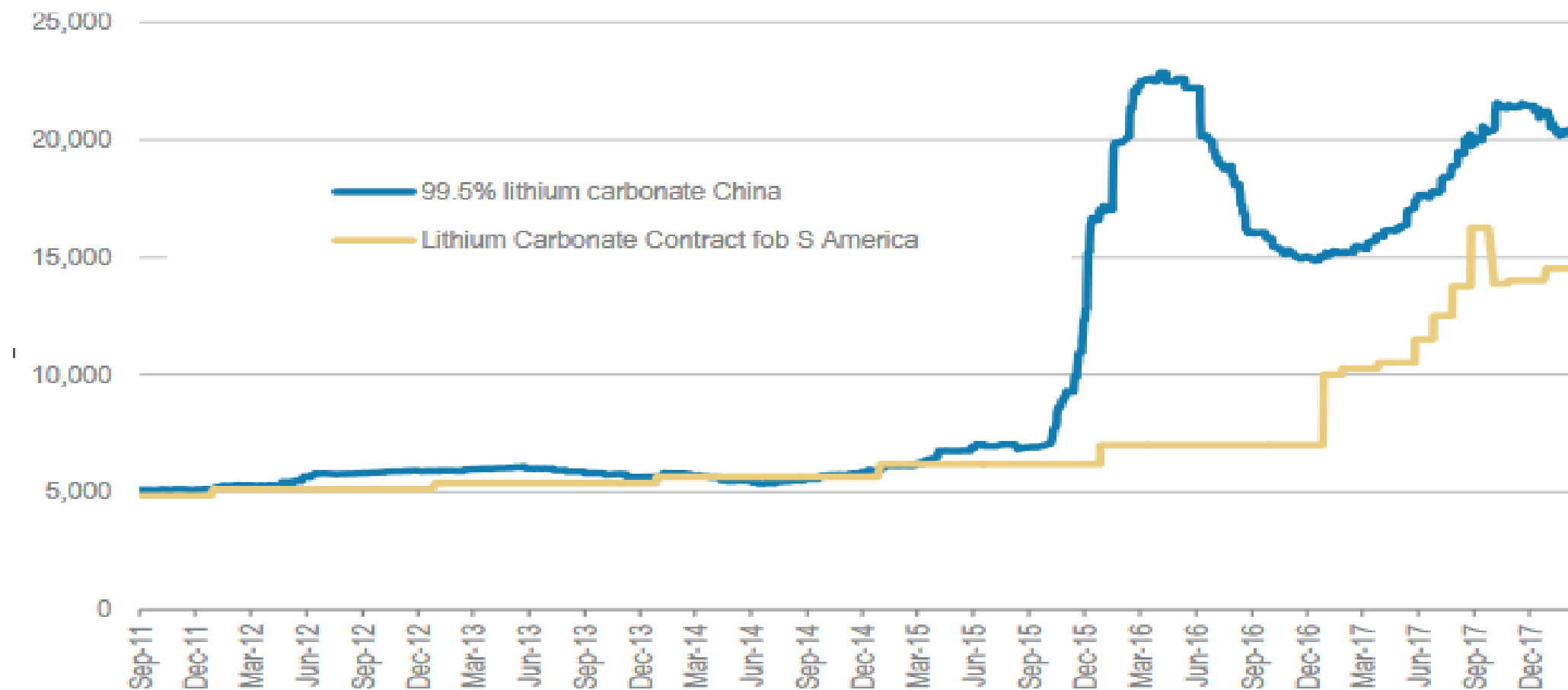
Investment themes

- ❑ We remain cautious of Resource shares

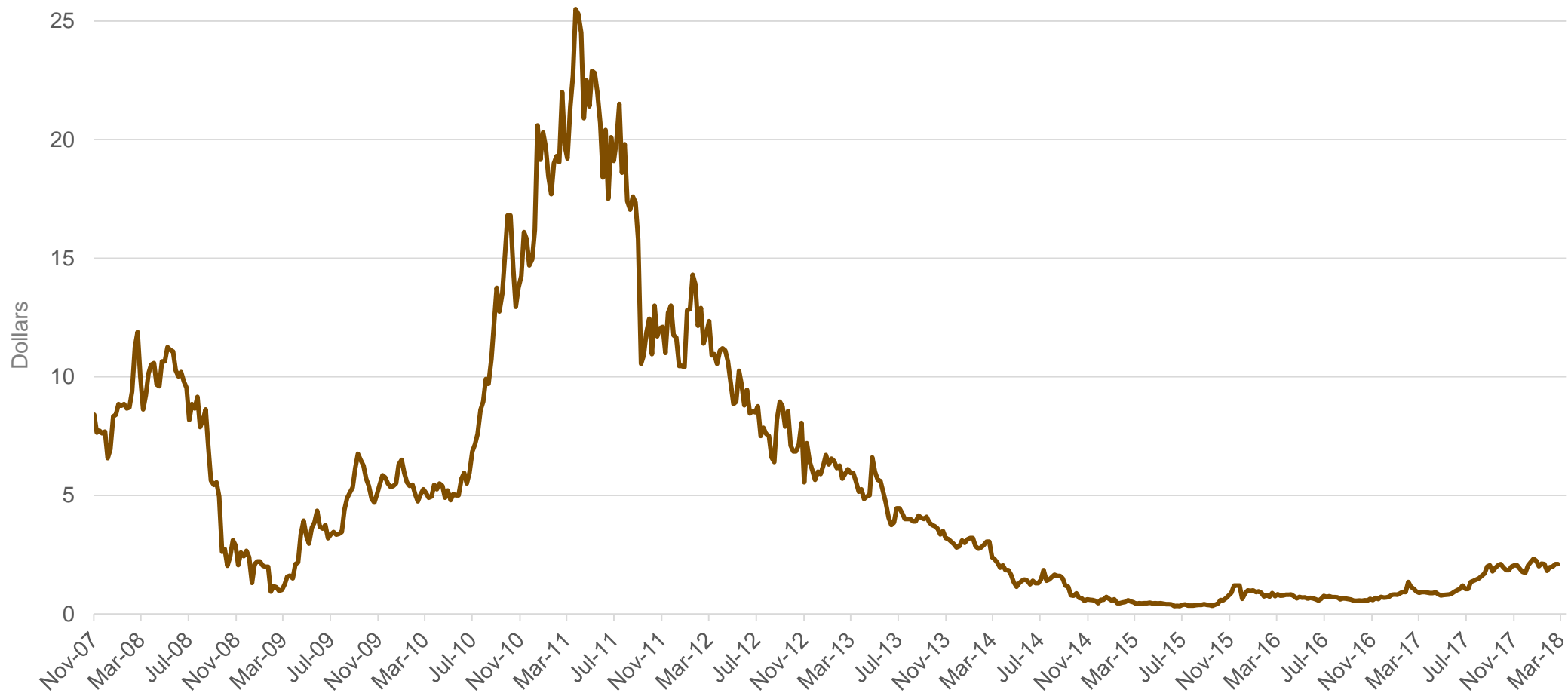
- ❑ Earnings growth is patchy

- ❑ Looking for company specific growth

Lithium price from 2011 to 2018 (USD)



Lynas – rare earth example



Source: IRESS;
as at 4 March 2018

Small Resources – sector reality

❑ High Risk sector

❑ Producers are generally:

- One mine
- One commodity

→ Volatile earnings; or

❑ Exploration plays

Positioning – growing in a low growth economy

Company specific initiatives	
Cost-outs →	Clydesdale Bank
Acquisitions →	Pact Group, Steadfast
Contracted growth →	Shopping Centres Australasia, Spark Infrastructure
Market share gains →	Ansell, GWA
Restructuring →	Fairfax, Caltex

KEY EQUITY INVESTMENTS	ASX Code	Weight
Tox Free Solutions (under takeover)	TOX	4.1%
Amcor	AMC	4.0%
Pact Group	PGH	3.9%
Sonic Healthcare	SHL	3.9%
Crown Resorts	CWN	3.7%
Caltex Australia	CTX	3.7%
Clydesdale Bank	CYB	3.6%
Spark Infrastructure	SKI	3.6%
Orica	ORI	3.5%
Bank of Queensland	BOQ	3.1%

QVE Portfolio- 12 month positive contributors to performance

☐ Tox Free Solutions



☐ Integral Diagnostics



☐ Clydesdale Bank



☐ GWA



☐ Ansell



☐ Crown Resorts

☐ Sonic Healthcare



QVE Portfolio- disappointing performers past 12 months

❑ Mayne Pharma

❑ Fletcher Building

❑ Myer

QVE portfolio activity- Recent buys

Recent buys
Crown Resorts
Coca Cola Amatil
Pro-Pac Packaging
Caltex
Amcor
Spark Infrastructure
Bunnings Warehouse

QVE portfolio activity- Recent sells

Recent sells/trimms
Pinnacle Investments
Ausnet
Flight Centre
TradeMe
AGL
Ansell
Domain



- ❑ Leading integrated casino and resorts operator in Australia
- ❑ Domestic focused strategy to maximise returns & cash flows
- ❑ Strong balance sheet with no net debt
- ❑ VIP activity rebounding from lows
- ❑ Upside from new Sydney casino expected in 2021



- ❑ Leading bottler and distributor in the Asia Pacific region (Australia, New Zealand, Indonesia, PNG & Fiji).
- ❑ Cost reduction initiatives - \$120m by 2020.
- ❑ Investing in the Australian business to drive earnings growth.
- ❑ Innovation – Coca-Cola Raspberry, Coca-Cola & Coffee, etc.
- ❑ New agreement with the Coca-Cola Company.
- ❑ Strong cash flow generation and good yield (5%).



CCL: share price since 2014



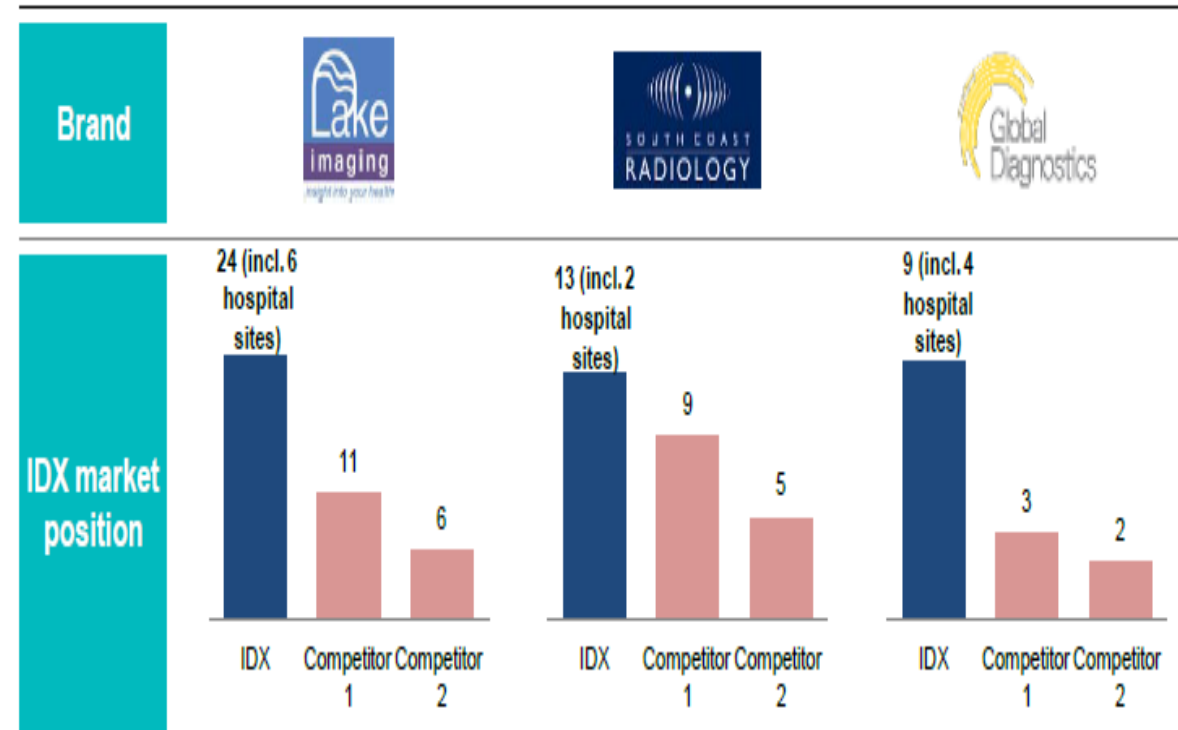
Source: IRESS; As at March 2018

- ❑ Regulated monopoly assets
- ❑ Electricity distribution in SA and VIC, and electricity transmission in NSW
- ❑ Reliable distribution growth – 3 year guidance provided
- ❑ Strong management track record, with SA and VIC assets highly efficient
- ❑ TransGrid acquisition - quality assets with scope for operating efficiencies



- 4th largest radiology business in Australia
- 46 sites (12 hospital co-locations) in VIC, QLD & WA
- Co-pays of ~30% of revenues, much higher than industry average of ~13%

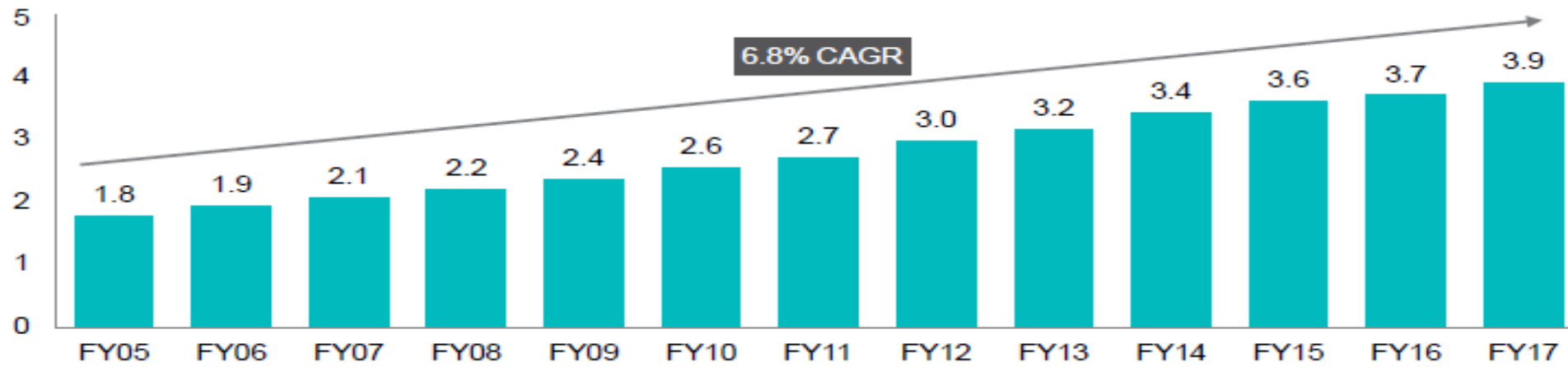
IDX is the clear leader in its regional markets



The industry has attractive long-term fundamentals

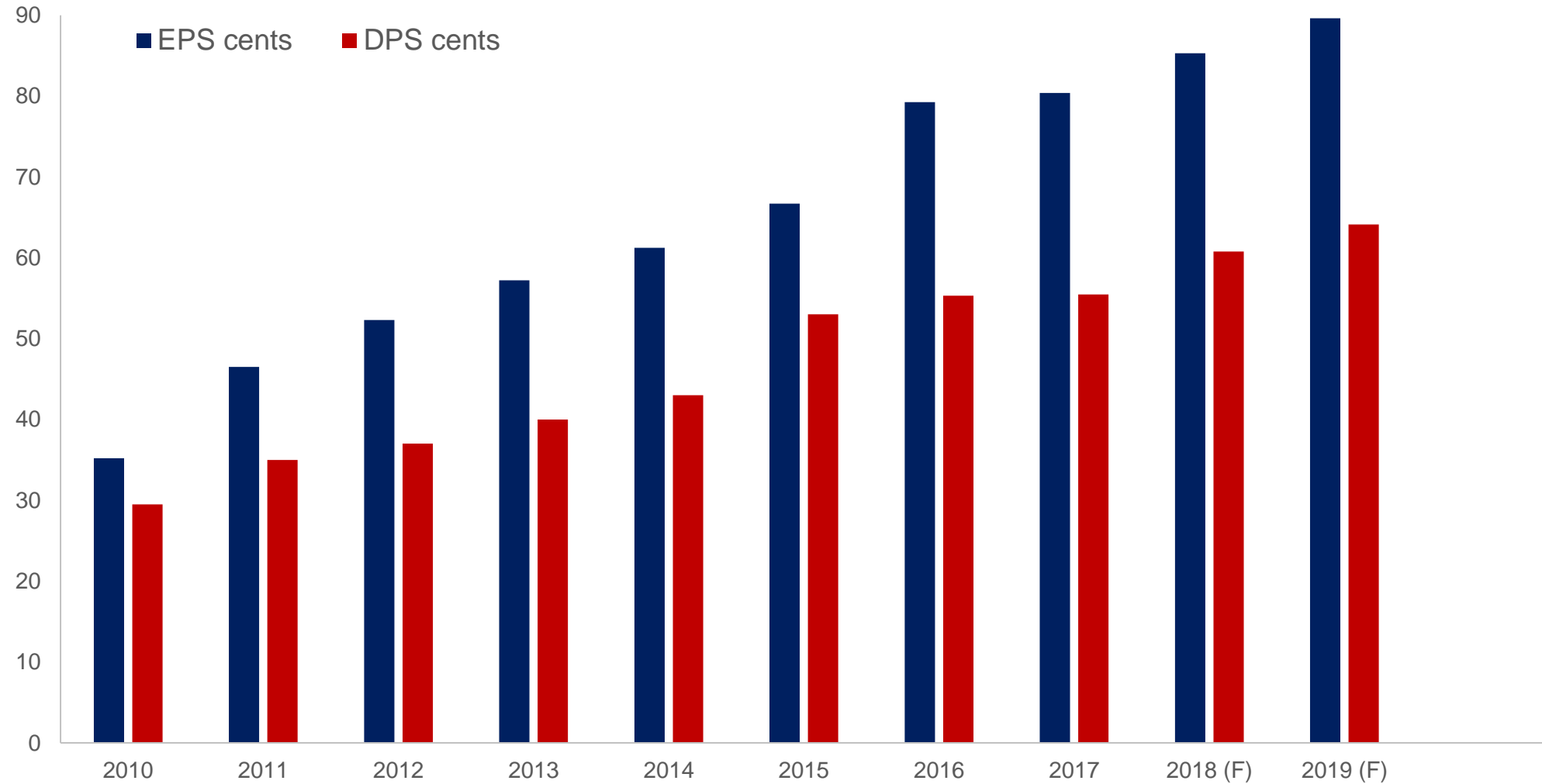
- Industry growth supported:
 - ✓ An aging population
 - ✓ Increasing prevalence of chronic disease
 - ✓ Advancements in DI technology for early diagnosis, screening and treatment

Estimated revenue in IDX's addressable diagnostic imaging market (\$ billions)



- ❑ One of the largest packaging companies in the world
- ❑ Operates out of 200 plants, in 43 countries
- ❑ 95% of sales to consumables (food, beverages, healthcare)
- ❑ Growing through accretive acquisitions around the world

Amcor DPS and EPS



QVE Performance & NTA – February 2018

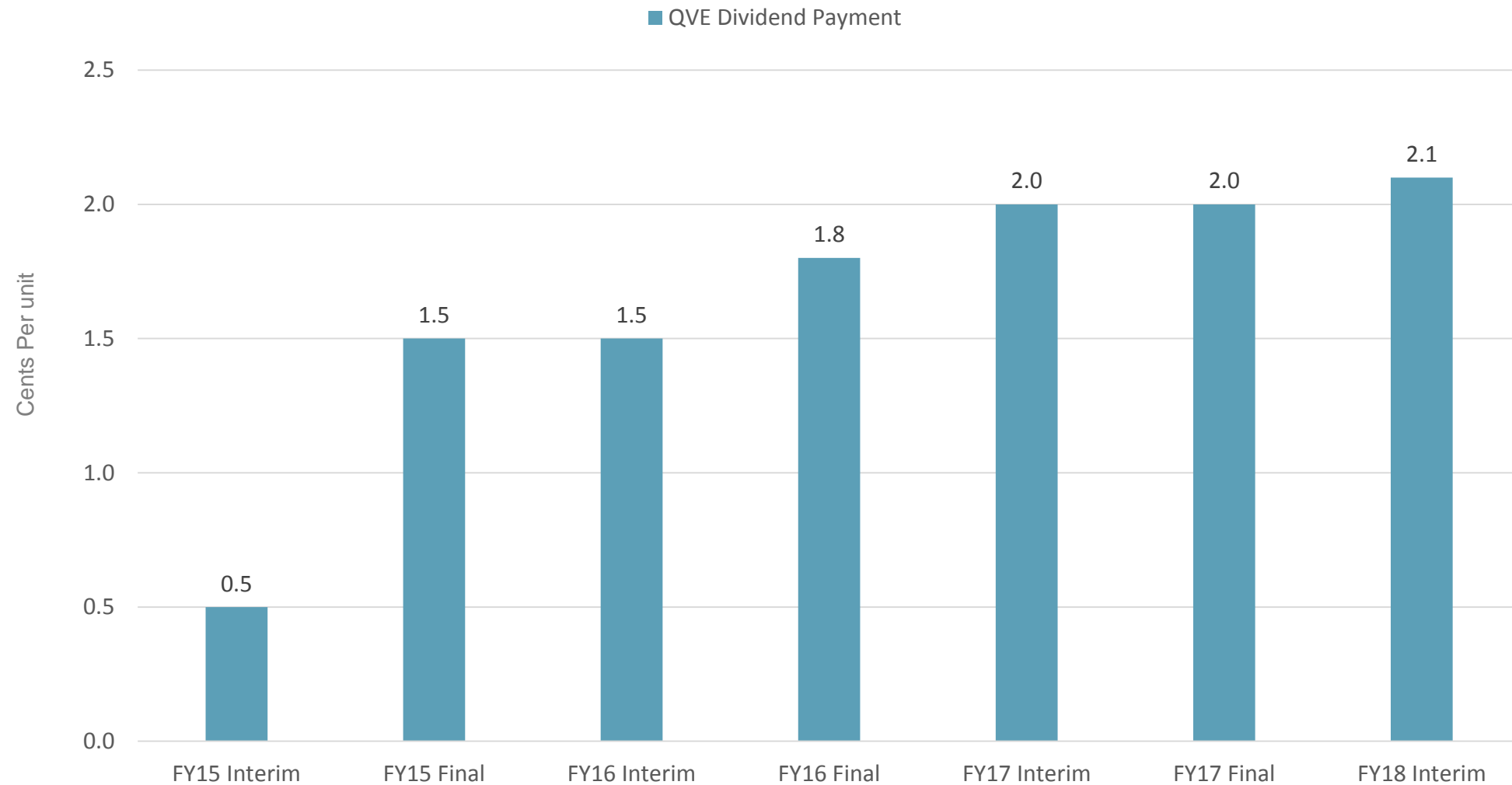
NET TANGIBLE ASSETS (NTA)*	QVE-ASX
NTA before tax (cum div)	1.2185
NTA after tax (cum div)	1.1715

PERFORMANCE*	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-0.6%	-0.3%	-0.2%
3 Months	+0.8%	+0.8%	+0.9%
6 Months	+4.7%	+3.9%	+9.0%
1 Year	+8.4%	+8.6%	+16.9%
Since Inception Total Return p.a	+8.9%	+7.8%	+11.4%

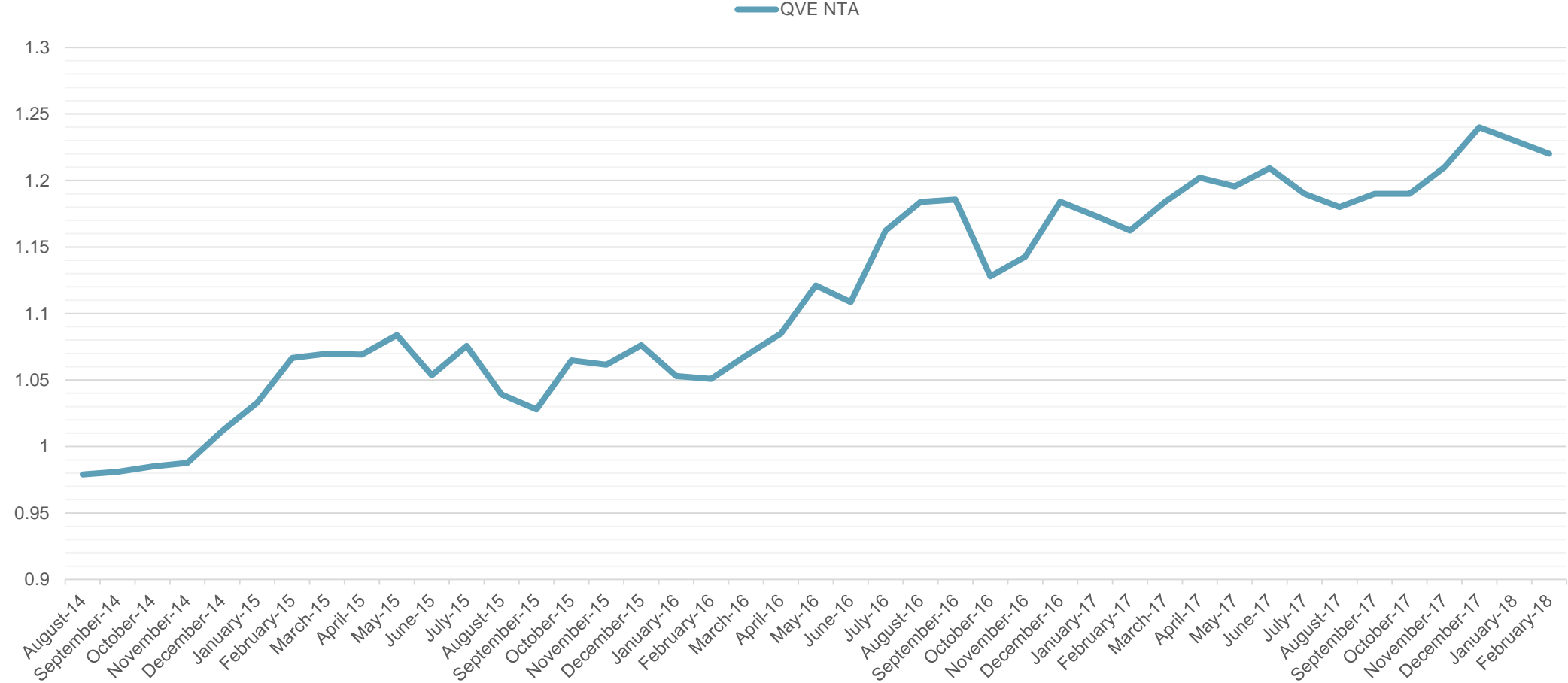
*The before and after tax NTA numbers relate to the provision for tax on net profit in addition to deferred tax on the un-realised gains in the Company's investment portfolio. The Company is a long term investor and does not intend disposing of its total portfolio. Under current Accounting standards, 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.

*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 28 February 2018. Past performance is not indicative of future performance.*

Historical Dividends to QVE Shareholders



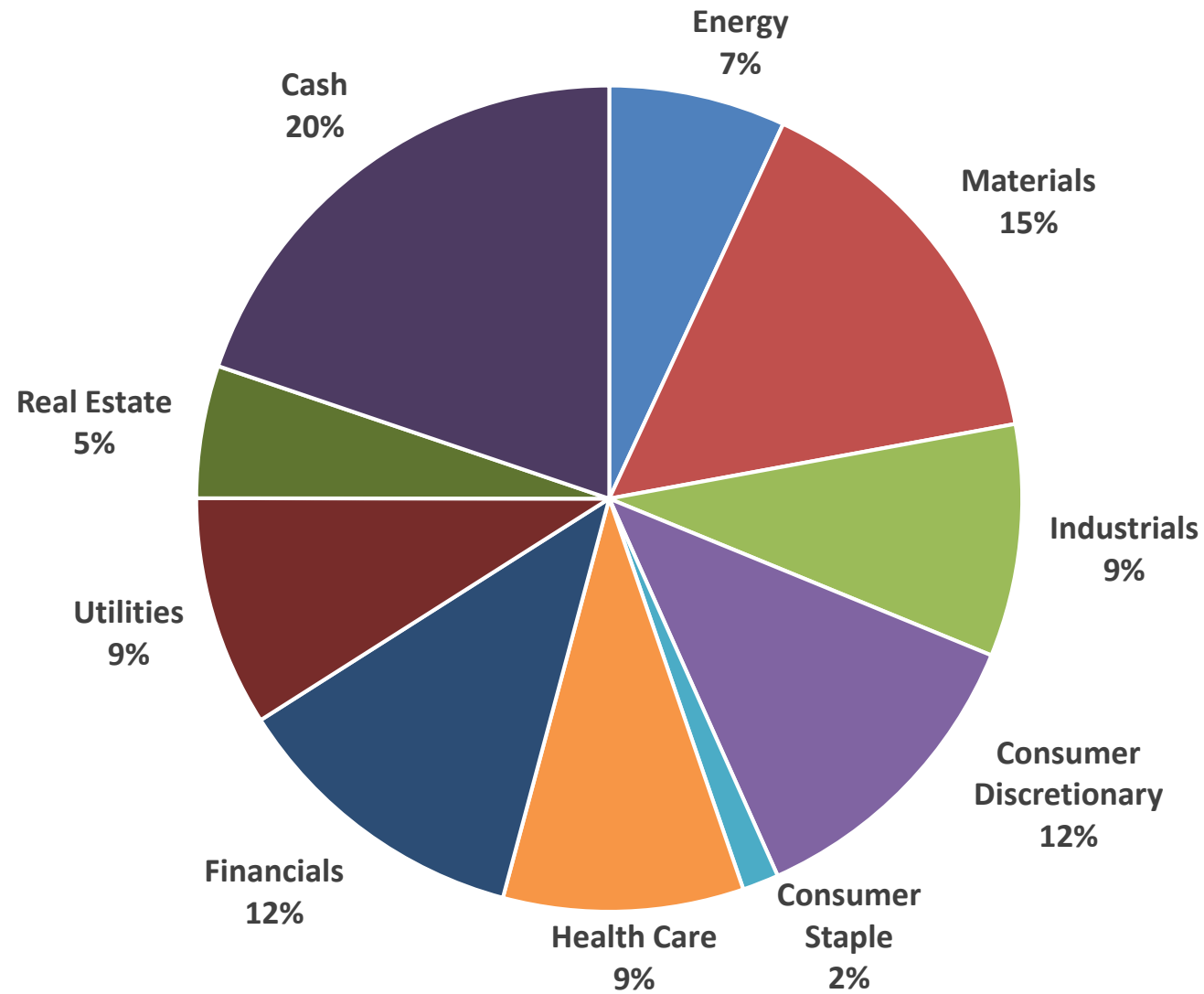
QVE historical NTA



Outlook

- ❑ Global economies growing steadily
- ❑ Record low interest rates
- ❑ Ongoing volatility in the sharemarket
- ❑ Caution and being selective remains the key

QVE Portfolio Weights – as at 28 February 2018



Source: QVE NTA
As at 28 February 2018

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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