

# Investment Update & Net Tangible Assets Report

April 2018



NET TANGIBLE ASSETS (NTA)*		QVE-ASX		QV EQUITIES	
NTA before tax		1.20		ASX Code	QVE
NTA after tax		1.16		Listed	22 Aug 14
*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 (as at 30.04.18)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK	Shares on issue	275.5m
1 Month	+2.2%	+1.6%	+3.9%	Benchmark	S&P/ASX 300 Ex20 Accumulation
3 Months	+0.2%	+0.4%	+1.1%	Number of stocks	20 – 50
6 Months	+3.6%	+3.0%	+5.0%	Dividend Frequency	Half yearly
1 Year	+4.3%	+4.0%	+13.2%	Suggested investment time frame	5+ years
Since Inception Total Return p.a	+9.3%	+7.8%	+11.5%	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 and excludes tax paid for pre tax NTA. Due to the Company's turnover being below \$25 million the Company's corporate tax rate reduced to 27.5% from 1 July 2017. Past performance is not indicative of future performance.

## SHAREMARKET COMMENTARY

Global equity markets recovered their poise in April with a gain of +1.9%, the first positive month since January. Performance was mixed across the global bourses, with the US S&P 500 eking out a small gain of +0.4%, whilst Europe's Stoxx 50 and Japan's Nikkei enjoyed gains of +5.8% and +4.7% respectively, with exporters benefiting from a weaker Euro and Yen.

US stocks were caught in a balancing act throughout April as investors weighed healthy Q1 corporate earnings against the prospect of rising interest rates, with the US 10-year yield breaching 3% for the first time in 4 years. The tepid response of the US equity market to a strong set of Q1 corporate earnings reflects increasing concerns over inflation, with the potential for higher interest rates and input costs to weigh on company profitability.

Commodity markets were mixed over the month. Oil continued its upward momentum gaining +9% to reach a 4-year high courtesy of increasing geopolitical risks as the US reconsiders sanctions on Iran. Aluminium finished the month up +14% following the imposition of US sanctions on Russia's Rusal (which accounts for 6% of global aluminium production), buoying the base metals index which gained +3%. Conversely iron ore finished flat despite the Chinese cutting their reserve requirement by 1%.

The Australian sharemarket as measured by the ASX300 rebounded strongly rising +3.8% to a 7-week high with all sectors finishing in positive territory. The portfolio's ex 20 benchmark was similarly strong gaining +3.9%, with all sectors finishing in positive territory, with the exception of the Financials sector which finished -0.8% lower, as the fallout from the royal commission continues.

The **QVE portfolio** enjoyed a good month gaining +2.2%, although this was below the benchmark's strong return of +3.9%. Our caution to the Resources sector was the primary driver for the Portfolio's relative underperformance, however we remain very comfortable with this positioning given the longer-term performance and volatility of this sector. Our caution to the listed fund managers, along with financial services company IOOF (falling in sympathy with AMP in the wake of the Royal Commission) benefited our relative performance with our preferred stocks in the sector, namely Clydesdale Bank and Steadfast, performing well. Our core industrial holdings in GWA, Orica, Pact and Sonic Healthcare, along with Southern Cross Media and Integral Diagnostics all enjoyed a solid month.

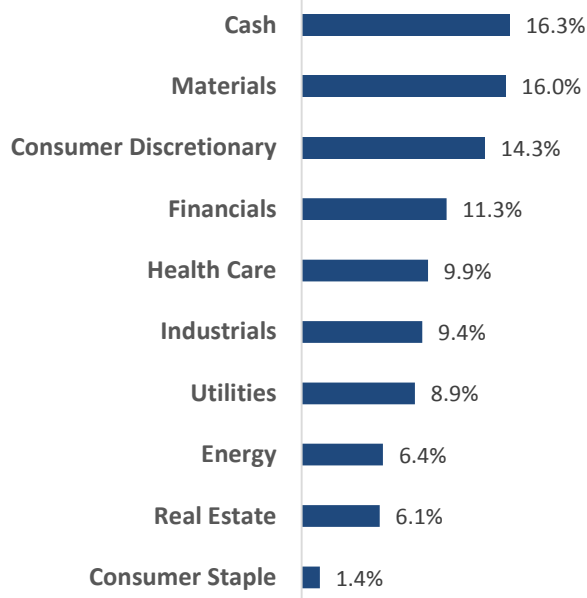
Over the month we topped up on the portfolio's holding in Bank of Queensland as the share price fell on concerns of an increase in funding costs. We believe that at current prices all such concerns are more than reflected in the current share price. We also increased our holding in shopping mall operator Charter Hall Retail early in the month at around the \$3.83 which at this level was trading at a substantial discount to stated NTA and a sustainable yield of over 7%. We also took advantage of strength in the share prices of GWA and Shopping Centres Australasia to lock in some profits as these share prices rallied strongly.

Fletcher Building completed a NZ\$750m capital raising to reduce existing debt and strengthen its balance sheet, with the take up for the offer relatively strong. The company also announced its plan to sell its US Formica laminates business with valuations for the business in excess of \$1b, bringing a renewed focus to its Australian and NZ operations. IML took up its full rights in the capital raising and believes the company is in the process of being turned around under the stewardship of new CEO Ross Taylor.

While investor confidence appears to be returning to global sharemarkets, we remain relatively cautious given the prospect of further interest rate rises in the US as the continued strong US employment numbers and the recent rise in commodity prices and input prices continue to threaten the current low inflation environment. In addition, while the direction of world growth remains positive, it remains a challenging environment for many companies to grow their earnings given the intensely competitive nature in most sectors. With the ECB also due to slow or stop its QE policy in the second half of 2018, we continue to retain a cautious stance and remain comfortable with the portfolio's positioning as we continue to use any weakness in good quality industrial names to put the portfolio's cash holding to work.

KEY EQUITY INVESTMENTS	ASX Code	Weight
Sonic Healthcare	SHL	4.3%
Tox Free Solutions	TOX	4.2%
Amcor	AMC	4.2%
Pact Group Holdings	PGH	4.0%
Clydesdale Bank	CYB	3.8%
Crown Resorts	CWN	3.7%
Spark Infrastructure Group	SKI	3.6%
Orica Limited	ORI	3.5%
Fletcher Building	FBU	3.5%
Caltex Australia	CTX	3.3%

## SECTOR ALLOCATION



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