Investment Update & Net Tangible Assets Report

October 2018

NET TANGIBLE ASSETS (NTA)*	QVE
NTA before tax ex div	1.13
NTA after tax ex div	1.11

*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 31.10.18)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-4.6%	-3.3%	-7.2%
3 Months	-6.3%	-4.6%	-6.7%
6 Months	-2.4%	-1.4%	-2.7%
1 Year	+1.0%	+1.5%	+2.1%
Since Inception Total Return p.a	+7.5%	+6.5%	+9.3%

QV EQUITIES	
ASX Code	QVE
Listed	22 Aug 14
Shares on issue	276.0M
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 5 year basis

The above returns are after fees and assumes all declared dividends are reinvested and excludes tax paid for pre tax NTA. Past performance is not indicative of future performance.

SHAREMARKET COMMENTARY

Global equity markets fell heavily in October as the Federal Reserve continued to raise US interest rates during the month, while uncertainty surrounding Trump's trade tariffs caused fear over global growth going forward. The continued Brexit saga and concerns over Italy's new budget breaching EU guidelines did little to help investors' nerves. As a result, the MSCI World index finished -7% lower as the S&P500 fell -7% for the month erasing all gains made since the start of 2018. The tech heavy NASDAQ index fell -9% as many of the tech darlings, trading on lofty valuations, led the wider market lower due to a much needed correction. Over the month, the US Federal Reserve signaled its willingness to continue raising interest rates in an effort to limit any overheating in the US economy. Over the month the US 10-year bond yield rose to a 7-year high of 3.2% due to the US economy's strength and the impact of Trump's policies on the ballooning US Budget deficit.

In line with global markets, the Australian market experienced one of its worst months on record falling -6.2% wiping out all gains made this calendar year, with the market also falling more than 10% from the recent decade high reached in late August - a clear sign of how quickly markets can turn.

The ex20 segment of the market fell -7.2% with all sectors finishing the month firmly lower and the previously high flying tech sector falling -10%, as this year's high flyers such as Wisetech and Afterpay fell over -20%. The Energy sector also fell heavily as the oil price - buoyed previously by claims from several analysts that it was heading back to USD 100 a barrel - reversed its recent gains with the sector dropping -10% over the month. The Financials sector fell -8.4% as listed fund managers weighed heavily given their leverage to financial markets, along with the embattled AMP falling another -20% reflecting what was seen as a very unsatisfactory price for the sale of the company's life insurance business. The defensive sectors such as the Utilities proved somewhat more resilient falling -3.4%, despite the spike in bond yields.

In a challenging month, the ***QVE portfolio*** finished -4.6% lower, which whilst disappointing was ahead of its benchmark's fall of -7.2%. While many stocks held in the portfolio fell over the month, we remain comfortable with the fundamentals of the companies held by the portfolio. Thus, GWA fell heavily on fears around softer new housing approvals – however given the majority of its business comes from the more stable renovation market, we believe that GWA – which is debt-free and has excellent management– looks good value trading on a PE of 14 x and a yield of greater than 6%. Clydesdale Bank (CYB) fell heavily on Brexit fears though we remain positive on the companys' long-term prospects due to the company's recent value accretive acquisition of Virgin Money and with CYB recently also achieving advanced accreditation which frees up significant capital to fund future growth or to fund a capital return or higher dividends to shareholders.

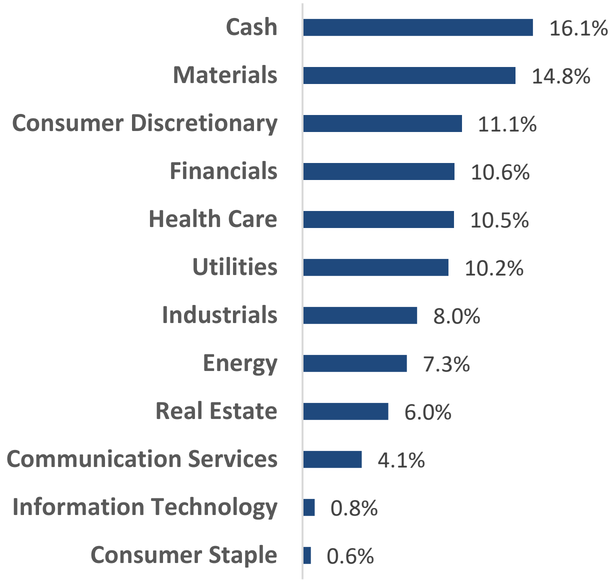
The defensive positioning benefited the portfolio through the month as the more expensive and frothy parts of the market - such as in the technology and select consumer facing sectors - came under significant pressure. Our portfolio's heavy bias towards quality industrials such as Shopping Centres Australasia, Ausnet, Steadfast, Spark Infrastructure, Orica and Aurizon all helped the portfolio hold up better than the market.

We used weakness throughout the month to deploy our cash holdings selectively to top up on our positions in good quality industrial companies that we believe are well positioned to grow their earnings and dividends in the years ahead, including companies such as Tabcorp, GWA, Regis Healthcare and Abacus Property. We also used weakness in Unibail-Rodamco (URW) to buy a holding in the company – URW owns some of the best shopping centres in the world and trades at a 20% discount to NTA and pays a 7% yield. Early in the month we used strength in the share prices of Mayne Pharma and Shopping Centres Australasia to trim our positions as both these stocks rallied towards our valuation.

The significant increase in volatility and pull back in global markets was in our view well overdue although it has to be kept in perspective of the strong rises many markets have recorded in recent years. With US interest rates set to increase further in the near future and with an election due in Australia in the next 6 months, we remain wary. However, we continue to look for opportunities to use weakness in good quality industrial names to put the portfolio's cash holding – which now sits at 16% - to work.

KEY EQUITY INVESTMENTS	ASX Code	Weight
Spark Infrastructure Group	SKI	4.4%
Amcor Limited	AMC	4.2%
Caltex Australia	CTX	4.1%
Crown Resorts	CWN	4.0%
Clydesdale Bank	CYB	3.9%
Orica Limited	ORI	3.8%
Sonic Healthcare	SHL	3.8%
Pact Group Holdings	PGH	3.4%
Steadfast Group	SDF	3.4%
Aurizon Holdings	AZJ	3.3%

SECTOR ALLOCATION



CONTACT US:

Wayne McGauley
Head of Retail
wayne.mcgauley@iml.com.au
M: 0404 012 644

Luke Mackintosh
State Manager NSW & SA
luke.mackintosh@iml.com.au
M: 0432 147 399

Sam Harris
Key Account Manager
NSW & ACT
sam.harris@iml.com.au
M: 0429 982 159

Justin Brooks
State Manager
VIC, TAS & WA
justin.brooks@iml.com.au
M: 0416 194 633

INVESTMENT ENQUIRIES
info@qvequities.com
1800 868 464

CORPORATE ENQUIRIES
1300 552 895

PORTFOLIO MANAGERS:

Simon Conn and Anton Tagliaferro

Level 24, 25 Bligh Street, Sydney NSW 2000 I PO Box H104, Australia Square, Sydney NSW 1215 I ACN 169 154 858
Contact QV Equities Ltd. for further information I (+61) 1800 868 464 I www.qvequities.com I **info@qvequities.com**