

Monthly Investment Update & Net Tangible Assets Report

August 2020



NET TANGIBLE ASSETS (NTA)* as at 31 August 2020		QVE	QV EQUITIES	
NTA before tax (ex div)		\$0.93	ASX Code	QVE
NTA after tax (ex div)		\$0.97	Listed	22 Aug 14
			Shares on issue	257.6M
			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 before and after tax NTA numbers relate to the provision for tax on net profit in addition to deferred tax on the unrealised gains/losses 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/losses that might arise on such a theoretical disposal, after utilisation of brought forward losses. All figures are unaudited and approximate.

PERFORMANCE (as at 31.08.20)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	+2.8%	+2.1%	+5.0%
3 Months	+0.9%	+1.1%	+7.4%
6 Months	-7.4%	-4.5%	+0.7%
1 Year	-12.4%	-7.6%	-2.4%
Since Inception Total Return p.a	+3.6%	+3.6%	+8.9%

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

SHAREMARKET COMMENTARY

The MSCI World Index enjoyed another strong month, rising a further +6% in August led by a strong rally in the share prices of US technology companies and the continued accommodative conditions created by Central banks around the world. The US S&P500 index returned +7% in August, its fifth consecutive month of gains taking the index to a new record high. Technology stocks led the charge as evidenced by the 10% jump in the tech heavy Nasdaq with the unbridled enthusiasm for this sector continuing. Signs of technology companies overheating were apparent over with Tesla shares rallying over +70% in August, to round out a +500% gain so far this year, while a good result by Zoom saw its market cap overtake that of technology stalwart IBM. Around the globe, markets were also positive with Europe's Stoxx50 index and Japan's Nikkei gaining +3% and +7% respectively.

The ASX300 also enjoyed a strong month returning +3.1% helped by strength in overseas markets and in commodity prices. Commodity prices rallied over the month thanks to weakness in the US dollar with the oil price gaining a further +5%. The iron ore price jumped a further +14% over the month due to ongoing supply constraints as COVID continues to severely impact many of Brazil's iron ore operations.

The FY 2020 reporting season was a mixed affair with the impact of the pandemic very apparent. Overall, 2nd half EPS declined by -38% for the average company compared to the prior comparable period, and only a quarter of companies able to grow earnings. All companies involved in leisure, entertainment and travel activities reported significant declines as profits evaporated from March 2020 onwards as various restrictions were imposed. Companies involved in sectors such as supermarkets, renovation activity and online selling did well. Nearly all companies refrained from providing guidance given the uncertain backdrop.

The ex20 segment of the market enjoyed a strong month, returning +5.0% led by the Consumer Discretionary and IT sectors which both rallied over +15%. The Consumer Discretionary sector was buoyed by strong performances from travel stocks such as Flight Centre, Webjet and Corporate Travel. Additionally, discretionary retailers such as JB HiFi and Nick Scali performed well as recent sales were buoyed by the large government handouts and super withdrawals, as well as people being unable to travel overseas. The ex20 Technology sector also enjoyed a strong month, with the momentum in the Nasdaq encouraging investors here to buy local technology stocks such as Afterpay and WiseTech, which both finished the month with gains of over +30%. Paradoxically despite the continued uncertain economic backdrop, the only sectors to finish the month lower were the more defensive Utilities and Consumer Staples sectors.

The QVE Portfolio had a solid month returning +2.8%, albeit this was below the benchmark's strong return of +5.0%. Our caution to the speculative froth within the Technology sector held back relative performance. Also weighing on the portfolio's relative return was our near zero exposure to discretionary retailers which were up strongly over the month, driven by what appears to be unsustainably strong sales activity. The portfolio's defensive aspects came to the fore during the month with packaging stocks Amcor, Pact and Pro-Pac all reporting higher profits. Stocks such as explosives and fertiliser producer Incitec Pivot, radiology company Integral Diagnostics and supermarket, liquor and hardware supplier Metcash also did well over the month. We took advantage of strength in the share prices of Genesis Energy, Sonic Healthcare and Nine Entertainment to trim our exposure and realise part profits over the month while using the proceeds to top up on good quality companies at attractive prices such as Metcash, Tabcorp and Orora.

Major uncertainties remain about the sustainability of economic growth as government income support and self-imposed bank interest deferrals are scheduled to taper in the next 6 months. Given Australia's strict travel restrictions, we anticipate unemployment will remain relatively high going into 2021 and given record household debt in Australia, this could affect the level of demand across certain sectors of the economy as well as cause a substantial pick up in non-performing bank loans.

We thus maintain a cautious stance and are continuing to focus on companies that, in our view, have a strong franchise, experienced capable management and a resilient business that can continue to generate healthy cash flows through uncertain economic times. While the portfolio's performance continues to lag the current market, we remain comfortable with the way the portfolio is positioned in light of the uncertainties ahead. We continue to buy back shares in QVE with over 4 million shares bought back during August. With the shares trading at a discount to the NTA of over 10%, such purchases are accretive to long term shareholders.

KEY EQUITY INVESTMENTS	ASX Code	Weight
Amcor	AMC	5.1%
Crown Resorts	CWN	4.6%
AusNet	AST	4.5%
Ampol	ALD	4.5%
Tabcorp	TAH	4.5%
Aurizon	AZJ	4.5%
Pact Group	PGH	4.1%
Orica	ORI	3.8%
Sonic Healthcare	SHL	3.6%
Incitec Pivot	IPL	3.1%

SECTOR ALLOCATION

Materials	20.85%
Cash	14.07%
Consumer Discretionary	13.62%
Energy	10.31%
Health Care	8.88%
Utilities	8.49%
Real Estate	6.04%
Communication Services	5.96%
Industrials	5.16%
Consumer Staples	3.08%
Financials	2.52%
Information Technology	1.02%

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Release authorised by Company Secretary, Zac Azzi.

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