

28 February 2022

## Net Tangible Assets (NTA)\*

QVE NTA before tax	\$1.09
NTA after tax	\$1.10

## Trailing 12 month yield on month end share price

Yield	4.69%
Grossed up yield including franking credits	6.71%

\*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.

## Sharemarket and Portfolio Commentary

Global equity markets endured another volatile month, with most major bourses finishing in negative territory for a second straight month as the crisis in Ukraine intensified and Russian sanctions reverberated through financial markets. The MSCI World Index finished February down -2.6%, whilst the US S&P500 index shed a further -3.0%, a cumulative loss of over 8% so far this calendar year. Across the Atlantic, the mood was equally as sombre with Europe's Stoxx50 index falling -5.9%, given the continent's proximity and ties to the Russian economy, most notably Germany which relies upon Russia for 60% of its energy requirements.

For much of February, investors remained preoccupied with the prospect for a significant increase in interest rates by the world's central banks as they look to contain rapidly rising inflation, which in the US has spiked to a 40-year high, accentuated by the jump in oil prices. However, expectations for rate increases moderated as investors weighed mounting inflationary pressures with near term economic uncertainty as a result of Russia's invasion of Ukraine and ensuing sanctions. This was reflected in US 10-year bond yields falling from recent two-year highs of 2% back down to 1.7%, whilst German yields fell back below 0%.

Commodity prices enjoyed a strong month as investors weighed significant supply constraints on key Russian exports such as oil, gas and agricultural crops. The oil price surged a further +10% in February to push through the US\$100 per barrel mark, its highest level since 2014. European Gas prices surged to a new all-time high as the continent looks to other markets to supplement its energy supplies. Finally, agricultural futures surged, such as wheat and corn with key supplies coming from both Russia and Ukraine facing mass disruption. The exception was iron ore which slipped -5% following its strong run of late on Chinese stimulatory measures.

The Australian sharemarket as measured by the ASX300 proved more resilient relative to its global peers finishing the month +2.1% higher, courtesy of a very buoyant Resources sector which added +6.3% as commodity prices continued to rise. Additionally, the local market benefited from a well-received 1H22 reporting season, with companies cautiously optimistic as they emerge from covid related impositions. Additionally, inflation beneficiaries - those companies with pricing power and leaders within their respective industries - enjoyed a strong month. Conversely, the prospect of higher interest rates intensified the focus on many over-valued and speculative names, especially within the tech and online retail sectors, with any sign of earnings misses or caution punished dearly. Former lockdown darlings were also sold down as current earnings were weighed against the prospect of pre-covid normalcy.

The ex20 segment of the market enjoyed a solid month rising +1.4%, albeit with mixed sector performance. The ex20 Resources sector rallied close to +7% courtesy of strong performance from base metal, gold and lithium miners as well as the energy plays. Within the industrials segment of the market the Consumer Staples sector added +7% with soft commodity plays particularly strong, as solid results coupled with an uptick in agricultural futures buoyed their share prices. Endeavour Group and Treasury Wines similarly enjoyed a strong month highlighting robust demand given the nascent recovery in hospitality. The Utilities sector continued its run higher courtesy of both AGL and Origin with both companies set to benefit from the expected increase in electricity prices. On the negative side of the ledger, the local Tech sector fell a further -8% as many of the former high flying concept stocks were punished as many companies' earnings and guidance failed to live up to often unrealistic expectations. The Communication Services sector fell -6%, weighed down by sector heavyweights REA Group, Carsales and Seek as investors readjust their valuations in light of rising interest rates, despite all these companies delivering solid results. Finally, the Consumer Discretionary sector was weighed down by Domino's Pizza which fell -24% following the release of a poor 1H22 result, which flagged rising food inflation, as well as a slowing sales growth as consumers return to restaurants again.

The **QVE Portfolio** enjoyed a solid month gaining +1.4%, in line with the benchmark's return. Despite our relative underweight to Resources stocks, several of our core holdings drove performance. These included good quality companies such as Pact, Orica, Coles, Metcash and Nine Entertainment. Also holding the portfolio in good stead was our caution toward speculative and concept-driven companies in the Technology, Online Retail and Meditech sectors.

Over the month we took advantage of share price appreciation in Event Hospitality to exit our holding. While we believe the company's assets and management are of high quality, we believe at prices over \$14 the company appears fully valued. We also trimmed some Cleanaway as it reached our share price target. We used the proceeds to top up our holdings in good quality companies such as Bega Cheese, GUD, SkyCity, Santos and United Malt, all of which in our opinion are trading on attractive valuations and have good prospects ahead of them.

With many central banks looking to start raising interest rates over 2022, the invasion of Ukraine, the resultant spike in many commodity prices and imposition of sanctions on Russia has complicated the outlook for markets. This uncertainty makes it difficult to predict the impact on economic growth going forward, while the outlook for inflation has worsened given rising commodity prices. Despite the many uncertainties, we continue to invest the portfolio in companies that we know well and where we remain positive on their 3-to-5-year outlook.

We have always steered away from the riskier parts of the sharemarket and have remained focused on identifying and holding only what we assess to be good quality companies. Despite the uncertain impact on economic growth from the consequences of the Russian invasion of Ukraine, interest rates still look set to increase from their current historic lows. We continue to believe that in this environment, well-managed companies, in leading industry positions, which can maintain margins by passing on higher input prices to customers and which generate good cashflows and dividends should continue to do well over the next 3-5 years. The portfolio also holds around 15% in cash, which we believe is warranted given the many uncertainties.

Portfolio Performance	1 month	3 months	1 Year	3 years^	5 Years^	Since listing^ 22-Aug-2014
QVE NTA (pre tax)	+1.4%	+0.2%	+15.5%	+4.9%	+4.6%	+6.3%
QVE NTA (after tax)	+1.3%	+0.4%	+11.6%	+4.4%	+4.3%	+5.5%
Benchmark**	+1.4%	-4.3%	+11.4%	+8.7%	+9.5%	+9.6%

^ Performance per annum. \*\* The benchmark is the S&P/ASX 300 Ex20 Accumulation. The above returns are after fees, assume all declared dividends are reinvested, and exclude tax paid from pre-tax NTA. Past performance is not indicative of future performance.

## QVE Company and Portfolio Information

ASX: QVE

Shares on Issue:	229.8 M	Benchmark:	S&P/ASX 300 Ex20 Accumulation
Number of Stocks:	20 – 50	Suggested Investment Timeframe:	5+ years
Dividend Frequency:	Quarterly	Investment Objective:	To provide a rate of return which exceeds the return of its benchmark on a rolling 5-year basis

## Latest QVE News

- QVE released its half-yearly results to 31 December 2021 [Find out more](#)
- A fully franked interim dividend of 1.2 cents per share for the December quarter was paid on 4 March 2022.
- QVE Portfolio Managers Anton Tagliaferro and Simon Conn discussed their perspective on Market Corrections in a webinar held on 9 February [Watch recording](#)

## Portfolio Managers

Simon Conn and Anton Tagliaferro



## Key Equity Investments

ASX Code	Weight
Orica	5.3%
Aurizon	5.0%
Crown Resorts	4.9%
Pact Group	4.6%
Amcor	4.5%
Ampol	4.4%
Sonic Healthcare	3.3%
Tabcorp	3.1%
Origin Energy	3.1%
Southern Cross Media	2.5%

## Sector Allocation

Materials	18.2%
Cash	14.5%
Consumer Discretionary	12.4%
Health Care	9.2%
Energy	9.0%
Communication Services	7.4%
Financials	7.3%
Industrials	6.8%
Consumer Staples	6.1%
Real Estate	5.8%
Utilities	3.2%

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Release authorised by Company Secretary, Zac Azzi.

*Investors Mutual Limited AFSL 229988 has prepared the information in this announcement, as the Investment manager for, and on behalf of, QV Equities Limited ACN 169 154 858 (QVE). This announcement has been prepared for the purposes of providing general information only and does not constitute an offer, solicitation or recommendation with respect to the purchase or sale of any securities in QVE nor does it constitute financial product or investment advice nor take into account your investment objectives, taxation situation, financial situation or needs. An investor must not act on the basis of any matter contained in this announcement in making an investment decision but must make their own assessment of QVE and conduct their own investigations and analysis. Sharemarkets can move up and down and this may adversely impact your investment return. Past performance is not a reliable indicator of future performance.*

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