

# Investment Update & Net Tangible Assets Report

January 2016



NET TANGIBLE ASSETS (NTA)*		QVE-ASX	QV EQUITIES	
NTA before tax		1.1736	ASX Code	QVE
NTA after tax		1.1220	Listed	22 Aug 14
			Shares on issue	221.5
			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 4 year basis

PERFORMANCE	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-0.9%	-0.6%	-1.1%
3 Months	+4.0%	+3.1%	+3.7%
6 Months	+2.6%	+2.8%	-1.7%
1 Year	+14.8%	+12.1%	+19.6%
Since Inception Total Return p.a	+9.9%	+8.0%	+8.9%

\*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.

*The above returns are after fees and assumes all declared dividends are reinvested*

## SHAREMARKET COMMENTARY

Global equity markets started the year in buoyant mood, continuing the rally that started after the election of Trump as President of the US in November. The rally ran out of steam towards the end of the month as some of the post-election optimism started to wane. Nevertheless, the MSCI World Index finished the month up +2.4%, with Emerging Markets leading the way gaining +5.5%. In the US the Dow pushed through the fabled 20,000 level for the first time in its history, only to fall back below this level later in the month, whilst the S&P 500 finished the month up +1.8%. Europe's Stoxx 50 and Japan's Nikkei did not share the same buoyant mood, finishing the month down -1.8% and -0.4% respectively.

Investors' initial enthusiastic reaction to Trump's victory were tempered following his inauguration on 20th January after the new President signed off on some of his more radical protectionist policies such as curbs on immigration from several Middle Eastern countries and the rescinding of progressive trade policies such as the Trans Pacific Partnership (TPP). Further unorthodox comments by his administration such as labelling Germany as a "currency manipulator" also sparked investor concerns of a potential wind back in global trade. As a result, gold, as the traditional safe haven, had its best month since June 2016 gaining +5.1%.

On the domestic front the AUD gained +5% against the USD, as Trump's rhetoric in talking down the USD proved successful, citing the USD as too strong against its major trading partners. Commodities had a mixed month as oil lost momentum falling -3%, as the Trump administration highlighted plans to increase US energy exports. Iron ore had a strong start to the year rallying for a 4th consecutive month to finish the month up +6%, as demand from China remained robust in the wake of the stimulus package released last year. Base metal prices were boosted over the month by the weaker US dollar to finish the month +7.4%.

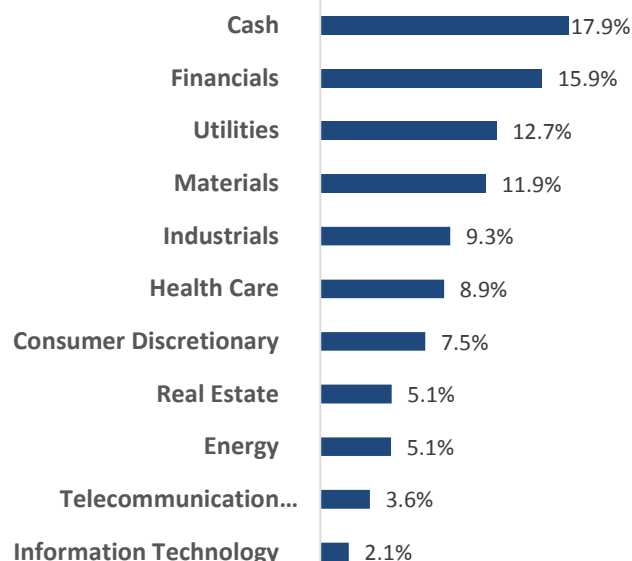
Domestically, the broader ASX 300 had a lacklustre start to the year falling -0.8% in January, giving up some of the strong gains made in the last 2 months of calendar 2016. Financials fell -2.5%, with our major banks losing momentum following the +10-15% rally they staged in the latter part of 2016. In the ex 20 segment, sector performance was mixed with Materials outperforming gaining +2.8% as the Miners continue to benefit from higher iron ore and base metal prices, whilst Utilities and Consumer Staples also had a solid month. Conversely, listed property trusts and casino stocks had a poor month with the Consumer Discretionary index down -4.1% for the month.

QVE's pre tax NTA fell -0.9%, which while disappointing was slightly better than the benchmark's fall of -1.1%. The portfolio benefited from good performances over the month from its holdings in stocks such as Event Hospitality, AGL, Steadfast, Pinnacle Investment and Tox Free. Multinationals Ansell and Amcor both fell around -4% over the month after a rally in the \$A. Brambles also downgraded earnings after a soft December quarter in the US due to slower demand. This raised investor concerns as to the strength of consumer spending in the US in the last quarter of 2016.

We continue to adopt a cautious approach given the increased uncertainty resulting from the implementation of new policies of the new Trump administration. These policies have created more concerns of higher inflation in the medium to longer term and uncertainty over the outlook for interest rates unfold over 2017. The upcoming interim reporting season will give investors a good insight into how many Australian companies are managing their way through the current period of volatility in currency and commodity markets as well as the current uneven economic conditions around the world. As always individual stocks often react in extreme ways to any short term news such as an 'earnings miss'. As such we remain ready to use our cash to buy good quality industrial companies trading at a reasonable valuation and be patient should our research indicate that such companies can grow their earnings and dividends in the next 3 to 5 years.

KEY EQUITY INVESTMENTS	ASX Code	Weight
Bank of Queensland	BOQ	3.7%
Steadfast	SDF	3.5%
Sonic Healthcare	SHL	3.2%
Tox Free Solutions	TOX	3.2%
Fletcher Building	FBU	3.1%
Pact Group	PGH	3.0%
Ansell	ANN	2.9%
Orica	ORI	2.9%
Amcor	AMC	2.9%
AGL Energy	AGL	2.8%

## SECTOR ALLOCATION



## CONTACT US:

### Wayne McGauley

Head of Retail &  
State Manager QLD,  
[wayne.mcgauley@iml.com.au](mailto:wayne.mcgauley@iml.com.au)

P: 02 8224 0536  
M: 0404 012 644

### Luke Mackintosh

State Manager  
NSW & SA  
[luke.mackintosh@iml.com.au](mailto:luke.mackintosh@iml.com.au)

P: 02 8224 0506  
M: 0432 147 399

### Sam Harris

Key Account Manager  
NSW & ACT  
[sam.harris@iml.com.au](mailto:sam.harris@iml.com.au)

P: 02 8224 0516  
M: 0429 982 159

### Justin Brooks

State Manager  
VIC, TAS & WA  
[justin.brooks@iml.com.au](mailto:justin.brooks@iml.com.au)

P: 03 9900 6262  
M: 0416 194 633

## INVESTMENT ENQUIRIES

[info@qvequities.com](mailto:info@qvequities.com)  
1800 868 464

## CORPORATE ENQUIRIES

1300 552 895

## PORTFOLIO MANAGERS:

Simon Conn and Anton Tagliaferro



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