

13 October 2015

QV Equities Inaugural AGM Chairman's Address

As I mentioned at the outset, it's a great honor to be involved in this, the inaugural Annual General Meeting of QV Equities Limited.

In this part of the AGM, I'll report on the operations and performance of QV Equities in the financial year 2015 and, in general terms, on what's happened in the early months of financial year 2016.

First, though, let me follow the tradition of AGMs and remind shareholders of the objectives and activities of the Company we've invested in.

QV Equities is a Listed Investment Company. We hold a diversified and carefully selected portfolio of good quality ASX listed entities outside the S&P ASX 20 index.

The Australian share market is heavily concentrated. It's dominated by securities issued by big companies. The largest twenty entities by market capitalisation account for 57% of the S&P ASX 300 index.

Another measure of the concentration is shown by finance and resources companies making up 70% of the top 20 index – and that's despite the recent under-performance of those two sectors relative to the market overall.

QV Equities' investment strategy is to maintain a diversified and balanced portfolio of ASX listed securities outside those included in the top 20 index, many of which are much less followed and understood than the securities issued by the largest businesses.

Most importantly, QV Equities draws on the systematic and disciplined approach to stock selection that our Manager, Investors Mutual Limited (IML) has built up over many years.

IML is a multi-award winning and experienced funds manager with an excellent track record of successfully managing Australian equities since 1998.

In addition to long-term capital growth, the Manager's focus is on long-term income growth for the portfolio, from investments that pay sustainable (and preferably growing) dividends with attractive franking credits.

In particular, the Manager seeks to target quality businesses, led by capable management, which have competitive advantages, a recurring and predictable earnings stream which can grow over time, and whose securities can be bought at an attractive entry price.

We aim to achieve a return for QVE shareholders, after expenses, over a five year plus investment period that is higher than the return from the S&P ASX 300 Accumulation Index, excluding that part of the return that is generated by the securities comprising the S&P ASX 20 Accumulation Index.

Let me also remind investors that the management fee charged by QV Equities and paid to the Manager is lower than the average of fees charged by listed investment companies and managed funds. The management fee is 0.9% of assets up to \$150 million and 0.75% on assets above that figure.

No performance fee is payable to the Manager.

Next, a look at our financial results.

In the 2015 financial year, QV Equities earned a net profit of \$3.75 million. On a per share basis, that was the equivalent of after-tax earnings of 2.81 cents, or 2.78 cents when allowance is made for dilution from options exercised before 30 June.

Shareholders in QV Equities received an interim dividend of 0.5 cent per share on 2 April. It was fully franked. The Board has also declared a final dividend for the 2015 financial year of 1.5 cents a share. It, too, is to be fully franked; shares go ex-dividend today and the dividend will be paid on 6 November.

The Board is delighted to be paying a dividend of two cents a share from the earnings in our first financial year. We're looking to provide our shareholders with an increasing stream of dividend payments over time - franked to the maximum extent possible.

I am pleased point out that the percentage increase in the net tangible assets of a QVE share (allowing for the reinvestment of the dividend paid in April) has, between our listing and end-September, outperformed both the accumulation indexes for ex-20 shares and the broader share market.

As at 30 September, 14.2million options to take up shares in QV Equities had been exercised. The remaining options are exercisable at \$1 a share on or before 15 March 2016.

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The Board believes that QV Equities' carefully-selected and diversified holding of ex-20 stocks, managed % by IML, will continue to have appeal to investors seeking long-term capital return and sustainable income growth, and with an accumulation return that, over time, exceeds that provided by the S&P ASX 300 accumulation index.

Looking ahead, the markets remain volatile. QVE focuses on quality stocks that pay reliable income. As such, the Board expects significant increase in first half in dividend, to be paid in early April 2016 and is intent on progressively growing shareholder dividends over time.