

# QV Equities Investment Update

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Simon Conn

26 October 2016



IML INVESTORS  
MUTUAL LTD

## QV Equities Limited

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- Managed by Investors Mutual
- Focused on Ex-20 stocks
- Listed 22 August 2014
- Experienced Board with independent majority
- Dedicated to developing a healthy long term dividend stream for clients

## About IML

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- Boutique manager established in 1998
- Over \$6bn FUM- retail and institutional clients
- Disciplined 'true to label' value style
- Large investment team with experienced leadership
- Consistent performance over 18 years

## Retail investor needs haven't changed

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- ❑ Capital preservation

- ❑ Reasonable capital growth

- ❑ Income focused

## Investment Philosophy: focus on quality

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We seek to buy and own:

Companies with a **competitive advantage**,

with **recurring earnings**,

run by **capable management**,

that can **grow**,

.....at a **reasonable price**.

## Market inefficiencies that IML seeks to exploit

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IML	Market
Long term focus	Short term focus
Valuation driven	Momentum driven
Disciplined focus on 'quality'	Upgrade / Downgrade mania
In-depth research	Daily information flow

## **Where are we today?**

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- US economy continuing to expand
- Japan & EU still sluggish
- China remains uncertain
- Interest rates at record lows
- Sharemarkets volatile

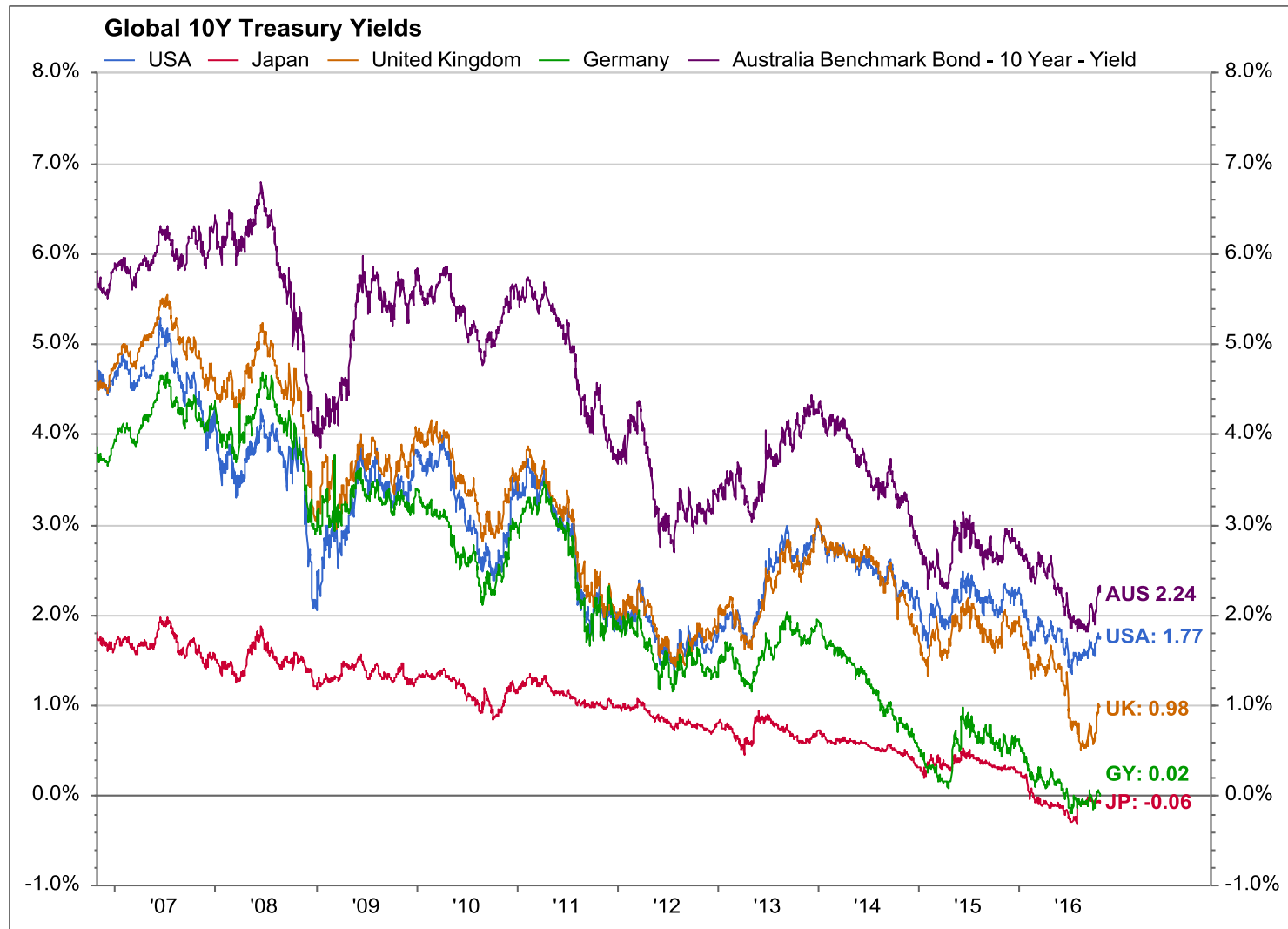
# Australia

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- Consumer sluggish – high debt and no real wage growth
- Mining sector bottoming out
- Interest rates at record lows
- Earnings growth outlook remains sluggish and patchy
- \$A has fallen significantly from its peak



# Global Bonds



Source: Factset as at 25 October 2016

# Commodities



Source: Iress as at 25 October 2016

## Market Outlook

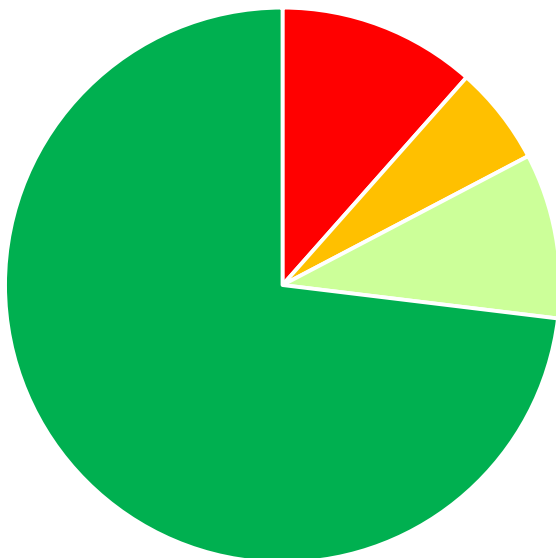
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- Still cautious on the Resources sector
- Selective value in some industrials appearing
- Expecting further volatility
- Remains a stock pickers' market

## Growth is scarce: Compound EPS growth ASX 200 stocks

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Proportion of stocks 2002-07



■ < 0% ■ 0%-5% ■ 5%-10% ■ >10%

Proportion of stocks 2010-15



■ < 0% ■ 0%-5% ■ 5%-10% ■ >10%

*Stocks with continuous 6 years of eps histories in the ASX 200, Factset data*

## **Why focus on an ex 20 managed portfolio?**

- More diverse entities in terms of market capitalisation and industry sectors
- Less researched opportunities
- Clients typically underweight in this segment
- Solid yields on offer
- IML has a long record of significant value add in this segment

## QVE Portfolio Strategy

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- ☐ Buying quality stocks
- ☐ Selectively taking profits
- ☐ Focus on industrial stocks

## Focus on Income

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- ❑ Focus on dividend paying stocks
- ❑ Focus on companies which can sustainably grow their dividends
- ❑ Selective use of options - selling calls on existing positions

## Good performers over the last 12 months

- Fletcher Building
- Steadfast
- Mayne Pharma
- Trade Me
- Pact Group
- GWA
- AusNet





## Quality Ex20 companies continue to do well.... and pay dividends

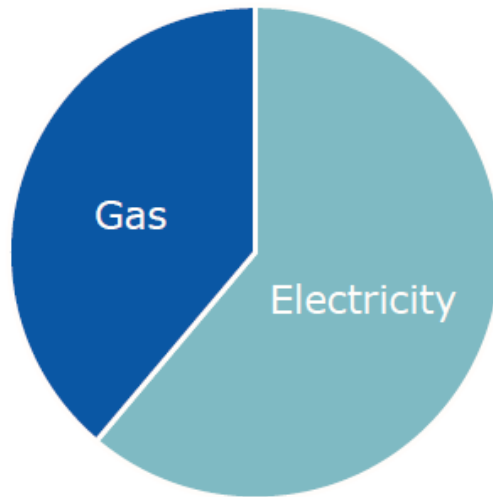
Stock	2015 cps dividend	2016 cps dividend	% change
GWA	-	16	N/A
Z Energy	27	29	7.4%
Fletcher Building	37	39	5.4%
Steadfast	5	6	20.0%
Shopping Centres Australasia	11.4	12.2	7.0%
Spark Infrastructure	12	14.5	20.8%
Pact Group	19.5	21	7.7%
AGL	64	68	6.3%
Sonic	70	74	5.7%

## Portfolio positioning - company specific

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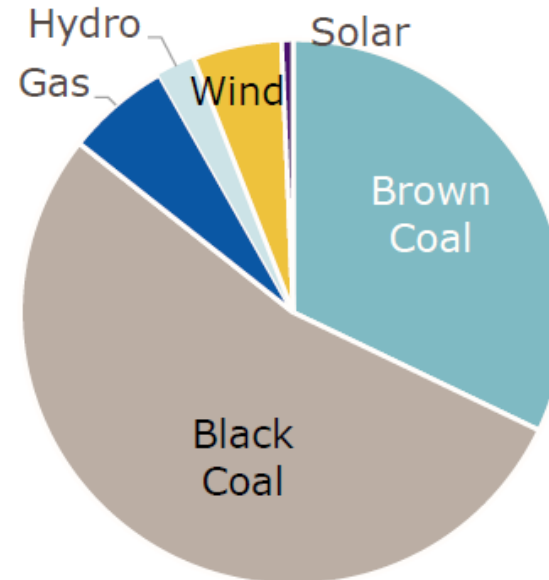
Cost-outs →	Clydesdale Bank
Acquisitions →	Integral Diagnostics, Amcor
Contracted growth →	Spark Infrastructure, Shopping Centres Australia
Market share gains →	Ansell, Pact Group
Restructuring →	GWA Group, Fletcher Building, Clydesdale Bank

## Customers



- Largest fleet of low-cost generation in Australia
- ~3.7 million customers
- ~230 PJ gas p.a. sold
- ~42 TW electricity p.a. sold

## Generation



- Largest privately owned electricity generator
- Largest privately owned investor in renewables
- Generate ~42 TW electricity p.a.

- More focused portfolio post asset sales
- Cost out program in place
- Strong cash flow generator



→ Recently announced capital management program

→ 5% share buyback & increased payout ratio of 75%

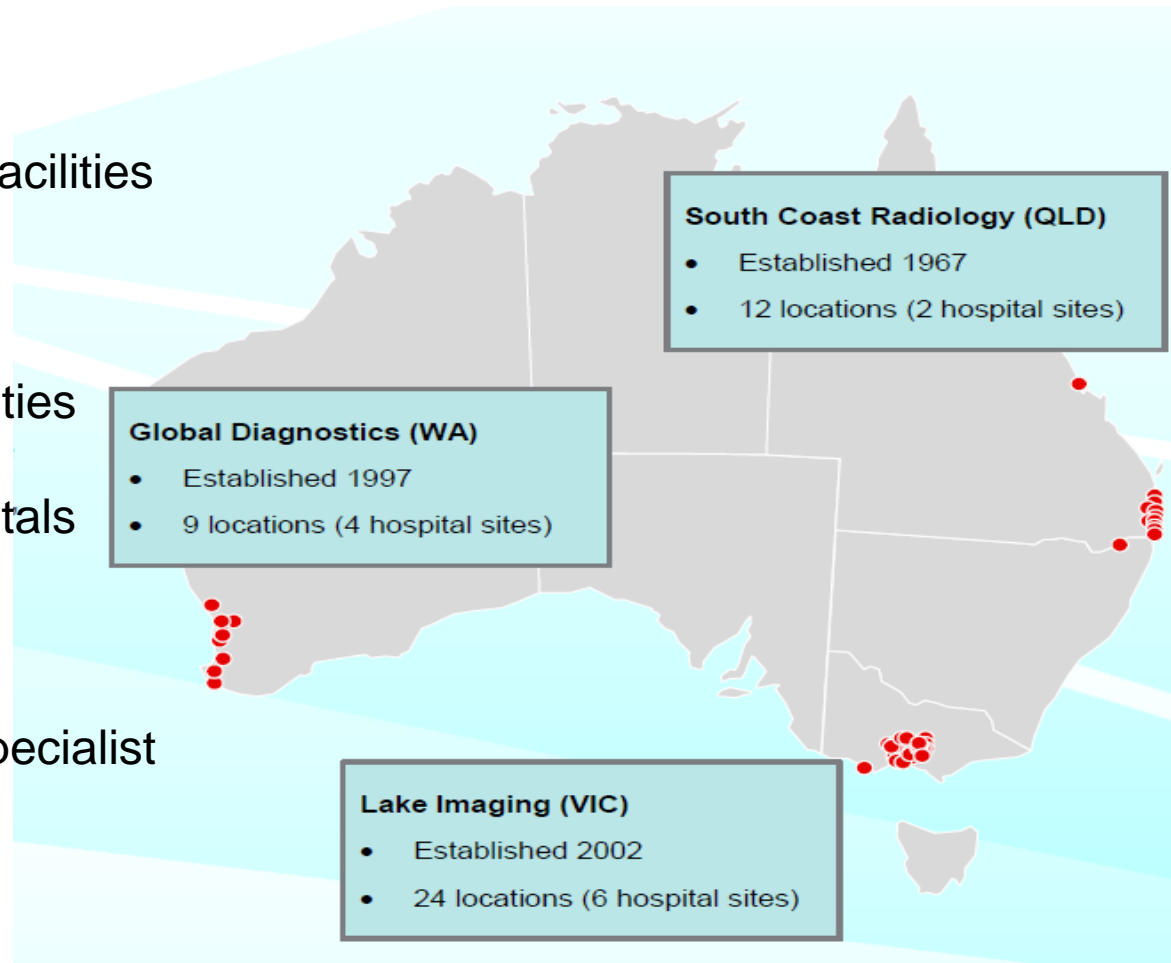


- 4<sup>th</sup> largest radiology business in Australia
- 44 sites (12 hospital co-locations) in VIC, QLD & WA
- Co-pays of ~30% of revenues, much higher than industry average of ~13%
- Organic growth via ageing population and potential for acquisitions
- Conservative management
- PE 12.6x ; yield 5.5%



# Integral Diagnostics – well placed strategically

- Strategically located facilities
- Large number of facilities co-located with hospitals
- High percentage of specialist referrals



# Ansell: The Forgotten Multinational

- Leader globally in industrial hand safety, surgical gloves and condoms



	Industrial Gloves	Single Use Gloves	Medical Gloves	Sexual Wellness
Global Market Position	#1	#1	#1	#2
Top Brand	HyFlex®	Microflex®	Gammex®	SKYN®



# Ansell – The Forgotten Multinational

## Key Highlights

- Strong branding and innovation
- Recent integration into yarn has strengthened competitive position
- Several new exclusive distributor arrangements recently signed
- Condoms – currently under review
- PE: 16x Yield: 3%





- Global leader in plastic packaging with 195 sites in 43 countries;
- 95% of sales are into the defensive food, beverage, healthcare and tobacco industries
- Expanding in high-growth markets where market share remains relatively low;
- Two divisions:
  - Rigid & Flexible
- Consistent cash generator



## Multiple sources of value under resilient model

### Amcor shareholder value creation model



**Total shareholder value creation of 15.0% for FY16**

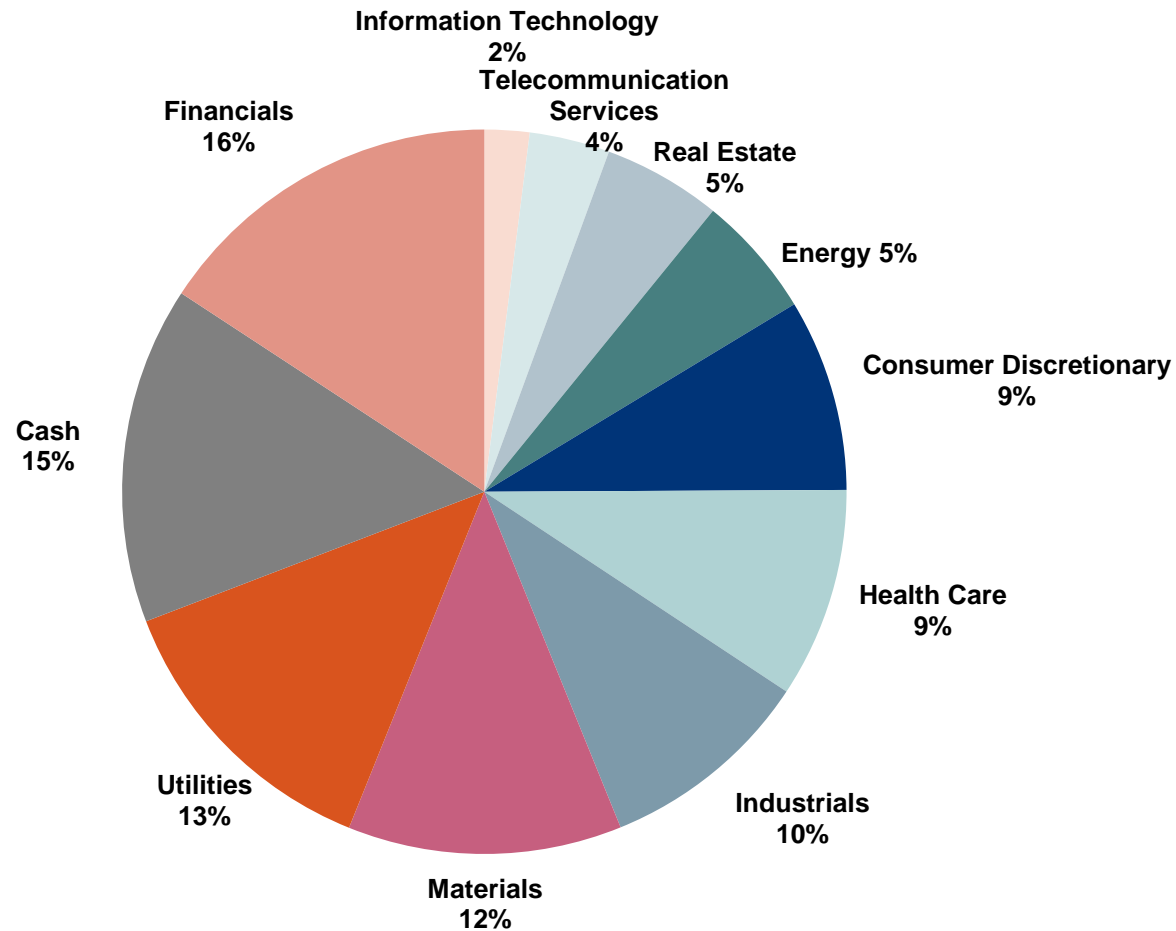
## Top 10 stocks as at 30 September 2016

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KEY EQUITY INVESTMENTS	PE FY18	Yield FY18
Fletcher Building	13.2	4.4%
Steadfast	16.7	3.6%
AGL	13.6	5.4%
Orica	16.7	2.7%
Bank of Queensland	12.7	5.9%
GWA	15.8	5.4%
Sonic Healthcare	18.4	4.2%
Pact Group	17.6	4.0%
Ansell	15.2	2.6%
AusNet	18.9	6.0%

# QVE Portfolio Weights

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## Performance & NTA - September

NET TANGIBLE ASSETS (NTA)*	QVE-ASX
NTA before tax	1.1857
NTA after tax	1.1317

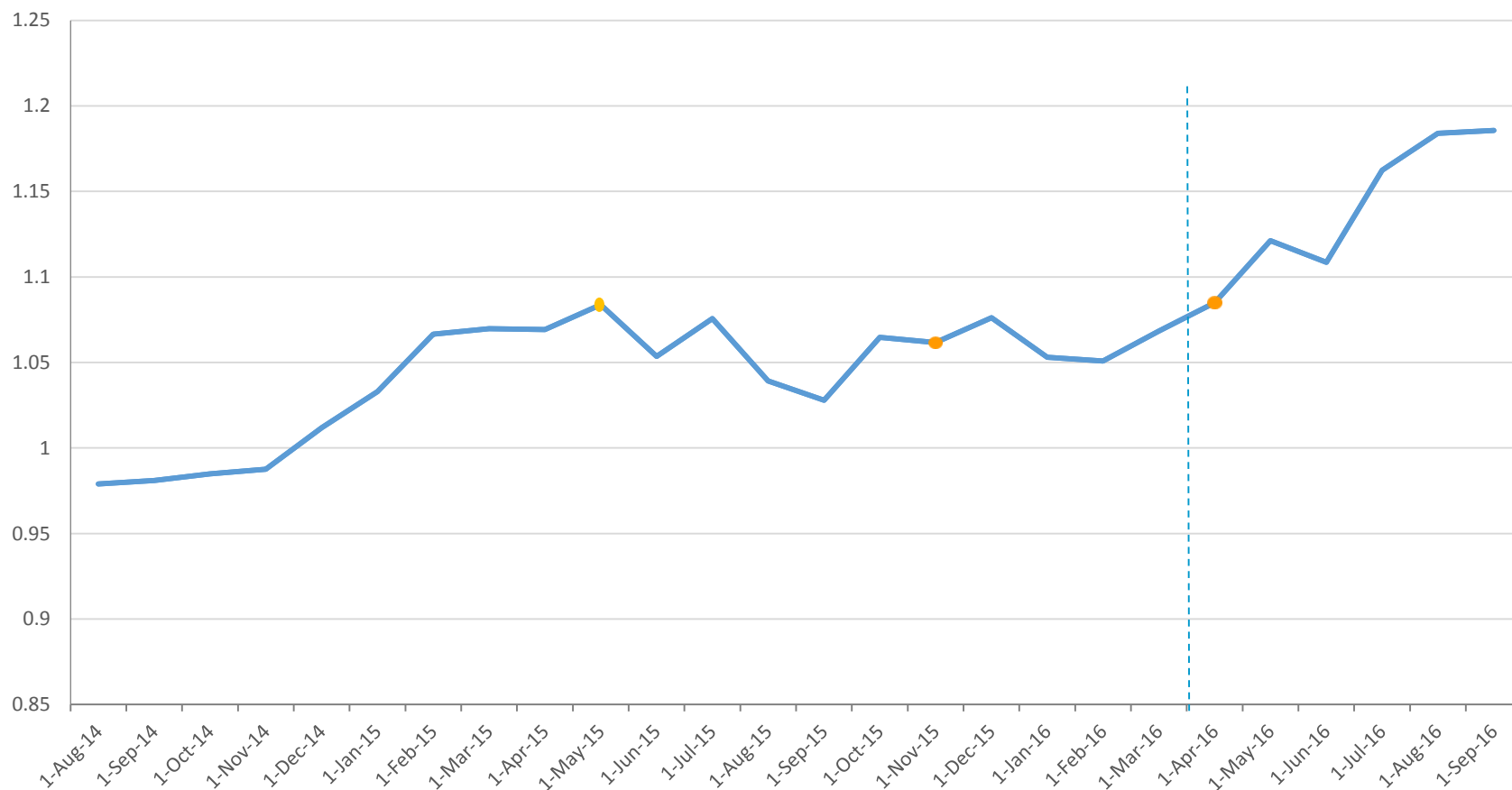
PERFORMANCE*	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	+0.2%	+0.4%	-0.4%
3 Months	+7.0%	+5.5%	+5.8%
6 Months	+11.0%	+8.7%	+12.2%
1 Year	+18.6%	+14.4%	+24.8%
Since Inception Total Return^	+11.2%	+8.9%	+10.5%

*\*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.*

Source: QVE NTA as at 30 September 2016

# QVE NTA

QVE Historical NTA

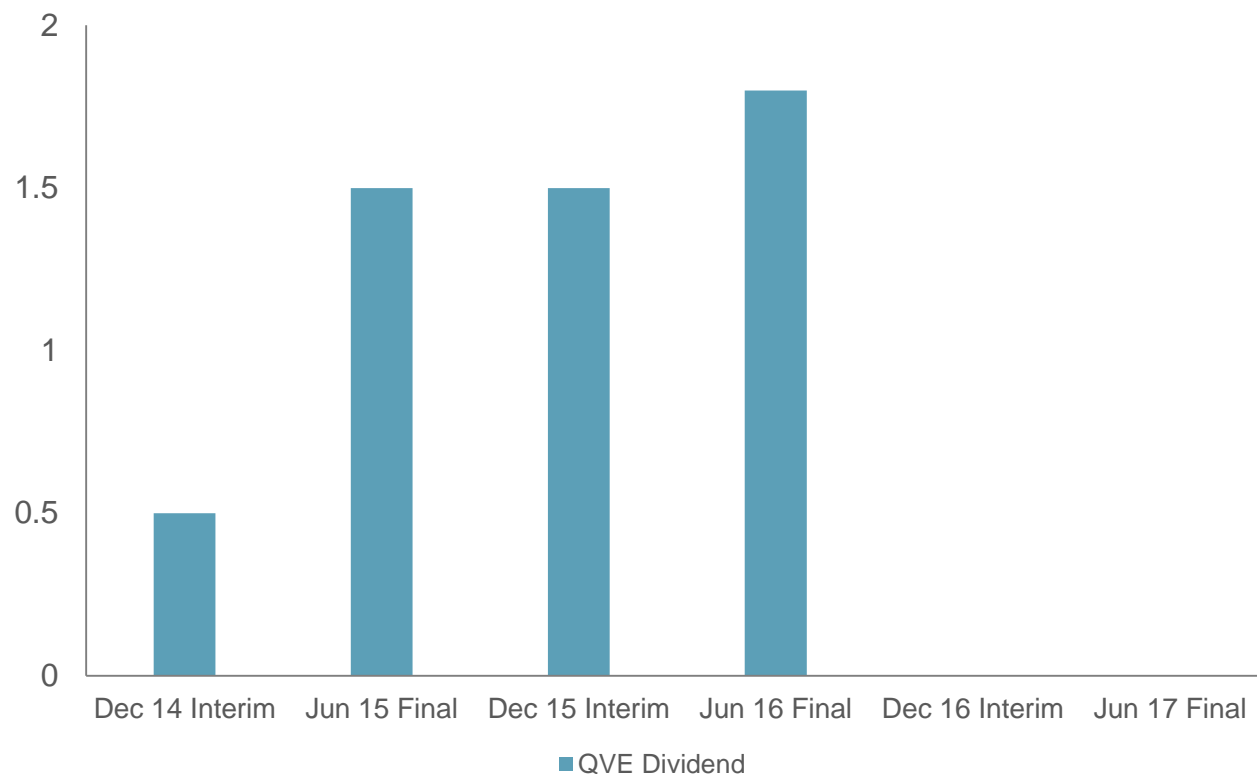


- Line indicates QVE Option expiry
- Orange indicates QVE Dividend payment
- Source: QVE as at 30 September 2016

## QVE 2016 Final dividend announcement

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- **1.8 cents per share *fully franked***



## **Shareholder engagement - focus on communication**

- Monthly communication schedule – monthly videos and updates
- IML sales team – supporting adviser and broker relationships
- Website – communication & information portal for shareholders

*... We want informed and engaged shareholders*



# QVE's focus on shareholder communications-

## Investment Update & Net Tangible Assets Report

September 2016



NET TANGIBLE ASSETS (NTA)*		QVE-ASX	QV EQUITIES
NTA before tax		1.1857	ASX Code: QVE
NTA after tax		1.1317	Listed: 22 Aug 14
Shares on Issue		221.4	Benchmark: S&P/ASX 300 Excl Accumulation
PERFORMANCE*		QVE-NTA (pre-tax)	QVE-NTA (after tax)
1 Month	+0.2%	+0.4%	-0.4%
3 Months	+7.0%	+5.5%	+5.8%
6 Months	+11.0%	+8.7%	+12.2%
1 Year	+18.6%	+14.4%	+24.8%
Since Inception Total Return*	+11.2%	+8.9%	+10.5%

\*Performance as at 30 September 2016. The above returns are after fees and expenses. All returns are on a rolling 12-month basis.

### SHAREMARKET COMMENTARY

Global markets posted modest returns in September, despite increased volatility due to uncertainty over global interest rates early in the month and small weakness in bond markets after the ECB did not confirm further quantitative easing once the current round of quantitative easing ends in 6 months' time. Concerns over whether the US Federal Reserve was nearing its first rate hike since December 2015 also weighed on markets. The MSCI World Index finished September +0.26% higher, as the US Fed, European Central Bank and Bank of Japan all looked to south investor's concerns. Thus the US S&P500 finished flat, whilst Japan's Nikkei and Europe's EuroStoxx lost -2.6% and -0.7% respectively, whilst the UK FTSE100 gained +1.7% as the weakening pound provided a boost to the UK's exporters.

The US Federal Reserve held calm sharemarket jitters by keeping interest rates on hold at its September meeting, once again adopting a wait and see approach. Of note, three members of the Federal Reserve are now predicting no rate hike this year, up from zero in its June meeting, a clear sign that any US rate hike will be drawn out and gradual. Furthermore, the Bank of Japan tinkered with its monetary policy by targeting the yield curve in a bid to keep Japanese long term interest rates close to zero. The global energy sector received a boost late in the month as OPEC looked to reach a tentative agreement to cut oil production in order to sustain prices, with the Brent oil price rebounding +4% in the wake of the decision.

The broader Australian sharemarket as measured by the ASX200 finished the month +0.5% higher with strong gains in the Resource sector, offsetting losses in the more interest rate sensitive sectors such as Utilities and the ABXs. The ASX ex20 Index finished the month down -0.4%, with the primary drag being the Telco sector which fell -1.6% as high flying TPG guidance for FY17 disappointed the market and Vocus being down too. Similar to its Large Cap peers, the ex20 market was largely buoyed by mid and small cap Miners which rallied throughout the month thanks to higher commodity prices, specifically coal and base metals.

Over the month, we used weakness in the sharemarket to add to the portfolio's holding in quality mid cap stocks ASL Energy and Amcor. After meeting with the company's management teams at their recent results briefings, we remain comfortable with the earnings growth prospects for both companies in the years ahead. As yield stocks were sold down heavily over the month due to weakness in the bond market, we also added to QV's holdings in Shopping Centres Australia and Spark Infrastructure. Furthermore, those yields, which are sustainable and expected to grow in the years ahead, hit the 6% mark. While interest rates will at some point head higher, we believe any rise will be small and gradual and that stocks paying the level of sustainable, growing yield continue to look attractive in the current uncertain, low growth economic environment.

The QVE portfolio per se rose by a modest +0.3% in the month of September, which was a good result bearing in mind that the benchmark's fell by -0.8%. Portfolio holdings such as Pinetree Investment, Calcharge, Myne Pharma, Bank of Queensland and Pact Group all did well over the month and after disappointing returns over the month from the likes of SkyCity and Spark Infrastructure, whose prospects we remain positive on.

We continue to remain cautious on the overall outlook for the stockmarket given the high valuations of many stocks and a continued subdued earnings outlook for most companies. Having said this, we continue to look for companies we believe can grow their earnings in the next 3 to 5 years and which in our view are reasonably priced and we will continue to use periods of volatility in the stockmarket to top up on favoured stocks.



Anton Tagliaferro reflects on the volatile month of August and outlines the impacts on the QVE portfolio



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## QV Equities Limited

QV Equities Limited (ACN: 169 154 858, ASX: QVE) is a listed investment company managed by Investors Mutual Limited (ACN: 070 530 752 (IML)) aiming to give investors the opportunity to invest in a diversified, carefully selected portfolio of quality entities outside of the S&P/ASX 20 Index.

Share Price	Option Price	ASX
Code: QVE Latest Price: \$1.015 (Price delayed by 20 minutes)	Code: QVEO Latest Price: \$0.015 (Price delayed by 20 minutes)	QV Equities is Listed on the ASX (Australian Stock Exchange) Follow Link to ASX Website



About QVE

About IML

Investor Centre

QVE Fact Sheet

Anton Tagliaferro: Commsec video & Financial Review article

[View this email in your browser](#)



Dear Kate,

We are pleased to share [Anton's recent video with Tom Piotrowski](#) at Commsec as he talks about the results of the August reporting season, the outlook for the banks, and expectations of further US rate rises. [Click here to view the video](#)

In addition, Anton's expresses his views on the



Anton Tagliaferro  
on Commsec



## **QVE Summary – key competitive strengths**

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- Delivers much needed diversification - focused on ex20 stocks
- The Board – high quality and independent
- The Manager – IML – solid experience and track record
- Focused on shareholder outcomes
- Informed shareholder base

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