Investment Update & Net Tangible Assets Report

May 2018

Equities Ltd.

NET TANGIBLE ASSETS (NTA)*	QVE-ASX
NTA before tax	1.20
NTA after tax	1.17

*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. All figures are unaudited and approximate.

PERFORMANCE (as at 31.05.18)	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	+0.5%	+0.6%	+1.2%
3 Months	+1.3%	+1.4%	+2.6%
6 Months	+2.2%	+2.1%	+3.6%
1 Year	+5.1%	+4.9%	+14.2%
Since Inception Total Return p.a	+9.3%	+7.8%	+11.6%

QV EQUITIES	
ASX Code	QVE
Listed	22 Aug 14
Shares on issue	275.5 M
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

The above returns are after fees and assumes all declared dividends are reinvested and excludes tax paid for pre tax NTA. Due to the Company's turnover being below $25 million the Company's corporate tax rate reduced to 27.5% from 1 July 2017. Past performance is not indicative of future performance.

SHAREMARKET COMMENTARY

Global equity markets, as measured by the MSCI World index, edged higher by +0.5% in May, driven primarily by the US with the S&P500 gaining +2.2%. Conversely, Europe's EuroStoxx 50 and Japan's Nikkei fell -3.7% and -1.2% respectively. Weakness in emerging markets continued, with the MSCI E.M. index falling -3.8%, its 4th consecutive decline. The selloff in emerging markets was exacerbated by US 10-year bond yields spiking to a 7 year high of 3.1% during the month while the USD gained +2.3% on a trade weighted measure as inflationary concerns intensified. Many of the emerging market countries have significant amounts of debt dominated in USD, causing concerns amongst investors as to how they will continue to refinance this debt.

Domestically, wage growth remained weak, rising +0.5% in Q1, its weakest print since 1997. In conjunction with an over leveraged housing market, the result provides little impetus for the RBA to raise interest rates for the foreseeable future. Commodity prices were mixed, with base metals gaining +1.5% as both Nickel and Copper were well supported. Oil firmed +4.6% over the month although it corrected meaningfully towards the end of the month as OPEC signalled that they are willing to step in and plug the production gap left by Iran following the US led sanctions. Iron Ore fell -1.5% on signs of oversupply at Chinese ports while the AUD stabilised against the USD following weakness in prior months.

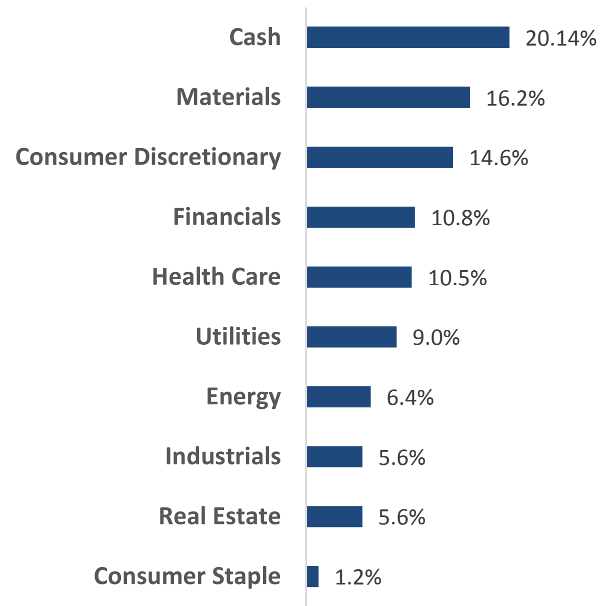
The ASX ex20 market had a fairly eventful month and managed to finish the month up +1.2%. Individual sector performances were very mixed with the Consumer Discretionary sector the standout gainer during the month thanks to strong gains from stocks such as Aristocrat on the release of a good result, Seven West Media on winning the cricket broadcasting and a rebound in Domino's Pizza. On the other side of the coin, the Consumer Staples sector was the worst performing sector shedding -6.4% after market darlings Treasury Wine Estates, A2 Milk and Bellamy's pulled back on concerns of bottlenecks selling their products through the 'daigou' market into China. High yielding sectors such as the REITs and Utilities remained well supported throughout the month gaining +3.8% and +1.0% respectively as bond yields fell late in the month following tremors coming out of Italy and the subsequent flight to safety. The Resource sector edged out a solid gain on continuance of elevated commodity levels.

The ***QVE portfolio*** returned +0.6% over the month. The portfolio's holdings in good quality stocks such as Integral Diagnostics, Mayne Pharma, Southern Cross Media and Shopping Centres Australasia helped offset lacklustre performances from the likes of Clydesdale, Caltex and Spark Infrastructure which all drifted lower over the month on little news flow. Over the month we used weakness in Caltex to top up on the portfolio's holding after the company's recent AGM confirmed that the company continues to travel well and that it is well advanced in its strategy of creating two focused areas within the company – a retail division and an infrastructure division. The company continues to look attractively priced and with excess franking credits of over $3 a share and a good balance sheet, further special dividends remain likely. We also topped up on the portfolio's holding in Mayne Pharma as the US generics market appears to be finally improving and we also added IPH to the portfolio over the month after a visit to the intellectual property company confirmed the resilience of the earnings that the company generates. We used strength in the share prices of Shopping Centres Australasia, Abacus and Pact Group to trim our holdings in these favoured companies to lock in some profits after very strong recent performances in the share prices of these companies. The portfolio also experienced an increase in the cash balance during the month as proceeds from the TOX acquisition by Cleanaway were settled. Proceeds also included a payment of a special fully franked dividend.

Whilst investor confidence appears to be returning, particularly in the US, we remain relatively cautious given the prospect of further interest rate rises by the Fed. In addition, as the direction of world growth remains positive, it continues to be a challenging environment for many companies to grow their earnings given the intensely competitive nature of most sectors. The market remains difficult to navigate with many investors continuing to avoid good quality stocks such as Amcor and Caltex on short term earnings concerns, while many companies where short-term growth is more apparent are being pushed to very high valuations. Thus we continue to use any weakness to buy good quality industrial names that in our view are at reasonable valuations and that we believe can do well over the next 3 to 5 years.

KEY EQUITY INVESTMENTS	ASX Code	Weight
Sonic Healthcare	SHL	4.3%
Amcor	AMC	4.2%
Crown Resorts	CWN	4.0%
Pact	PGH	3.8%
Fletcher Building	FBU	3.7%
Spark Infrastructure	SKI	3.6%
Caltex Australia	CTX	3.5%
Clydesdale Bank	CYB	3.5%
Orica	ORI	3.5%
Steadfast	SDF	3.0%

SECTOR ALLOCATION



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