AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

QV Equities Limited (QVE)

March 2017

INDEPENDENT INVESTMENT RESEARCH

WHO IS IIR?

Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.
IIR takes great pride in the quality and independence of our analysis, underpinned by high caliber staff and a transparent, proven and rigorous research methodology.

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Evaluation and remuneration: The remuneration of research analysts is determined on the basis of a number of factors, including quality, accuracy and value of research, productivity, experience, individual reputation, and evaluations by investor clients.

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DISCLAIMER

THIS IS A COMMISSIONED RESEARCH REPORT.

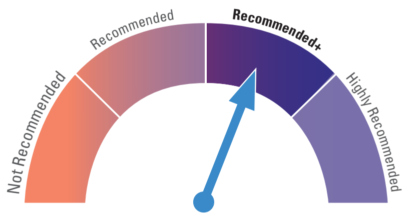
The research process includes the following protocols to ensure independence is maintained at all times:

1) The research process has complete editorial independence from the company and this included in the contract with the company;
2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

For more information regarding our services please refer to our website www.independentresearch.com.au.

QV Equities Limited (QVE)

Rating



Key Investment Information

Name of Fund	QV Equities Limited
Investment Manager	Investors Mutual Limited
ASX Code	QVE
Listing Date	22 August 2014
Shares on Issue	221.5m
NAV Pricing	Monthly
Dividend Frequency	Semi Annually
Benchmark	S&P/ASX Ex20 Accumulation Index
Objective	Long term total returns by investing in a concentrated portfolio of S&P/ASX ex 20 stocks
Performance Target	Generate higher returns with lower risk than the Benchmark
Tracking Error	Benchmark unaware
MER	0.90% p.a. NAV up to $150m FUM 0.75% p.a. over $150m FUM
Performance Fee	Nil

Fees Commentary

Fee levels are competitive for a high conviction long only equities fund and particularly so given the lack of a performance fee. The MER is scalable, specifically 90 basis points on the first $150 million and 74 basis points for that part of FUM above $150 million. With the FUM approximately $265 million at the date of this report, as QVE continues to grow overall fee levels will continue to decline.

Key Exposures (as at 30 November 2016)

Financials	16.0%
Materials	13.2%
Utilities	12.2%
Industrials	9.3%
Health Care	9.1%
Other Sectors	24.2%
Cash	16.0%
S&P/ASX 20 - 100	50%
S&P/ASX ex 100	34%

Note: This report is based on information provided by the Issuer as at January 2016

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

OFFER OVERVIEW

The QV Equities Limited (QVE or the Company) is a listed investment company (LIC) that listed on the ASX on 22 August 2014. QVE is managed by Investors Mutual Limited (the Manager), a long established and experienced investment management company with a proven track record of successfully managing Australian and New Zealand equities since 1998. QVE invests in a diversified portfolio of ASX listed entities outside the S&P/ASX 20 Index based on a high conviction, fundamental bottom up investment process and is managed by a highly capable and proven investment team. The S&P/ASX ex 20 focus reflects the Manager's belief that entities outside the S&P/ASX 20 Index and within the S&P/ASX 300 Index (or ex-20 Segment) provide domestic investors with diversification benefits given many investors have a heavy exposure to the S&P/ASX 20 Index and is heavily concentrated by industry sector. Further, the Manager believes that the ex-20 Segment offers greater opportunities for alpha returns and capitalises on the strengths of the investment team. QVE has a two-and-a-half year track-record and has outperformed the benchmark since inception by 1.2% p.a (net of fees). QVE has underperformed over the shorter term, but that underperformance reflects the Manager's investment process and philosophy in the context of a certain market environment. Essentially, the underperformance over this period reflects the Manager remaining loyal to process and true-to-label. The stable of other funds issued by the Manager have invariably outperformed over the longer term.

INVESTOR SUITABILITY

We believe the Fund may be very well suited to investors that: may have a high degree of exposure to the S&P/ASX 20 Index and would benefit from industry, sector and company diversification by way of S&P/ASX ex 20 Index exposure; seek the advantages of a listed entity; seek equities market returns but gain comfort from the fact that the Fund has historically provided a degree of downside protection on account of its valuation disciplines and ability to sell to zero (build cash); seek the reassurance of having their money managed by an investment manager characterised by a strong, investment led team culture and utilising a tested and repeatable investment methodology. Overall, the Fund has been characterised by a lower degree of risk than the vast majority of its peers without forgoing returns over the medium term. The company structure of QVE also enables the Manager to manage the degree of income distributions, unlike a managed fund, and in this regard may be well suited to investors in the retirement stage of their investment life-cycle.

RECOMMENDATION

The Manager's firm- / investment mandate-wide investment philosophy and process is proven and tested over the long run. The mandates have invariably outperformed over the longer term and, importantly, with generally materially lower volatility and downside risk. The latter importatnly addresses the key concern of its target retail investor base - the permanent impairment of capital. IIR has a high degree of conviction in the investment's team to continue to generate superior risk-adjusted returns over the long-term. The depth of the investment team and the stability of the relationship of the co PMs ensure consistency of process and, in this regard, the performance track-record is perceived to be repeatable. The investment process is well established, rigorous, disciplined, proven over a full market cycle and clearly articulated. The Manager, led by Anton Tagliaferro, has a very strong investment philosophy and clear focus on the needs of in particular the retail segment of the market. This strength of philosophy suggests the Manager will continue to be extremely mindful of meeting these investor needs. Historically turnover amongst the analyst ranks (less so at the portfolio manager level) has been relatively high, including three departures over the last two years (Mar 2015, Dec 2015 and Oct 2016). This is an area of some concern, although on the flipside, turnover presents the opportunity of developing a higher calibre investment team. Overall, IRR rates QV Equities Limited RECOMMENDED PLUS.

SWOT ANALYSIS

Strength

- Access to a leading Australian boutique investment manager with a successful and award winning track record of investing in Australian and New Zealand equities since 1998. The Manager's stable of Australian equities strategies have a strong track-record of generating alpha and superior risk-adjusted returns across a full market cycle.
- The investment process is well established, rigorous, disciplined, proven over a full market cycle and clearly articulated. The depth of the team and the stability of the relationship between the co-PMs ensures consistency of process. In this regard, we believe the track record of alpha generation and superior risk-adjusted returns is very much repeatable.
- High degree of transparency given the Manager's degree of contact with the market and financial planning groups. This has also been an important factor in managing and mitigating discount to NTA risk that LICs are subject to. Historically, QVE has consistently tracked at near parity to NTA.
- The MER is scalable based on FUM levels: as FUM continues to grow overall fee levels will continue to decline.
- The company structure of QVE enables the Manager to smooth the distribution profile over time through the ability to retain profits. In contrast, a managed fund is required to distribute all realised income in any given period.

Weakness

- Historically turnover amongst the analyst ranks (less so at the portfolio manager level) has been relatively high, including three departures over the last two years This is an area of some concern, although on the flipside, turnover presents the opportunity of developing a higher calibre investment team.
- More a feature than a weakness, the Fund may underperform during a risk-on market environment given the portfolio bias to the quality company end of the spectrum and the Team's strong valuation discipline which can often generate a material cash holding in such an environment

Opportunities

- Exposure to an investment manager with a strong track record of alpha,superior risk-adjusted returns and the preservation of capital across a full market cycle. This has been based on a strong and repeatable investment process and a well-qualified and stable investment team in a firm with a strong investment ethos.
- We would agree with the Manager that the S&P/ASX ex 20 Index segment of the market not only provides important potential diversification benefits for many investors as well as a greater ability for the Manager to generate alpha given it is a less researched segment of the market.
- The potential for LICs to trade at a premium or discount is both a threat and an opportunity but, either way, it is an additional returns risk for LICs that is not inherent with managed funds. As noted above though, the Manager has performed well in managing this risk.

Threats

- The S&P/ASX ex 20 segment has undergone a material upgrade cycle over the last year, or two. This partly reflects the general absence of growth in the large market cap segment of the market. Valuations have arguably become stretched.
- The level of staff turnover is an area of some concern and these concerns would be heightened if this continues. By his own admission, Investment Director of IML and Co Portfolio Manager of QVE Anton Tagliaferro can be a relatively tough and demanding task master. The key is to balance the positives of this with the potential negatives of team instability and low morale.

PRODUCT OVERVIEW

QVE is managed according to a fundamentally based, long-only, high conviction and benchmark unaware investment mandate. It consists of a concentrated portfolio of 25-40 holdings, drawn from the S&P/ASX ex 20 to S&P/ASX 300 Index. As at 31 December 2016, approximately 50% of the portfolio represented stocks within the S&P/ASX ex 20 to S&P/ASX 100 Index segment and 34% within the S&P/ASX ex 100 Index segment. With portfolio construction unconstrained by benchmark considerations, each investment is a positive decision and a sell-to-zero discipline can be adopted. The Manager's investment approach has been consistently applied across all of the Manager's investment strategies since its inception in 1998.

The Manager's investment philosophy and process emphasises companies with four clear quality characteristics: a competitive advantage over their peers; recurring, predictable earnings; a capable management team; and the ability to grow over time. As a consequence of this approach, the portfolio of investments will typically generate a relatively high and stable level of income distributions and tend to be subject to a lesser degree of volatility than the benchmark constituents overall. Furthermore, and addressing a key concern of the targeted retail investor market, the Manager has a very strong focus on the preservation of capital.

The Manager maintains a valuation discipline, ensuring that only attractively valued assets in absolute terms are bought. Conversely, the valuation discipline ensures overvalued shares are identified and sold out of the portfolio (or call options written in limited cases). This requires an ability to sell to cash, without necessarily having anything to buy with the proceeds. The Company can hold up to 20% cash during periods when there are more assets to sell than to buy and since inception has had an average 18% cash holding excluding the funding period.

QVE is managed by a relatively large investment team consisting of nine analysts with sector specific responsibilities and two portfolio managers, specifically Simon Conn and Anton Tagliaferro. Both are founding members and equity holders in the Manager and have considerable investment experience and strong track records.

The Company aims to deliver above benchmark returns with below average volatility and greater downside protection over the medium term. Since inception in August 2014, the Fund has successfully achieved this objective, outperforming the benchmark in net terms by an annualised return of 1.2% p.a. and recording lower volatility and drawdowns. We note that since inception, QVE has outperformed the benchmark in 90% of months in which the market fell. Conversely however, investors should note that in certain market environments, specifically more 'exuberant' environments or an environment characterised by a strong performance of the resources sector, both of which occurred over the 2016 period, the Company may well underperform.

The Company will pay the Manager a management fee of 0.9% per annum (excluding GST) on the first $150 million of the Portfolio Net Asset Value and 0.75% per annum (excluding GST) thereafter. Consequently, overall costs to investors will decline as QVE continues to grow FUM. No performance fee is payable.

MANAGEMENT GROUP PROFILE

The Manager is a specialist equity fund manager that was established in 1997 and is located in Sydney, Australia. The Manager has over $7.0 billion in funds under management as at 31 December 2016 and has been profitable since its first year of operations. The Manager has a long-term track record of managing Australian and New Zealand equities for private clients, institutional investors and clients of financial advisers, with the purposeful focus being the retail segment. Reflecting the retail investor focus, the Manager's investment philosophy and process emphasises capital preservation, income stability and lower volatility than the market as a whole whilst delivering capital growth over the longer term.

The Manager's reputation of performing consistently well over almost 20 years has been recognised through a number of respected awards in the last decade both before and after the global financial crisis.

Anton Tagliaferro (Investment Director of IML and Portfolio Manager) and key investment staff of the Manager control the Manager, owning between them 60% of the issued capital (34% Anton Tagliaferro, 26% the rest of the investment team). The remaining 40% of the Manager's issued capital is owned by Pacific Current Group, a specialist ASX-listed investment and financial services business focused on boutique funds management. Pacific Current Group typically takes a minority equity stake in fund managers and offers infrastructure, marketing and financial support. The company currently has stakes in 13 fund managers, IML being the largest.

The Manager currently manages eight Australian shares strategies (seven trusts and one LIC): the Investors Mutual Equity Income Fund (IMEIF) as well as the Investors Mutual Australian Share Fund (IMAS), the Investors Mutual All Industrials Share Fund (IMIS), the Investors Mutual Future Leaders Fund (IMFL), the Investors Mutual Australian Smaller Companies Fund (IMSC), the Investors Mutual Small Caps Fund (IMCAPS) and the Investors Mutual Concentrated Australian Share Fund (IMCASF) (collectively the Retail Funds) which are the registered managed investment schemes operated by the Manager and offered to retail investors.

QVE's investment mandate has been based on a combination of the investment strategies of the IMAS and the IMSC strategies. The track-record of these two funds, and the Manager in general, therefore have some pertinence to QVE itself.

INVESTMENT TEAM

The Manager has a relatively large investment team, consisting of nine sector analysts and four portfolio managers for its stable of eight investment strategies. Portfolio managers are allocated to particular investment strategies and then draw upon the input from the nine sector analysts as well as potential input from the other portfolio managers. All investment strategies are essentially based on the same firm-wide research approach and investment philosophy. Consequently, investment ideas for any particular investment strategy can flow from all members of the investment team.

Each strategy is managed by a portfolio manager with a back-up portfolio manager (IMAS and IMIS utilise two PM's) and each stock is covered by two analysts, a lead analyst and a back-up analyst. Both ensure continuity of process and a greater depth of input and views. There is a strong focus on company visits and building and maintaining strong relationships.

Analyst accountability for stock recommendations is relatively high, with variable remuneration linked directly to the performance of stocks that appear in the final portfolio.

In the case of QVE, the strategy is jointly managed by Simon Conn and Anton Tagliaferro. Drawing on their other responsibilities respectively, Simon is predominantly responsible for companies outside the S&P/ASX 50 Index while Anton is responsible for stocks that fall between the S&P/ASX 20 Index and S&P/ASX 50 Index. The portfolio is then constructed jointly by both portfolio managers.

While there has been a general degree of turnover in the investment team over the years, the relationship between Simon and Anton has been long-standing, specifically going back 18 years to the founding of the investment manager. As such, we view the portfolio management team to be highly stable, ensuring continuity in the investment approach relating to QVE.

As noted above, historically turnover amongst the analyst ranks (less so at the portfolio manager level) has been relatively high, including three departures over the last two years. This is an area of some concern, although on the flipside, turnover presents the opportunity of developing a higher calibre investment team. By his own admission, Anton can be a relatively tough and demanding task master. The key is to balance the positives of this with the potential negatives of team instability and low morale.

Anton Tagliaferro has served as the Chief Investment Manager and Investment Director of the Manager since its inception by Anton in March 1997. Anton has over 30 years' experience in the financial services industry. In 1981 Anton commenced his professional career with Deloitte Haskins and Sells (Deloitte) in London. During the period March 1988 to April 1992, Anton was Group Investment Manager and Equities Manager of Perpetual Trustees Australia Ltd (Perpetual). At Perpetual, Anton was responsible for running Perpetual's Industrial Share Fund as well as for the management of Perpetual's investment team. During his time at Perpetual, the Industrial Share Fund continually outperformed in the Australian equities market and was highly rated in Money Management's annual Australian Equity Manager surveys for four years in a row. In May 1993 Anton moved to County Natwest Investment Management Ltd (County) where he was Director of Industrial Equities and was a senior member of the team responsible for managing County's $5 billion in Australian equity portfolios. In 1994, Anton moved to BNP Investment Management Pty Ltd (BNP) in the role of Senior Equities Manager where he was responsible for managing all of BNP's Australian equity portfolios. During Anton's time at BNP its equity portfolios were consistently ranked in the top quartile for wholesale equities.

Simon Conn has served as part of the Manager's investment team since June 1998 and has over 12 years' experience as a Senior Portfolio Manager in the small cap sector. Simon is also the lead manager for the Investors Mutual Future Leaders Fund, the Investors Mutual Australian Smaller Companies Fund and the Investors Mutual Small Caps Fund. Between these funds, Simon is responsible for managing approximately $1bn in FUM. Performance of the small and mid-cap mandates has been strong, generating excess returns with lower volatility across a full market cycle.

While employed with the Manager, Simon has been responsible for analysing stocks from a wide range of industry sectors which has given him the broad grounding required to manage the Manager's small cap portfolios. Simon commenced his career at KPMG as a tax and investment consultant in 1992 where he was responsible for consulting to a range of companies on their tax affairs and structures. In 1995 Simon joined the investment division of QBE Insurance Group where he was employed as an investment analyst and was responsible for assisting in the management of the Company's investment fund across a range of asset classes including equities. Simon was employed with QBE Insurance Group for 3 years before joining the Manager in 1998.

Key Investment Personnel

Name, Position		IML Years	Experience
Anton Tagliaferro	Investment Director, Portfolio Manager	19	31
Simon Conn	Senior Portfolio Manager, Small & Mid Caps	19	22
Hugh Giddy	Senior Portfolio Manager, Head of Research	7	25
Marc Whittaker	Assistant Portfolio Manager, Small & Mid Caps	1	18
Daiel Moore	Senior Equities Analyst	7	11
Micheal O'Neill	Senior Equities Analyst	7	9
Thomas Vasquez	Equities Analyst	3	13
Bruce Du	Equities Analyst	1	12
Nigel Hale	Equities Analyst	9	8
Daniel Seeney	Equities Analyst	2	10
Daniel Man	Junior Equities Analyst	4	6

BOARD

There are five members of the Board of the Manager, the majority of which are Independent. We view this as a positive as there is sufficient independent oversight of the Manager's activities. All Board members have a significant amount of experience in senior positions across the business, finance and wealth management industries.

Anthony Peter McKillop – Chairman and Non-executive Director

Peter has over 30 years experience in funds management, financial planning and the superannuation industry and was the inaugural Managing Director of State Super Financial Services Limited in 1990 until his retirement in 2011. At this time State Super Financial Services Limited had funds under advice in excess of $9.3 billion. Prior to joining State Super Financial Services Limited, he was Group Manager Investment Services at Perpetual Funds Management Limited (Perpetual) and also served as both Chairman and Non-Executive Director of the listed investment company QVE (ASX: QVE) since 2014.

John McBain – Non-executive Director

John has over 19 years experience in the funds management industry. John is currently the Chief Executive Officer of Centuria Capital Limited (Centuria), an ASX-listed specialist investment manager with $2.2 billion in assets under management. John oversees the core operations of Centuria, being property funds management and investment bond management. John also serves as a Non-Executive Director of the listed investment company QVE (ASX: QVE) and is a director of Centuria Life Limited which manages over $700 million of assets. In 1999, John formed Century Property Funds.

Jennifer Horrigan –Non-executive Director

Jennifer has more than 25 years experience across investment banking, financial communications, investor relations and strategic communications. She was recently the Chief Operating Officer in Australia of the independent investment bank Greenhill & Co. She has extensive experience in compliance, HR and financial management. Jennifer also currently serves as a Non-Executive Director of the listed Investment Company QVE (ASX: QVE). Jennifer is also a director of APN Funds Management, Generation Healthcare (ASX: GHC), and Industria REIT (ASX: IDR).

Zac Azzi - Executive Director and Company Secretary

Zac Azzi has over 20 years of financial services experience covering asset management, custody, platform and advice. Zac will be responsible for managing the day-to-day operations of QVI and developing and implementing strategies approved by the Board. Zac has served as Chief Operating Officer and Company Secretary of the Manager since August 2015 and is responsible for day-to-day operations of the Manager. Zac also serves on the Manager's Compliance Committee. Prior to joining the Manager, Zac Azzi was at SFG Australia Limited in the capacity of Executive Manager, Strategy Implementation where he helped established the funds management and platform businesses. Prior to that Zac Azzi worked at Old Mutual Australia Limited, departing as Chief Operating Officer.

Anton Tagliaferro - Executive Director

INVESTMENT PROCESS

Broadly speaking, the investment process is well established, rigorous, disciplined, proven over a full market cycle and clearly articulated by the Manager. The depth, breadth of the investment team combined with the stability and long standing relationship between the co-portfolio managers ensures consistency of process and, in this regard, we believe the track record of alpha generation and superior risk-adjusted returns is very much repeatable.

Investment Philosophy

The Manager's philosophy and rationale that underpins the S&P/ASX ex 20 Index mandate is based on several attributes, specifically: it is more diversified in terms of companies and industry sectors; it is less researched, providing greater alpha opportunities (and the Manager has a strong track-record of generating alpha in this segment); clients are typically underweight this market capitalisation segment given the S&P/ASX 20 Index constitutes in excess of 60% of the S&P/ASX 300 Index, and; for an adept investment manager, solid income yields are on offer from quality companies.

More generally in terms of investment approach, the Manager's investment philosophy is based on the belief that an entity's share price will reflect its underlying value in the long term. Accordingly, the Manager seeks to target quality companies led by capable management, which have strong competitive advantages in their fields, preferring companies that are number one, two or three in their industry, that are well managed, have recurring and predictable earnings, that have the ability to grow over time and whose securities can be purchased at an attractive entry price. The Manager believes that the underlying quality and regular earnings of a company is important as it enables both the payment of dividends to shareholders and reinvestment into the business for future growth.

Given the focus on the underlying quality and regular earnings combined with the payment of relatively high dividends to shareholders, the Manager's investment strategies tend to exhibit lower volatility and drawdowns than the relevant benchmark. The philosophy is designed to address the key retail investor needs, specifically capital preservation, income focused and reasonable longer term capital growth.

The Manager has an active, "bottom-up" approach to identifying, researching and valuing quality companies. The Manager's approach is systematic, disciplined and focuses on finding entities that meet its investment criteria and then determining an appropriate valuation for those entities.

Anton Tagliaferro has used this investment philosophy and process since the inception of the Manager in 1998. This investment philosophy and process has resulted in all of the Manager's investment strategies generating above market returns with less volatility than benchmark indices over the long term.

QVE can hold up to 20% cash during periods when there are more assets to sell than to buy. Historically the QVE's cash holding has been relatively high which has contributed to an additional degree of downside protection but has foregone some returns in a risk-on market environment or when valuations have become stretched. The Manager is relaxed about this, viewing a material cash balance at times as a corollary of a high conviction, benchmark unaware strategy where the Manager is not forced to buy companies after selling portfolio holdings. It also reflects the valuation discipline the Team adheres to.

Investment Process

When assessing investment opportunities, the Manager's team of analysts will undertake a comprehensive 'bottom-up' approach in identifying, researching and valuing quality entities. The Manager's approach in identifying opportunities for the portfolio is systematic and disciplined and focuses on finding those entities that meet the investment criteria set by the Company and then determining an appropriate valuation for those entities. This is the same approach that has been applied by the Manager since 1998 in the management of its Retail Funds and has been successfully demonstrated by the Manager's ability to generate a reliable source of income, reasonable capital growth and consistent risk adjusted outcomes for its clients.

The Manager conducts a detailed fundamental analysis of various industries seeking opportunities to profit from the mispricing of listed securities. A summary of the Investment process to be implemented by the Manager for the Portfolio is set out below.

Initial Screening

In this phase the Manager applies an initial series of quality screens to all entities listed on ASX to generate a number of 'investment grade' entities that are worthy of further consideration.

Review process

Following the initial screening phase, the Manager reviews the investment grade entities which have been identified once each week to seek out potential opportunities which are likely to generate a return for the Portfolio. It is within this phase that the Manager will seek to generate a list of entities that will be subjected to in-depth, fundamental analysis in order to identify whether they are appropriate for the Portfolio.

Assessment and valuation

In this phase, the Manager subjects those entities which have been selected for further consideration in the review process to a rigorous analytical process and will place a particular emphasis on the business, the people and the price of the relevant entity.

The detailed assessment of each entity is a five step process:

- segmental analysis (i.e. fundamental analysis of the entity's assets, income, areas of activity and geographic region, during the previous five financial reporting years);
- company and Industry contact (i.e. open communication between senior management of the entity and the Manager's analysts on a regular basis, as well as contact with industry participants: competitors, suppliers and customers of the entity);
- stock research reports (which provide a detailed snapshot of the company, its risks, strengths, micro and macro factors, growth profile and corporate governance details is prepared by the Manager);
- valuation (i.e. the Manager undertakes an internal valuation of the entity considering, for example, EBITDA, NTAs etc); and
- Price targets (i.e. entry and exit points for acquiring and disposing of securities in the entity as well as a guide to the potential return the Manager expects from a particular entity).

Quality Score

In this phase, the Manager generally scores each entity on a range of factors including management, financial strength and transparency of earnings. The quality scores are used as a rank indicator for the Manager's long term assessment of the entity. While scoring is subjective, it is internally peer reviewed by each analyst in the Manager's investment team. The minimum and maximum score range is 3-15. Most entities are grouped in the 7.5-9.5 range.

Portfolio Construction

The portfolio is relatively concentrated, with typically 30-50 holdings The portfolio construction approach and methodology is the same that Simon Conn has been utilising for 15 years in the small caps strategy. In essence, the intention is to allocate a greater weighting on stocks that provide greater upside in the context of a general risk assessment (the variability of earnings outcomes). For example, if a stocks presents more than 15% upside over the Manager's price target, then the Manager may have up to 5% allocated to the stock. The lesser the upside, generally the lower the allocation. In terms of valuation disciplines, as the share price approaches the Manager's price target, the position will be progressively trimmed.

The Manager's maximum buy limits as a function of its weighting allocation grid is displayed below.

Maximum Buy Limits		
Tier	**Valuation Criteria**	**Portfolio Limit**
Tier 1	Undervaluation: 15%+	5%
Tier 2	Undervaluation: 10%+	3%
Tier 3	Undervaluation: 5%+	2%
Tier 4	Entering or Exiting a Position, Undervaluation: <5%	Not Purchased

Stock, sector, and size limits apply. These are intentionally broad and made all the more so by broad maximum drift allowances. The intention here is to let bottom-up ideas flourish as much as possible. The Manager pays limited consideration to the composition of the benchmark index. This means that all investment decisions are positive, not passive, and that the focus for decision-making is on what the strategy owns, not what it does not own.

Portfolio Holdings (as at 30 Nov 2016)			
By Top 10 Holdings			
Fletcher Building	3.9%	Cash	16.0%
Bank of Queensland	3.7%	Financials	16.0%
Sonic Healthcare	3.4%	Materials	13.2%
Steadfast	3.3%	Utilities	12.2%
Pact	3.1%	Industrials	9.3%
Amcor	3.0%	Health Care	9.1%
GWA	3.0%	Cons. Discretionary	8.3%
Ansell	2.9%	Real Estate	5.2%
AGL Energy	2.9%	Telecommunications	5.1%
Orica	2.9%	Info Technology	1.9%

PERFORMANCE ANALYTICS

Summary of analytical results

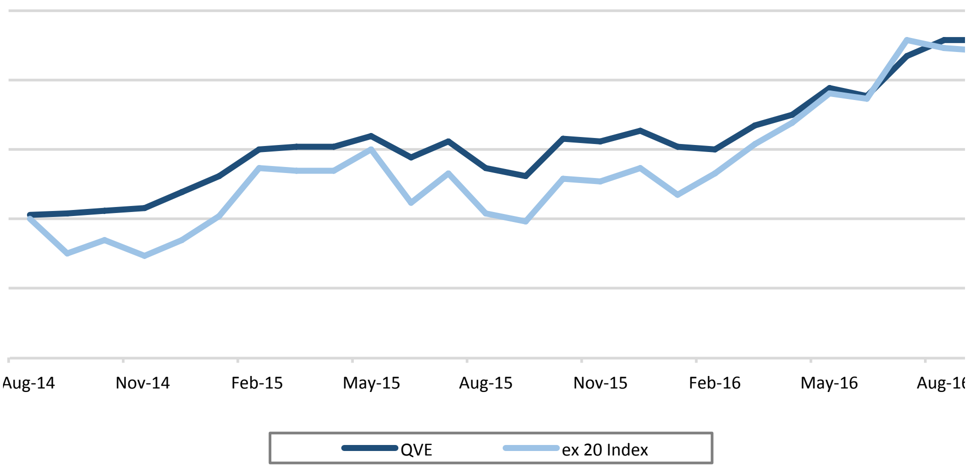
We note the following regarding the performance of QVE.

- QVE has outperformed the index since inception on both a returns basis ((alpha of 1.2%) and, very significantly, on a risk basis (with a lower standard deviation of 7.4% p.a. vs 12.9% p.a). The risk / reward ratio is a strong differentiator of QVE, with a Sharpe Ratio of 1.05 vs 0.55 for the Index, and is very much consistent with the Manager's objective.
- On a rolling basis, returns relative to the benchmark have varied. However, where QVE has (marginally) underperformed we view this as entirely consistent with the Manager's investment approach and philosophy. The Fund's investment process generates certain style biases, namely to quality, large cap stocks and a tendency for a rising cash balance in more 'exuberant', fully valued market environments. Historic performance highlights

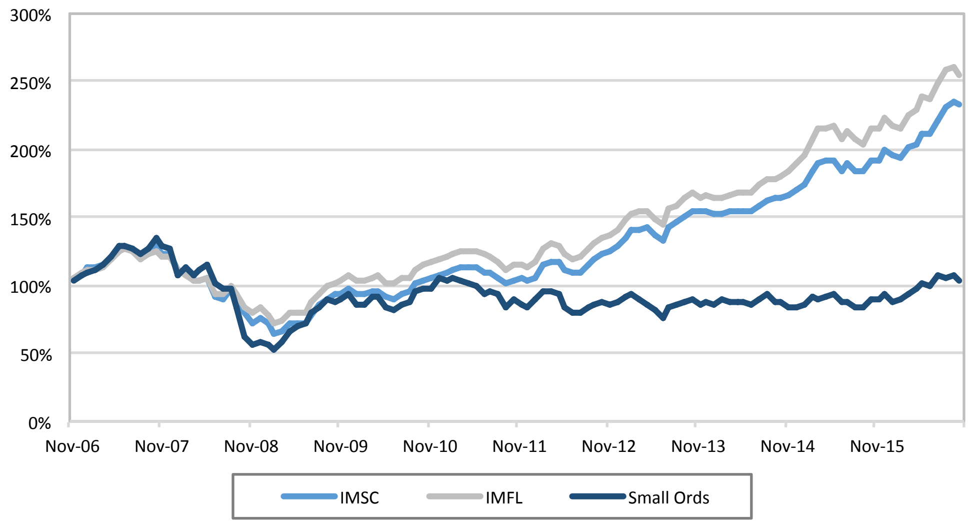
that the Fund may underperform in such environments but the corollary has been the Fund has not fully participated in market sell-offs.

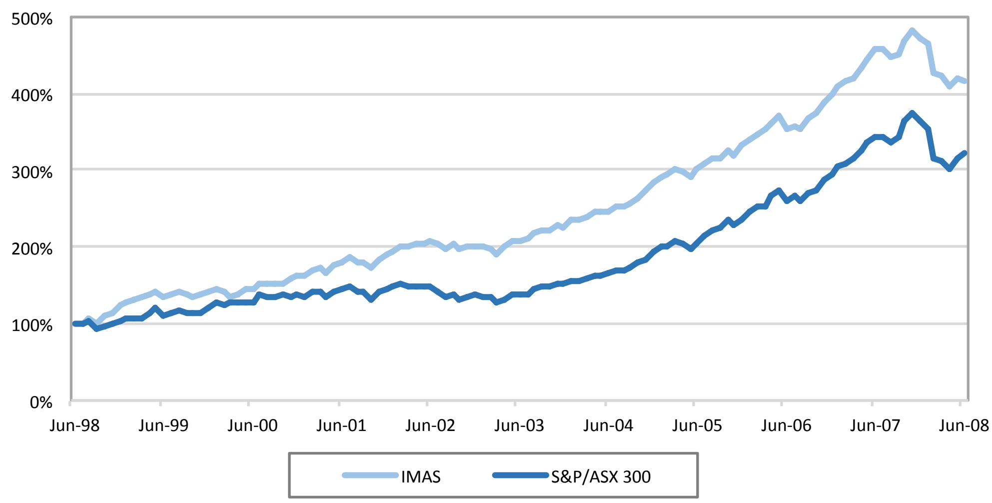
- Since inception, of the 11 months in which the index recorded negative returns, QVE outperformed the index in all but one of these monthly periods.
- The historic performance of the Manager's investment strategies based on comparable investment strategies, specifically the IMAS and the IMSC strategies, has very significant outperformed their respective benchmarks on both a risk and return basis.

Historic Returns - QVE (to 30 Sept 2016)



Historic Returns - IMSC (to 30 Sept 2016)





Comparative Performance

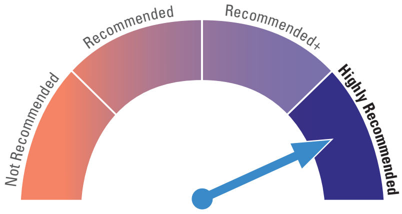
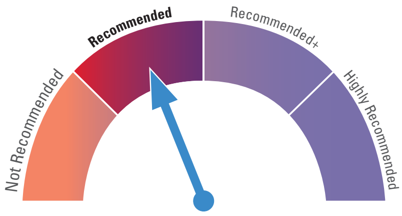
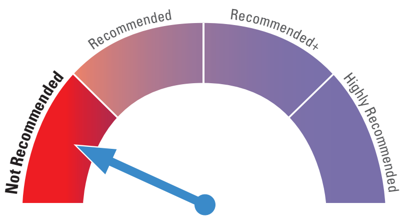
The table below details performance relative to the IIR listed investment company universe of LICs with a similar market capitalisation investment strategy. We note QVE has materially outperformed and has a competitive fee level. The performance data is as per 30 September 2016.

	QVE	S&P/ASX 200 ex 20	AMH	FSI	CIE	BST
6 mths	**11.0%**	**12.2%**	**8.3%**	**4.0%**	**7.3%**	**0.7%**
1-yr	18.6%	24.8%	12.1%	14.8%	12.0%	8.6%
2-yr	11.7%	14.4%	8.3%	8.2%	N/A	12.4%
Fees	0.75-0.90%	N/A	0.67%	0.0%	0.85-0.95%	1.0%
Perform Fee?	None	N/A	None	15% over UBS Bank Bill Index	None	20% over 8% hurdle

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD "IIR" RATING SYSTEM.

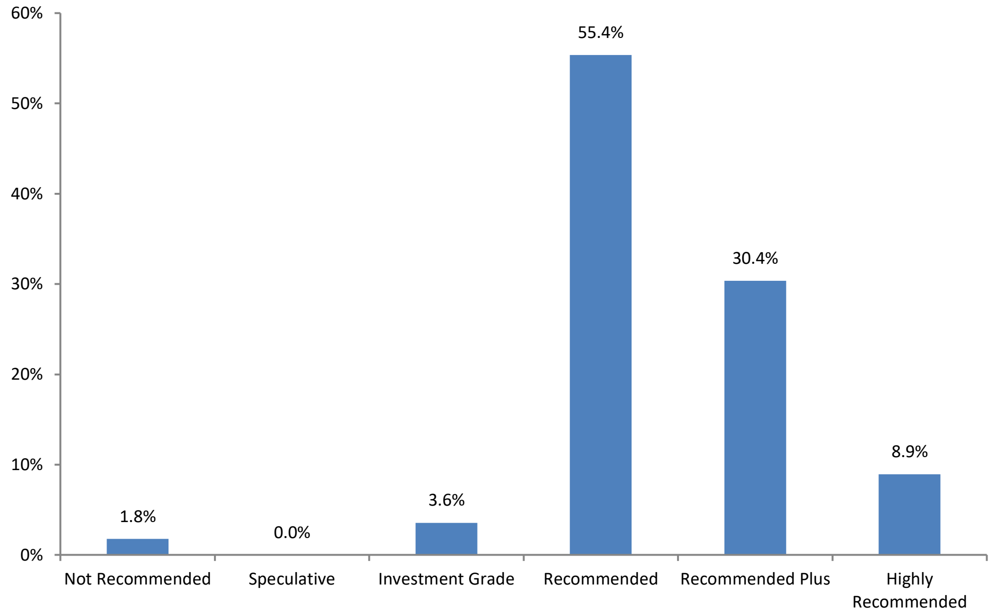
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	**79–82**
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	**60–78**
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Not Recommended	**<60**
	This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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For further information, please contact IIR at: client.services@
independentresearch.com.au

Independent Investment Research (Aust.) Pty Limited

SYDNEY OFFICE
Level 1, 350 George Street
Sydney NSW 2000
Phone: +61 2 8001 6693
Main Fax: +61 2 8072 2170
ABN 11 152 172 079

MELBOURNE OFFICE
Level 7, 20–22 Albert Road
South Melbourne VIC 3205
Phone: +61 3 8678 1766
Main Fax: +61 3 8678 1826

HONG KONG OFFICE
1303 COFCO Tower
262 Gloucester Road
Causeway Bay, Hong Kong

DENVER OFFICE
200 Quebec Street
300-111, Denver Colorado USA
Phone: +1 161 412 444 724

MAILING ADDRESS
PO Box H297 Australia Square
NSW 1215