

PERFORMANCE

Fund performance for September was 3.40% (net) versus the benchmark 1.31% as measured by the S&P/ASX Small Ords Accumulation Index.

FUND COMMENTARY

We are pleased to report the fund delivered strong absolute and relative returns despite holding 29% cash at month end. Over the long term, should we continue to hold this level of cash it will drag on returns. This is the first month in a long journey. Investors should expect us to deploy this cash as higher conviction ideas present themselves. Presently we have some higher conviction names but not as many as we'd like. Many of the 'cyclical value' stocks – such as those in the resource and mining service sector – that are working right now do not have the kind of durable competitive advantage that would give us the conviction to make them sizeable weights in the portfolio. As such we are at the top end of our 20-40 stock number guideline. Having said this there is no shortage of ideas with some of the themes represented in the portfolio as follows:

Niche commodities leveraged to Electric Vehicles: Rare Earths and Lithium are favoured commodities. Some names here are also benefiting from deleveraging balance sheets.

Mining services benefiting from a resource recovery: it's not back to a boom but there has been an underspend on maintenance capital in the downturn and now there are early signs of a catch up which is benefiting those mining service companies left standing after a few years in the wilderness.

Globally focused fund managers: with a strong A\$, domestic investors bored by the banks and offshore markets outperforming Australia we favour globally focused fund managers.

Consumer finance: higher power prices and low wage inflation is pressuring household budgets at a time when the banks are pulling back from small loans. Niche financiers are filling the gap.

Retail: believe it or not but Amazon won't kill all retailers. Despite a soft consumer there are always some retail concepts that will work and the strong A\$ helps gross margins. Valuations in this segment of the market are also supportive.

Winners for the month included Lovisa, MNF and Bathurst Resources. Losers included Webjet & Beacon Lighting.

OUTLOOK

We are not banging the table on the outlook for Aussie equities. The market overall looks fair to us with a clear risk to all asset prices should rates rise faster than anticipated. Nevertheless, it would be unwise to place too much weight on our – or anyone's – view of where the market is headed. We don't invest in the market we invest in companies and, hopefully, make money by being in the right stocks, in the right weights at the right time. Our focus is on the hunt for the next good idea and maintaining the discipline and humility to admit our mistakes quickly and cut the losers. As always we look for 'the numbers' (cash flow, balance sheets, returns on capital) to match 'the story' and are seeking to find companies with proven business models relatively early in their lifecycles.

PERFORMANCE TABLE

PERIOD	FUND RETURN	BENCHMARK RETURN	OUT / UNDER-PERFORMANCE
1 month	3.40%	1.13%	2.27%
Since Inception	3.40%	1.13%	2.27%

TOP 5 HOLDINGS

1. Smart Group
2. MNF Group
3. NRW Holdings
4. Bathurst Resources
5. Lovisa

THE MANAGER

QVG Capital is a boutique investment management company managing funds on behalf of high net worth individuals and institutions (“wholesale investors”). QVG was established in June 2017 by Tony Waters and Chris Prunty and is wholly owned by its principals.

THE FUND

QVG Capital manages the QVG Opportunities Fund; a ‘best ideas’ fund focusing on smaller companies. The fund invests in Australian-listed smaller companies; defined as those outside the S&P/ASX 100. We believe there is a ‘sweet spot’ in the Australian market where attractive risk adjusted returns are possible. The fund aims to deliver strong absolute returns while also outperforming the S&P/ASX Small Ordinaries Accumulation Index.

OUR APPROACH

TRACK RECORD The managers have a long association having worked together for over a decade at three previous firms; CCZ Equities, Investors Mutual and Ausbil Investment Management where they were Portfolio Managers of the award-winning Ausbil Micro Cap Fund.

ALIGNMENT Our personal investment in the fund means there is a high degree of alignment between our investors and ourselves. The principals do not invest in Australian-listed companies outside the fund.

PHILOSOPHY & PROCESS Our philosophy and process has been refined and tested over a decade and has stood the test of time in the small companies space in Australia. An earnings focus with quantitative measures of quality and value and our experience in the market combines to generate a portfolio of undervalued growth companies in the process of being discovered by the market.

LIMITED CAPACITY OFFERING The fund has been designed to mitigate the liquidity risk of investing in small companies. The manager is aware that too much assets under management impacts performance and will seek to actively manage capacity with maintaining performance the key objective.



**TONY
WATERS**

Tony has 25 years experience in financial markets most recently as the Portfolio Manager of the Ausbil Micro Cap Fund from its inception until April 2017. Tony joined Ausbil from Investors Mutual in 2008. Before that he spent 9 years as a small cap analyst at institutional stockbroker CCZ Equities.



**CHRIS PRUNTY
CFA**

Chris has 13 years experience in financial markets most recently as the Co Portfolio Manager of the Ausbil Micro Cap Fund having joined Ausbil at the inception of the fund in February 2010. Prior to Ausbil, Chris was an analyst researching smaller companies at Investors Mutual, Confluence Asset Management and CCZ Equities.

FUND INFORMATION			
Name	QVG Opportunities Fund	Investor Eligibility	Wholesale or ‘sophisticated’ investors only
Structure	Wholesale Unit Trust	Minimum Investment	\$250,000 (unless otherwise agreed)
Investment Universe	ASX-listed smaller companies	Liquidity	Daily Unit Pricing Applications and Redemptions
Benchmark	S&P/ASX Small Ords Accum	Fees	1.2% management and 20.5% performance
Stock Holdings	20-40	Admin & Custodian	Link Fund Solutions
Stock Limit	10% at cost	APIR Code	QVG9204AU

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