

## SUMMARY

April performance was +9.5% (net) versus the Small Ords Accumulation rise of +5% taking returns to 23.1% p.a. since inception.

## COMMENTARY

Top performers for the month included **People Infrastructure**, **HUB24**, **Uniti Group** and **EML Payments** among others. Portfolio activity was relatively modest over the month. We spent some time reviewing potential IPO's. We enjoy this exercise as it's an opportunity to learn something new. Unfortunately, the IPO research was largely an academic exercise as – with one exception – not much jumped out at us as particularly compelling. Three trends we observed in the most recent crop of IPO candidates were; a) private equity vendors, b) operating businesses with significant lease liabilities and c) margins ahead of those achieved in the recent past. All of this suggests we need to shoulder arms until the right delivery comes along.



No run! We're waiting for the right delivery...

The largest detractor to performance for the month was eCommerce marketplace **Redbubble**. We like the self-reinforcing nature of marketplace business models which – at scale – can provide a meaningful competitive advantage; something we believe is absent for many eCommerce players. Redbubble faces a challenging balance of the calendar year as they cycle very strong sales in 2020. This realisation and reduced margin guidance as the company reinvests in capability and marketing were the catalysts for the share price underperformance. Over the medium-term we like Redbubble's unique business model, long-term growth and think the new CEO is the right man for the job. We are looking forward to seeing what Michael and the team can achieve over the coming years.

## OUTLOOK

Investors should be mindful of the potential for volatility in our portfolio. We have a high proportion of the fund in the top 10 stocks (~60%) and are holding fewer names (29) than is usual. We also have very little overlap with our benchmark; owning just one of the 30 largest benchmark weights. We think this approach – to focus on our best ideas – will reduce fundamental risk but does have the potential to lead to increased price volatility (code for: *we can and will lose money at times*).

As much as we hate getting too short-term, there is some evidence that – while the market has been grinding higher in aggregate – individual stocks are running out of puff. Towards the end of the month we started to see good news (e.g. an earnings upgrade) met with muted responses and bad news punished. This isn't great news for concentrated stock-pickers such as ourselves!

While we are not finding a lot of ideas at the moment the ones we have found we really like, hence the current portfolio concentration.

## NET PERFORMANCE

PERIOD	FUND RETURN	BENCHMARK RETURN	OUT / UNDER-PERFORMANCE
1 month	9.45%	4.98%	4.47%
1 year	57.24%	39.78%	17.46%
Since Inception	23.11%	11.59%	11.52%
Since Inception	114.15%	49.41%	64.74%

## TOP 5 HOLDINGS

1. Uniti Group (UWL)
2. Johns Lyng (JLG)
3. Tyro Payments (TYR)
4. EML Payments (EML)
5. City Chic (CCX)

## THE MANAGER

QVG Capital is an independent 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 staff. QVG manages a long-only small companies fund – the QVG Opportunities Fund – and an all-cap absolute return fund – the QVG Long Short Fund.

## QVG's FUNDS

QVG Capital manages the **QVG Opportunities Fund**; a 'best ideas' fund focusing on smaller companies and the **QVG Long Short Fund**; an all-cap absolute return fund. The Opportunities Fund predominantly invests in Australian-listed smaller companies; defined as those outside the S&P/ASX 100. The Opportunities Fund is closed to new investors while the Long Short Fund is open to new and existing investors.

## 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 buy 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 combines to generate a portfolio of undervalued growth companies in the process of being discovered by the market.

**SOFT CLOSED** The fund has been designed to mitigate the liquidity risk of investing in small companies. The manager is aware that too many assets under management impacts performance and will seek to actively manage capacity with maintaining performance the key objective. The fund closed to new investors on August 1, 2018.



**TONY WATERS**

Tony has 29 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



**CHRIS PRUNTY,  
CFA**

Chris has 18 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			
<b>Name</b>	QVG Opportunities Fund	<b>Investor Eligibility</b>	Wholesale or 'sophisticated' investors only
<b>Structure</b>	Wholesale Unit Trust	<b>Minimum Investment</b>	\$250,000 (unless otherwise agreed)
<b>Investment Universe</b>	ASX-listed smaller companies	<b>Liquidity</b>	Daily Unit Pricing Applications and Redemptions
<b>Benchmark</b>	S&P/ASX Small Ords Accum	<b>Fees</b>	1.2% management and 20.5% performance
<b>Stock Holdings</b>	29	<b>Admin &amp; Custodian</b>	Link Fund Solutions
<b>Stock Limit</b>	10% at cost	<b>APIR Code</b>	QVG9204AU
<b>Trust FUM</b>	\$612m	<b>Platform Availability</b>	Netwealth, HUB24, AUSMAQ, POWERWRAP

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