

## SUMMARY

September performance was -1.82% versus -2.14% for the Small Ords Accumulation index. This takes since inception returns to 24.3% p.a.

## COMMENTARY

Performance for the month was helped by **Aussie Broadband, Tyro, City Chic** and **Johns Lyng**. Detractors included **Hansen Technologies, Nearnmap, Data#3** and **Uniti Group**.

**Hansen Technologies** fell over the month after private equity firm BGH withdrew their offer for the company. Despite the short-term share price fall we were not disappointed to see BGH walk away. We had always felt the proposed \$6.50 price was too low. Our conviction hardened after seeing Hansen's result in late August. True to form, the result showed the company continues to acquire well, extract operating efficiencies, and use its oodles of free cash flow to retire debt. With minimal leverage, the company is well placed to keep doing what it has done over the past decade or more; make value accretive acquisitions and surprise and delight shareholders!

**Dicker Data** and **Data#3** both distribute IT hardware and software. Both are well managed, cash generative and, to be honest, somewhat boring. We don't mind this. What we do love is the long-term tailwinds behind both businesses. 'Digital transformation' is a real and persistent trend that is likely to drive above-market growth for these two companies many years into the future. The stocks were probably sold off on supply chain concerns or in sympathy with the technology sector weakness, but both look attractive to us.

## OBSERVATIONS

One of the dynamic duo in this investment partnership was quoted in *Livewire* as calling markets "crazy expensive". Yet we are almost fully invested. Why? This positioning is explained by our more nuanced view that markets are expensive versus history but fair relative to other assets (especially bonds). Nuanced arguments do not make for a snappy headlines. To wit: "Fund Manager says equity risk premiums are fair relative to fixed interest should interest rates remain at current levels" is not likely to generate many clicks.

The last part of this argument "should interest rates remain at current levels" was tested towards the end of September. Supply chain bottlenecks causing more persistent than expected cost pressures, and a generally improving economy, may have contributed to the yield on the US 10-year bond rising from 1.28% to 1.54%. Should this trend persist the market will likely come under further pressure and so will our portfolio. Brace yourself.

As tempting as it is, we do not seek to side-step such potential corrections because a) we don't know for certain whether they'll occur and b) we don't know when to get back into the market on the other side of any correction. Experience has taught us the limitations of our trading skill. We also have the opinion that on a more medium-term view the earnings growth of the portfolio will be the major driver of returns. On this front our portfolio remains very healthy.

Finally, thanks to all those who dialled in to our **Webinar**. If you missed it there is a replay available via our website. We are always looking to improve the way we communicate with current and prospective investors and very much wish to have a two-way conversation. Please do not hesitate to get in touch with questions, comments or suggestions.

## NET PERFORMANCE

| PERIOD            | FUND RETURN | BENCHMARK RETURN | OUT / UNDER-PERFORMANCE |
|-------------------|-------------|------------------|-------------------------|
| 1 month           | -1.82%      | -2.14%           | +0.32%                  |
| 1 year            | 45.82%      | 30.41%           | 15.41%                  |
| Since Inception   | 143.04%     | 59.72%           | 83.32%                  |
| Since Incept p.a. | 24.30%      | 12.16%           | 12.14%                  |

## TOP 5 HOLDINGS

1. Uniti Group (UWL)
2. Tyro Payments (TYR)
3. Johns Lyng (JLG)
4. Hansen Technologies (HSN)
5. Afterpay (APT)

## 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

## 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.

**CAPACITY MANAGED** 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>      | 30                           | <b>Admin &amp; Custodian</b> | Link Fund Solutions                             |
| <b>Stock Limit</b>         | 10% at cost                  | <b>APIR Code</b>             | QVG9204AU                                       |
| <b>Trust FUM</b>           | \$736m                       | <b>Platform Availability</b> | Netwealth, HUB24, AUSMAQ, POWERWRAP             |

### CONTACT INFORMATION

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