

SUMMARY

December performance was 1.42% (net) taking returns to +29.33% p.a. since inception.

COMMENTARY

It should sound familiar to hear that we are always seeking to optimise the portfolio for the greatest free cash flow per share prospects for our portfolio companies. Despite this philosophy working over longer periods of time, December was a period where the market didn't care much for our thoughts and instead favoured resources which were up strongly vs industrials. We have only a modest, indirect exposure to resources and so did not see the benefit from rising share prices across battery materials, gold and oil stocks. Our short book was broadly flat despite the rising market with our long book providing the bulk of our positive return.

Unmissable portfolio news this month was one of our top holdings, **Johns Lyng Group** placing a \$200m bet by acquiring Reconstruction Experts in the USA. We like this move and believe a few key elements improve the odds of success for the new business combination:

- The potential to add adjacent revenue streams in areas where Johns Lyng have an existing competency e.g. catastrophe related work
- Johns Lyng now have a platform from which to expand their own offering into the larger US market
- Reconstruction Experts appear to have a sustainable niche servicing less sophisticated clients in less competitive jobs where they can offer an end to end service at higher margin
- The maths are compelling given the price paid

Critical to the success of this acquisition will be the retention of Reconstruction Experts' culture and the operational discipline that is responsible for their success thus far. While most acquisitions carry risk in this regard, Johns Lyng has demonstrated a core competency in incentivising and retaining talent. They also have a successful track record of acquisitions to date and so they are well positioned to perpetuate and build upon the success of Reconstruction Experts.

In terms of portfolio positioning, we have been exiting smaller portfolio positions and redeploying the proceeds in our larger weights where we have higher conviction. We have also been closely watching several tech names caught up in the sector's recent weakness looking for an opportunity to buy the dip.

OBSERVATIONS

Of all the topics worthy of reflection, the one most front of mind is that of concentration. Greater concentration amongst our highest conviction positions would have enhanced the fund's return this year. This is also true for the period since inception for our Long Short Fund and is likely to also be true across the span of our investment careers. The pity in this simple epiphany is that should we dial up our concentration, we will also increase the fund's volatility, create larger and sharper drawdowns along the journey and challenge our investors capacity to stay the course during down years. Doing nothing is hard enough when times are good, let alone when your faith in the strategy is tested. For that reason, we have always balanced our concentration risk with the other risks the portfolio for example our gross exposure, net exposure, sector risk, style risk etc.

That said, there is some scope to prudently and selectively increase the concentration in the portfolio to enable sustainable, differentiated returns. If the boat gets rocky, the trick is to hold on... or better yet, just close your eyes!

Gross exposure is 174% while net exposure is 74%

NET PERFORMANCE

PERIOD	FUND RETURN
1 month	1.42%
3 months	6.37%
12 months	34.66%
Since Inception*	97.43%
Since Inception p.a.*	29.33%

*Inception on 13th May 2019

TOP 5 HOLDINGS

1. Uniti Group (UWL)
2. Johns Lyng Group (JLG)
3. Aristocrat (ALL)
4. James Hardie (JHX)
5. Tyro (TYR)

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 team.

THE FUND

The QVG Long Short Fund is a 'best ideas' fund with the flexibility to take advantage of the best ASX opportunities regardless of share price direction or market capitalisation. The net result of our long and short positions is a portfolio with reduced equity market exposure and a return profile driven predominantly by our stocking picking. The fund aims to deliver strong absolute returns greater than the RBA cash rate with the enhanced flexibility to manage equity market exposure with respect to the prevailing

KEY CHARACTERISTICS

FLEXIBLE INVESTMENT MANDATE The fund can profit by investing across the market capitalisation spectrum and can sell or 'short' stocks we believe will decline in value.

STRONG ALIGNMENT Our personal investment in the fund means there is a high degree of alignment between our investors and ourselves. We are heavily invested in the QVG funds and do not invest in Australian equities outside the funds.

PROVEN PHILOSOPHY & PROCESS Our philosophy and process has been refined and tested over a decade and has stood the test of time. An earnings focus with quantitative measures of quality and value and our experience combines to generate long and short ideas mispriced by the market.

PERFORMANCE CULTURE QVG seeks to be a performance driven rather than product driven organisation. We take pride in our track record and will always prioritise investment returns over asset gathering.

JOSH CLARK CFA



Lead Portfolio Manager

Josh has 11 years experience in financial markets most recently at Ophir Asset Management. Before joining Ophir, Josh worked as the sole Analyst on the Ausbil Micro Cap Fund with Portfolio Managers Tony Waters & Chris Prunty.

TONY WATERS Portfolio Manager



Tony has 27 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



Portfolio Manager

Chris has 15 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 Long Short Fund	Investor Eligibility	Wholesale or 'sophisticated' investors only
Structure	Wholesale Unit Trust	Minimum Investment	\$100,000 (unless otherwise agreed)
Investment Universe	ASX-listed companies	Liquidity	Daily Unit Pricing Applications and Redemptions
Benchmark	RBA Cash Rate	Fees	1.5% management and 20% performance (plus net GST)
Stock Holdings	Long 20-40; Short 10-30	High Water Mark	Yes
Typical Gross Exposure	100 - 300%	Admin & Custodian	Link Fund Solutions
Typical Net Exposure	0 - 100%	APIR Code	QVL8781AU

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