QVG CAPITAL

LONG SHORT FUND

MONTHLY REPORT - APRIL 2022

SUMMARY

April performance was -3.09% taking since inception returns to 21.1% p.a.

COMMENTARY

The story driving equity markets (S&P500 -8.8% for example) through April was more of the same: higher inflation, higher commodity prices, higher interest rates and lower valuations ascribed to growth companies. Whilst we understand the optimal portfolio positioning for such an environment has been to own commodities, cyclicals and value stocks, we also understand that playing this game profitably requires an ability to dance close to the door as macro-economic variables can change quickly. If we were to bet the portfolio based on a guess of the future economic environment, we would do so with the knowledge that we are likely to be right as often as we are wrong. Instead, we focus on where we have an edge.

Our edge is in identifying durable businesses that can grow their cash flows through the full economic cycle. Over a long enough time-horizon, we are likely to experience the full spectrum of economic environments. Similarly, over a long enough time horizon, highly durable growth companies will be worth multiples of the low return, cyclically-driven companies we seek to avoid.

Unsurprisingly, attribution was characterised by some of our growth companies moving lower: **Tyro**, **IDP Education**, **Block** & **Aristocrat**. We did experience an offset from our short positions however, most of which contributed positively this month. The shorts are doing their job of cushioning the damage caused by the longs. This will help the fund recover from a higher base when, eventually, a recovery does dome. Special mentions for our short contributors go to the speculative, cash burning companies, many of which have no revenue. Covid winners that are now covid sinners such as e-commerce and healthcare companies also contributed to performance on the short side.

In terms of future opportunity, there are two key areas forefront of our minds. The first is the businesses that exhibit all of the ingredients for superior long-term shareholder returns (i.e. high ROIC, durable business models with proven execution) are getting cheaper and therefore implying higher future returns. We feel the sting of having many of these already represented in the portfolio but nonetheless are enthusiastic to accumulate more shares in these companies at increasingly attractive prices.

The second area of opportunity are also companies that have seen recent share-price weakness but are distinct from the first group in that there is little to no fundamental value to support their valuations. These companies are often biotechs, aspiring resource producers or technology developers that lack a clear link between their cash burn and incremental revenue growth. Not only do these stocks do poorly when market sentiment becomes cautious, but they tend not to recover when sentiment returns due to a lack of execution and an investor base that has already moved on to the next shiny thing. Years of bullish share market conditions have presented a plethora of these opportunities and we continue to add them to our short portfolio.

The most obvious area of market speculation currently is in battery minerals. There is no shortage of these names on the ASX, however few are likely to have commercial operations. Unproven mining methods, chemical processes and or spicy jurisdictions that have never produced lithium before all loom as potential headwinds for these projects. Meanwhile, a lot of optimism has been built into projects that have a material chance of disappointing. Selectively and within risk tolerances, we have taken a short position in some of these names which worked in April.

Gross exposure is 177% while net exposure is 63%

NET PERFORMANCE

PERIOD	FUND RETURN
1 month	-3.09%
3 months	-2.27%
12 months	8.32%
Since Inception*	76.71%
Since Inception p.a.*	21.13%

*Inception on 13th May 2019

TOP 5 HOLDINGS

1. Uniti Group (UWL)
2. Johns Lyng Group (JLG)
3. Hansen Technologies (HSN)
4. Aristocrat (ALL)
5. CSL Limited (CSL)

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 30 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 19 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

CONTACT INFORMATION

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