

## SUMMARY

June performance was -9.7% versus -13.1% for the Small Ords Accum index taking since inception returns to 12.3% p.a.

## COMMENTARY

Inflation driving higher rates and earnings risk given recession fears combined with tax loss selling and flows out of equities to deliver a horror month for the Small Ords. The benchmark fell -13.1% for June delivered the second worst monthly return since the GFC.

Insurance builder **Johns Lyng** provided a trading update which was ahead of their previous earnings guidance. Johns Lyng now expect to make \$83m EBITDA in FY22 – 5% ahead of their prior expectations. Looking forward in to FY23 JLG will benefit from a full year contribution of their US acquisition 'Reconstruction Experts' and a full pipeline of 'Cat' work given the sequence of extreme weather events experienced over this financial year.

Labour staffing business **PeopleIN** made a sizeable acquisition of a business called 'Food Industry People' which helps provide workers from the Pacific Islands and Timor to Australian employers. The acquisition was 15% earnings accretive and PPE reaffirmed earnings guidance for FY22 which puts it on 10x FY22 PE and 8x FY23 PE.

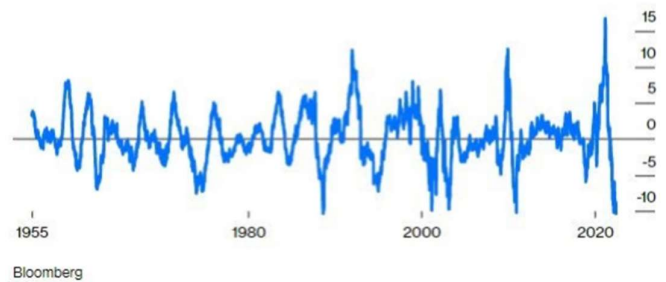
In less positive news, our poorly performing position in payments provider **Tyro** suffered a further set-back in June with the unexpected resignation of CEO Robbie Cook. With over \$130m of net cash and forecast to be free cash flow positive in FY23 we have been patient with Tyro despite Covid impacts on revenue and lack of margin expansion. In hindsight we were too patient, and the position was a material detractor to performance in FY22.

The Aussie 10-year bond rate started the month at 3.34% and finished it at 3.66% but not before touching a high of 4.25% intra-month. The US 10-year Treasury Bond interest rate showed a similar pattern, starting the month with a 2.83% yield and finishing it at 3.06% via a 3.48% high. The moves lower in global and domestic equities are starting to price these higher rates. The new fear gripping markets is earnings risk. Depending on who you read, the average US recession sees -13% to -17% earnings cuts (the GFC was a lot worse). It is this earnings risk that is now being contemplated by markets.

We have managed money in rising and falling rate environments and know which we prefer! In the past, rising rate environments have been gradual enough so that the earnings growth of our portfolio has compensated for multiple compression from higher rates. The unique feature of this market is not the magnitude but the speed of the move in rates which has led to the fastest compression of valuations ever as shown here:

### Valuations Have Never Before Compressed So Quickly

Year-on-year change in trailing Price/Earnings multiple of the S&P 500



The chart above shows we have been sailing into the wind, but it won't always be this way. Given the next leg of this bear market is likely to be a focus on earnings not multiples, we have been positioning the portfolio towards companies we believe have greater earnings certainty. This ought to mitigate the impact on the portfolio of a recessionary or slowing growth environment should it occur.

## NET PERFORMANCE

PERIOD	FUND RETURN	BENCHMARK RETURN	OUT / UNDER-PERFORMANCE
1 month	-9.71%	-13.09%	3.37%
1 year	-21.63%	-19.52%	-2.11%
Since Inception	75.34%	24.28%	51.06%
Since Incept p.a.	12.33%	4.60%	7.73%

## TOP 5 HOLDINGS

1. Uniti Group (UWL)
2. Johns Lyng (JLG)
3. Hansen Technologies (HSN)
4. HUB24 (HUB)
5. IDP Education (IEL)

## 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.

**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.

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>	28	<b>Admin &amp; Custodian</b>	Link Fund Solutions
<b>Stock Limit</b>	10% at cost	<b>APIR Code</b>	QVG9204AU
<b>Trust FUM</b>	\$517m	<b>Platform Availability</b>	Netwealth, HUB24, AUSMAQ, POWERWRAP

CONTACT INFORMATION			
<b>Email</b>	<a href="mailto:contactus@qvgcapital.com.au">contactus@qvgcapital.com.au</a>	<b>Phone</b>	+61 2 8039 9060
<b>Email</b>	<a href="mailto:LFS_Registry@linkgroup.com">LFS_Registry@linkgroup.com</a>	<b>Phone</b>	+61 2 9547 4311



**TONY WATERS**

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.



**CHRIS PRUNTY, CFA**

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.