

## SUMMARY

October performance was 3.6% taking since inception returns to 16.3% p.a.

## COMMENTARY

The S&P/ASX300 was strong in October up 5.8%, almost recovering its fall in September. The fund was also positive, up 3.6% driven by our long positions.

The top contributors this month were **Aristocrat**, **HUB24** and **IDP Education**. The most notable detractor was **MAAS Group**.

**Aristocrat** continues to benefit from conversion of its USD earnings into AUD at favourable rates. In addition, feedback from the Global Gaming Expo of continued strong trading over recent months both for the US land-based market and Aristocrat's market share bodes well for near-term earnings. On a longer-term basis, their recent acquisition of Roxor Gaming shows commitment to extending their strengths into adjacent markets like "Real Money Gaming".

**HUB24** had a very strong September quarter trading update which showed resilient inflows on to the platform. Given the nature of financial markets, we were impressed with the strength of HUB's flows. Commentary around revenue margins and operating cost growth were also encouraging.

**IDP Education** like many growth stocks, its premium valuation compressed this calendar year in the rising rate environment. We expect the headwind of falling valuations to no longer be the driving force behind the stock's performance. Earnings growth will be the key driver of future returns. IDP has two key businesses being English Language Testing and Student Placement (of foreign students into tertiary education), both of which are recovering strongly as international borders have reopened. IDP has a runway of multiple years of ~20% revenue growth as they exploit the benefits of their scale to entrench their market leadership. The incoming CEO has big shoes to fill but will be supported by a high-quality team and the existing momentum within the business.

Top contributors in the short book this month were **EML**, **Megaport** and **Appen**, all of whom reported negative news. Respectively, regulatory issues, increased cash burn and another downgrade weighed on these share prices. Despite this our shorts overall were a drag on returns this month due to our battery materials positions marching higher.

As we highlighted in our recent [webinar](#), many of these "zero carbon" companies lack revenue, earnings and evidence of execution. This will eventually be reflected in their valuations.

The main themes present in the short book include covid over-earners, speculative commodity developers in the high-risk execution phase, and companies unable to mitigate high inflation in their costs. Many of these stocks are 'high beta' meaning we expect them to add volatility to the portfolio before they pay off.

Whilst we lagged the market in a strong month, this has been a common theme over the life of the fund and yet it hasn't held back longer-term returns. To highlight this, our September performance was an unsexy -2.3% and our October performance of +3.6% was less than the market. For context, the market was down -6.3% in September and up +6% in October. The point here is whilst we don't expect to shoot the lights out in any particular period, the combination of smaller drawdowns and owning a portfolio of growing free cash flow streams will add up over time.

## NET PERFORMANCE

PERIOD	FUND RETURN
1 month	3.63%
3 months	1.84%
12 months	-13.04%
Since Inception*	69.10%
Since Inception p.a.*	16.31%

\*Inception on 13th May 2019

## TOP 5 HOLDINGS

1. Johns Lyng Group (JLG)
2. Aristocrat (ALL)
3. Hansen Technologies (HSN)
4. IDP Education (IEL)
5. Data #3 (DTL)

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

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