

SUMMARY

January's return was +5% versus +6.6% for the Small Ords Accum index taking since inception returns to +13.5% p.a.

COMMENTARY

Stocks were up strongly in January. Equities were helped by falling long-term interest rates as more evidence becomes available that inflation has peaked. We suspect bears will soon switch their fears from inflation, rates and valuations to earnings. These fears may well be realised (we are wary too) but the mood in January was such that these fears were pushed into the future. That future is likely to be sometime mid this year as a combination of the widely reported fixed mortgage cliff peaks in the June Quarter and household Covid savings are forecast to be exhausted in coming months.

Companies that aided performance in January included **Corporate Travel, Domain** and **Lovisa** among others. Companies that detracted from performance during January included **OFX Group, Johns Lyng** and **PSI Insurance**.

Imdex announced a large capital raise to fund the acquisition of a complementary Norwegian business called Devico. Devico is a higher margin, higher growth business than Imdex and increases the skew of earnings to higher intellectual property drilling tools from more commoditised drilling fluids. As part of the deal, Imdex also released their 1H23 result which was ahead of market expectations.

Financial platform **HUB24** released their December quarter inflows data. We were (quietly) bracing ourselves for a soft flows number given investor sentiment was awful in the December quarter and seemed to deteriorate as the quarter went on. As it turned out HUB added \$2.8B of net inflows – a great effort and one that looked even better when Netwealth and Praemium subsequently released their flows. Part of our thesis on HUB is that they'll grow earnings faster than revenues in the future as they benefit from scale.

In less positive news, currency transfer company **OFX Group** released a below-expectations December Quarter update. The update showed softness in the consumer portion of OFX's revenues. While it's never desirable to see a division going backwards, the majority of OFX's revenue and earnings are from its stable and growing corporate business and a net cash balance sheet will allow for greater investment in this area.

Equity markets are off to a fast start to the new year. Sentiment has improved. But rising prices and improvement in how market participants are feeling today tell you nothing about the thing that interests investors most; future returns.

We think future returns will be dictated by earnings. Worrying about rates and valuation, risks fighting the last war; 2023 will be all about earnings. On this front we saw that even minor misses, such as OFX Group this month, will be punished. On the flip side, Imdex's organic result beat and (marginally) accretive deal was rewarded. We believe the job to be done then is to own the relatively small number of companies run by motivated insiders that produce growing free cash flows. If we are right on our earnings forecasts on the durable growers and pay a low enough price for the 'through-the-cycle' cyclical growers, then 2023 ought to look a lot different to 2022.

NET PERFORMANCE

PERIOD	FUND RETURN	BENCHMARK RETURN	OUT / UNDER-PERFORMANCE
1 month	+4.96%	+6.56%	-1.60%
1 year	-9.38%	-4.44%	-4.94%
Since Inception	+98.60%	+41.73%	+56.87%
Since Incept p.a.	+13.50%	+6.65%	+6.85%

TOP 5 HOLDINGS

1. Hansen Technologies (HSN)
2. Johns Lyng (JLG)
3. HUB24 (HUB)
4. Imdex (IMD)
5. Lovisa (LOV)

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.



TONY WATERS

Tony has 31 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 20 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 Opportunities Fund	Investor Eligibility	Wholesale or ‘sophisticated’ investors only
Structure	Wholesale Unit Trust	Minimum Investment	\$250,000 (unless otherwise agreed)
Investment Universe	ASX-listed smaller companies	Liquidity	Daily Unit Pricing Applications and Redemptions
Benchmark	S&P/ASX Small Ords Accum	Fees	1.2% management and 20.5% performance
Stock Holdings	27	Admin & Custodian	Link Fund Solutions
Stock Limit	10% at cost	APIR Code	QVG9204AU
Trust FUM	\$572m	Platform Availability	Netwealth, HUB24, AUSMAQ, POWERWRAP

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