

## SUMMARY

January performance was +4.2% taking since inception returns to 15.7% p.a.

## COMMENTARY

The fund gained 4.2% this month in a market that was also positive (S&P/ASX300 +1.1%). Notable outperformers in the market this month were the big banks and also uranium stocks, neither of which we own. Resources in aggregate were a drag on the market as inflation expectations eased and concern for China's economy grew. We are modestly net short resources.

The largest contributions from our long positions were made by **Johns Lyng, Aristocrat, Zip, MA Financial** and **EML Payments**.

Johns Lyng, Aristocrat and MA financial are each benefiting from favourable and or improving operating conditions and therefore positive market sentiment.

Zip reported their December quarter result which showed that earnings expectations of \$6m were too low as they produced \$30m of earnings in the first half alone. They now have a repaired balance sheet and improved margin profile, substantially de-risking the business.

EML is another turnaround story that gave a positive update during the month. We were attracted to EML early last year when we noticed significant board and management change. Sensible, reputable people tend to make equally sensible decisions and this month they announced the closure of a business division that was burning significant cash. We're expecting further earnings and balance sheet improvements, potentially via a divestment.

Detractors from our long book included **Block, Duratec** and **Mineral Resources**. Min resources released their quarterly activities report which showed production and costs were better than feared nonetheless the stock price fell during the month due to ongoing price weakness in the lithium market.

Our short book was a highlight in January, materially outperforming our long book. Nine of our short positions were down over 25%. Reasons for this share price weakness varied from expensive valuations with slowing growth, to failed technologies to balance sheet weakness and a probable capital raise. We aim to diversify our short ideas as much as possible but with the guiding principle being that identifying value destruction will eventually see us rewarded.

Of our top 10 contributors in the short book this month, our median holding period was 13months. This is a reminder to us that it is easier to find ideas than predict when they will work. Patience pays.

## OUTLOOK

In the very near-term our focus will be occupied by the upcoming reporting season. So far, share price reactions to trading updates suggest that a combination of positioning (or popularity) is just as important as fundamentals in driving outsized share price moves. For example, Dominos (-31%), Nanosonics (-33%) and Megaport (+28%) all had huge moves in response to their trading updates. This could make navigating February tricky. Wish us luck!

Longer-term, our goal is to find companies with growing earnings that can surprise to the upside. We continue to believe that in a more muted earnings environment these will remain rare and valuable. To this we overlay qualitative assessments of management and capital allocation, corporate culture and business competitive advantages. These qualitative factors hopefully speak to the duration of earnings growth which is the ultimate long-term driver of share prices.

Gross exposure is 164% and net exposure is 78%

## NET PERFORMANCE

PERIOD	FUND RETURN
1 month	4.25%
3 months	15.00%
12 months	19.29%
Since Inception*	99.08%
Since Inception p.a.*	15.68%

\*Inception on 13th May 2019

## TOP 5 HOLDINGS

1. Johns Lyng Group (JLG)
2. Aristocrat (ALL)
3. James Hardie (JHX)
4. HUB24 (HUB)
5. Lovisa (LOV)

## 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 12 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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