

## SUMMARY

April returned -4.1% versus -3.1% for the Small Ords Accumulation index taking since inception returns to +12.9% p.a.

## COMMENTARY

Most global and domestic equity markets fell in April as higher than expected inflation data led to a reduced probability of rate cuts. Small Industrials fell -5.02% while Small Resources rose +2.04% which was not helpful to fund performance.

Positive contributors to performance in April included **Life360**, **Aussie Broadband** and **Mader**. Life360 made an unexpected announcement relating to their operating metrics all of which were ahead of expectations and showed an acceleration of growth in users from the March Quarter.

**Johns Lyng**, **Corporate Travel**, **Domain** and **IDP Education** were detractors to performance in April. None of the companies mentioned above had trading updates although earnings expectations for IDP continue to fall as their student placement and English Language testing volumes remain under pressure from regulatory actions in Canada, Australia and the UK to reduce migration and international student numbers. Consensus earnings expectations remain too high for IDP in FY25 and a flat earnings outcome is more likely than the 8-9% EBIT growth the market is forecasting. Despite this, the long-term structural drivers of English Language testing and demand for offshore education remain intact. We are confident IDP will take significant market share through this tough period and believe the market has gone a long way to discounting the short-term headwinds.

We have increased our holdings in **Aussie Broadband** and **Hansen Technologies**. Aussie Broadband sold off in March after they lost their largest wholesale customer Origin. This will create an earnings headwind in the second half of FY25 which was quickly incorporated in Aussie's valuation. In the short-term Aussie continues to grow residential subscribers and is making solid progress with Enterprise and Government wins.

Due to its modest organic growth profile a lot of the value creation by Hansen comes via acquisitions. In February Hansen announced its first acquisition since 2019; a German energy billing platform called PowerCloud. The market has not warmed to the acquisition as PowerCloud is losing money which led to negative earnings revisions for the group for this year and next. We are very bullish on Hansen's ability to get PowerCloud to profitability and the long-term opportunity presented by the upcoming German smart meter roll out. In the short-term though, the negative earnings revisions have weighed on the share price presenting an opportunity for us to increase our holding at an attractive valuation.

## OUTLOOK

Our portfolio tends to perform poorly in the short-term when interest rate expectations rise rapidly as they did in April. On more medium-to-long-term timeframes these rate rises are less impactful as there is time for the earnings growth of the portfolio companies to drive share prices and fund returns.

It is worth reflecting on how the market composition shift is creating opportunities for the fund. It is notable that IDP Education, Aussie Broadband and Hansen are all stocks that have been marked down due to negative earnings revisions. At one level it is rational to say 'earnings down = stock down'. We get it. But with a greater proportion of money managed via quantitative strategies we're seeing the market is very efficient at incorporating these revisions in to share prices. What quants are less good at – and what we're trying to exploit – is whether these revisions are fully discounted in share prices, whether the negative earnings revision is temporary and, ultimately, whether the medium-term and long-term trajectory for earnings, value-creation and share prices is higher. The challenge with this approach is it can take some time (i.e. lots of patience) before fundamental data emerges and earnings and share price momentum is reversed. Such an approach requires a different time horizon.

## NET PERFORMANCE

PERIOD	FUND RETURN	BENCHMARK RETURN	OUT / UNDER-PERFORMANCE
1 month	-4.09%	-3.06%	-1.03%
1 year	+13.69%	+7.36%	+6.33%
Since Inception	+124.25%	+49.52%	+74.73%
Since Incept p.a.	+12.88%	+6.22%	+6.66%

## TOP 5 HOLDINGS

1. Life360 (360)
2. Johns Lyng (JLG)
3. Maas Group (MGH)
4. Aussie Broadband (ABB)
5. Hansen Technologies (HSN)

## 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>	\$578m	<b>Platform Availability</b>	Netwealth, HUB24, AUSMAQ, POWERWRAP

### CONTACT INFORMATION

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