

## SUMMARY

June returned +1.49% versus -1.39% for the Small Ords Accumulation index taking since inception returns to +12.9% p.a.

## COMMENTARY

Positive contributors to performance in June included games maker **Light & Wonder**, financial platform **HUB24** and family location sharing app **Life360** and the IPO of **GYG**. Over the past year **Life360**, **HUB24** and fast fashion jewellery retailer **Lovisa** have been the largest contributors to performance.

In June Mexican quick service restaurant chain **Guzman Y Gomez** IPO'd to little fanfare. Kidding! There was unprecedented interest in the company and float. Our work on the company was largely done earlier this year where we saw a business with a great product, outstanding returns on capital, a high energy team and CEO and a long runway for growth. On the vexed issue of valuation our perspective is that if GyG can accelerate their store roll out and maintain their current outstanding average sales per store (second only to McDonalds) then the company will be able to grow into its valuation. Further comfort on this issue was provided by analysis of the US market's willingness to pay up for early-stage, high ROIC restaurant concepts.

Utilities and telco billing and metering software provider **Hansen Technologies**, student placement and English language testing company **IDP Education** and alternative asset manager **MA Financial** were detractors to performance in June. **IDP**, **Corporate Travel** and **Domain** were the biggest detractors over the FY24 year.

Hansen Technologies was weak in the face of some transition flows. Or in other words, other smallcap managers who are closing shop. The lack of willingness to step up to clean out the selling might be explained by the fact June can be critical month for the realisation of lucrative licence fees the timing of which can 'make' or 'break' the half yearly numbers. Hansen is also contending with a management reshuffle and confusion around the timing of achieving breakeven in its recently acquired PowerCloud business based in Germany. This and uncertainty about the spend required to get PC's platform ready for the mandated rollout of smart meters means for a 'boring' company Hansen has a bit going on!

IDP downgraded FY24 and FY25 earnings expectations; something we'd flagged as likely in prior monthly reports. We were encouraged by the actions on costs IDP has taken in the face of regulatory headwinds but are mindful that FY25 numbers – the first half in particular – won't be flattering so patience is required before IDP's competitive position and structurally advantaged business become evident in reported numbers.

## OUTLOOK

The macro-economic backdrop and market conditions for investing in smaller companies have improved modestly since October last year. The headwinds of the last couple of years are abating but there is scope for further progress as inflows, the IPO market and equity capital markets activity all remain below par.

The 2024 financial year was a good one for the fund. It's not uncommon at financial year or calendar year end for us to spend some time reflecting on what worked and what did not over the prior year with a particular focus on areas for improvement. A common theme running through our under-performing positions over the past couple of years has been a tendency to look through earnings and share price weakness if we feel long-term business quality or valuation are supportive. Sometimes this works, for example, Lovisa and Maas Group have had terrific recent performance whilst at other times it costs us as it has this year with IDP and Corporate Travel. Position sizing around businesses we like with earnings headwinds is an area for improvement in the future.

Sticking with this theme, we have the attitude that there is always room for improvement and the job of refining the investment process is never done. If this sounds exhausting, it's because it is! The job is made easier with supportive colleagues, peers, brokers, advisors and our direct investors. To all of you - thanks for your support in FY24 and we look forward to working as smart and hard as ever in FY25.

## NET PERFORMANCE

PERIOD	FUND RETURN	BENCHMARK RETURN	OUT / UNDER-PERFORMANCE
1 month	+1.49%	-1.39%	+2.88%
1 year	+21.10%	+9.35%	+11.75%
Since Inception	+129.23%	+47.37%	+81.86%
Since Incept p.a.	+12.91%	+5.84%	+7.07%

## TOP 5 HOLDINGS

1. Life360 (360)
2. Johns Lyng (JLG)
3. HUB24 (HUB)
4. Maas Group (MGH)
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>	29	<b>Admin &amp; Custodian</b>	Link Fund Solutions
<b>Stock Limit</b>	10% at cost	<b>APIR Code</b>	QVG9204AU
<b>Trust FUM</b>	\$546m	<b>Platform Availability</b>	Netwealth, HUB24, AUSMAQ, POWERWRAP

### CONTACT INFORMATION

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**TONY WATERS**

Tony has over 30 years' experience in financial markets. Prior to QVG he was 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 over 20 years' experience in financial markets. Prior to QVG he was 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.