

## SUMMARY

June performance was +3.9% taking since inception returns to 16.0% p.a.

## COMMENTARY

The fund delivered a positive return of 3.9% in a rising market (S&P/ASX300 +0.9%). We remain biased towards capital light, competitively advantaged, growing businesses and we benefited from this positioning in June as industrials significantly outperformed resources.

**Aristocrat** was one of the largest contributors to return this month. We believe that follow-on buying from last month's result partially explains the share price. As a reminder, the result showed cost discipline and highlighted future market share opportunities. Aristocrat also held an investor day in June where the company had enough confidence to give 5-year revenue targets for their online real money gaming business, suggesting growth rates of 20%.

Also contributing to returns was **Guzman Y Gomez** which floated on the exchange this month. The volume and variance of opinions around this IPO was astounding and likely reflective of the lack of interesting IPOs over the past couple of years. At the centre of the debate has been valuation. The media attention on the forward earnings multiple has been misplaced and glosses over the more important value drivers of per-store returns on capital, the pace of store rollout and the total store footprint at maturity. We have seen this movie before with other high ROIC rollouts that are able to justify near term multiples with long dated growth.

The only material detractor amongst our long positions was **Mineral Resources**. Prices of their two key commodities, iron ore and lithium concentrate fell >10% during the month driving the share price lower. Extractive industries are rare in our portfolio due to their volatile earnings, capital intensity and lack of competitive advantage. Min Res is somewhat of an exception in this regard, specifically with respect to its excellent track record of shrewd capital deployment and capital recycling. We believe that a ramp up of their Onslow iron ore project and a modest bounce in the lithium price could mean the business is trading at only a single digit multiple of its pre-tax earnings power.

Our shorts were a slight drag this month with the detractors featuring several businesses that have recently reported downgrades but have bounced on the hope of a balance sheet fix up and/or no further earnings weakness.

The contributors to our short book this month were skewed towards resource projects that are not yet in production and in our view, have questionable economics. The exception to this theme was our largest contributor for the month which is an online fashion retailer that reported rapidly slowing sales and at reduced profit margins.

Our short book is smaller than it has been historically and whilst this has been beneficial in a rising market, we expect the short book to grow in size in future. The changing nature of market participants continues to create good opportunity, especially on the short side. We have increasing conviction that the growing size of passive index funds and industry super money means companies are likely to deviate further from fair value in future. Our raison d'être is to capitalise on this.

Gross exposure is 164% and net exposure is 84%.

## NET PERFORMANCE

PERIOD	FUND RETURN
1 month	3.86%
3 months	0.31%
12 months	26.30%
Since Inception*	114.11%
Since Inception p.a.*	15.96%

\*Inception on 13th May 2019

## TOP 5 HOLDINGS

1. Johns Lyng Group (JLG)
2. Aristocrat (ALL)
3. HUB24 (HUB)
4. Lovisa (LOV)
5. Wisetech (WTC)

## 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 over 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 over 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			
<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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