QVG CAPITAL

OPPORTUNITIES FUND

MONTHLY REPORT - AUGUST 2024

SUMMARY

August returned -1.1% versus -2% for the Small Ords Accumulation index taking since inception returns to +12.7% p.a.

COMMENTARY

Positive contributors to performance in August included family location sharing app **Life360**, financial platform **HUB24** and Mexican restaurant group **Guzman y Gomez**. It was also nice to see recent laggards **MA Financial**, **IDP Education** and **Aussie Broadband** performing.

Maas Group is a business that continues to impress us. Given its capital intensity and relatively acquisitive nature it's a bit of an unusual one for us. With a few exceptions, the great ASX companies of the last decade have been capital-light high organic growth businesses. Maas is a Dubbo-headquartered diversified industrial and property company. We have been most attracted to Maas building material division which owns quarries, concrete and asphalt plants. Quarries are local monopolies, and the quality of these assets has been well recognised recently with successful takeovers of CSR, Boral and Adelaide Brighton. The exciting thing for Maas shareholders is that there was evidence in the FY24 results that the organic growth in quarries and construction materials is starting to accelerate. As this division becomes a greater proportion of earnings we believe Maas is likely to see a valuation re-rate.

Detractors to performance included insurance builder **Johns Lyng**, diesel mechanics **Mader Group** and costume jeweller **Lovisa**. The common feature among all three stocks is that earnings expectations for current financial were revised lower after their results.

The most impactful revision to the portfolio was Johns Lyng who guided to (adjusted) earnings approximately 14% below consensus expectations. The stock promptly fell a third as the market questioned the level of organic growth in the core business, an underperforming NSW division and poor cash flow. We underestimated how much weather (storms, floods, etc) has on both JLG's core and catastrophe business. A period of dry weather from January impacted both their core 'business as usual' and disaster recovery divisions. While not sensitive to the economic cycle, there is a degree of climate sensitivity to JLG's earnings which until now hasn't been well understood. The soft second half combined with the realisation that the core business had over-earnt in FY23 & 1H24 in a period of heighted weather activity saw a significant de-rate in the share price. In response to this Directors have been buying stock but JLG is likely to be in the sin-bin until they can show a return to organic growth.

OUTLOOK

Notwithstanding the macro-economic volatility experienced in early August, market conditions for investing in smaller companies has improved over the past year. The rate-driven headwinds of the last couple of years are abating but there is scope for further progress. Inflows, the IPO market and equity capital markets activity all remain below par. Conversations with companies in the wider Australian smaller companies universe over August's reporting season lead us to believe most companies are just 'muddling along'. In aggregate earnings revisions for the small cap market were negative (although this is not unusual as most brokers tend to have a positive bias). We found that our holdings that delivered or exceeded expectations were modestly rewarded while those that missed saw outsized moves to the downside. This asymmetry is why we, and the broader small cap market, returned modest negative performance for the period.

Of course, we are not looking for companies that are merely 'muddling along'. We are mindful outsized shareholder returns are driven by a small number of exceptional companies that exhibit durable growth. We are looking for businesses that have unique capabilities and business model characteristics that will allow them to take market share and grow their earnings for many years to come. Reporting season was a good opportunity to reassess our conviction on existing holdings and adjust portfolio weights accordingly.

NET PERFORMANCE

PERIOD	FUND RETURN	BENCHMARK RETURN	OUT / UNDER-PERFORMANCE
1 month	-1.08%	-2.02%	-0.94%
1 year	+10.61%	+8.51%	+2.10%
Since Inception	+130.26%	+49.43%	+80.83%
Since Incept p.a.	+12.66%	+5.91%	+6.75%

TOP 5 HOLDINGS

1. Life360 (360)
2. HUB24 (HUB)
3. Maas Group (MGH)
4. Johns Lyng (JLG)
5. Hansen Technologies (HSN)

QVG CAPITAL

FACT SHEET

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.

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.

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

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	$575m	**Platform Availability**	Netwealth, HUB24, AUSMAQ, POWERWRAP

CONTACT INFORMATION

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