

## SUMMARY

August performance was flat taking since inception returns to 16% p.a.

## COMMENTARY

We snatched defeat from the jaws of victory in August. Reporting season saw a diverse set of small positive contributors on both the long and the short side offset by an unexpectedly poor result from our largest holding **Johns Lyng**.

Johns Lyng 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 the core business had over-earnt in FY23 & 1H24 in a period of heightened 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.

Elsewhere, fast fashion jewellery retailer **Lovisa** saw mid-single digit downgrades to FY25 earnings given a soft start to July and August trading. The stock fell over 10% for the month, but we remain bullish as the store economics and global roll out potential remain intact.

In more positive news, contributors to performance in August included logistics software juggernaut **Wisetech Global** financial platform **HUB24** Mexican restaurant group **Guzman y Gomez** and **ZIP Co**.

Shorts helped soften the blow of the under-performing longs mentioned above and mitigate the risk of our relatively high market exposure. In the short book we got particularly good 'bang for buck' from industrial companies with lots of debt and earnings misses. We find these 'leveraged down-graders' are a perennial source of good shorts. So dear reader, if you find any we are more than happy to hear them!

## OUTLOOK

Notwithstanding the macro-economic volatility experienced in early August, market conditions for investing in smaller companies have 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. Gross exposure is 157% and net exposure is 70%.

## NET PERFORMANCE

PERIOD	FUND RETURN
1 month	-0.07%
12 months	+18.61%
3 years p.a.	+5.41%
5 years p.a.	+12.72%
Since Inception*	+120.11%
Since Inception p.a.*	+16.02%

\*Inception on 13th May 2019

## TOP 5 HOLDINGS

1. HUB24 (HUB)
2. Aristocrat (ALL)
3. Johns Lyng Group (JLG)
4. Guzman y Gomez (GYG)
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 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

#### CONTACT INFORMATION

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