QVG CAPITAL

# OPPORTUNITIES FUND

MONTHLY REPORT - FEBRUARY 2025

## SUMMARY

February returned -4.1% versus -2.8% for the Small Ords Accumulation index taking since inception returns to +13.2% p.a.

## COMMENTARY

February's reporting season was unusually volatile. Earnings and share price revisions were skewed to the downside with results typically not meeting expectations. This was most evident in larger companies where the Top 100 stocks fell by -3.91%; a rare recent example of large companies under-performing smaller ones. Long may it continue.

Our reporting season was poor. We had a higher than usual proportion of companies who missed earnings expectations. In some cases cash flows were weak and we noticed a trend to companies hoping for a strong second half (the six months to June) to make full year guidance. It is wise to treat stocks in the 'second half club' with a high degree of scepticism. We suspect the probability of earnings downgrades in May and June (perhaps blamed on the upcoming election) is quite high as management optimism meets economic reality.

Despite some weak results and share prices – and perhaps due to a dose of our own 'management optimism' – we remain quite upbeat about the prospects for the portfolio. It is worth reminding investors a fund is not a stock. We have a greater degree of flexibility when it comes to changing the composition of the underlying portfolio assets than an operating company. To this end we have sharpened the pencil on some of our underperforming names and used the proceeds to boost weights in stocks where our conviction has increased. An example of this was, prior to the result, jettisoning our long-held position in IDP Education. IDP is a competitively advantaged business, and there may be a time to return to it, but in the short-term there are too many regulatory headwinds, and we have better use for the funds elsewhere. The good news is we have no shortage of high returning stocks to which we are increasing our exposure.

Positive contributors to performance in February included alternative asset manager **MA Financial**, super fund **Australian Ethical**, pre-paid card issuer **EML Payments**, managed account provider **Generation Development Group** and electrical component distributor **IPD Group**.

Detractors to performance included insurance builder **Johns Lyng**, construction materials company **Maas Group**, location tracking app developer **Life360**, software company **Hansen Technologies**, auto financier **Fleepartners**, maintenance men **SRG Global** and sports software provider **Catapult Group** among others.

## OUTLOOK

As mentioned, reporting season saw elevated volatility around results and more negative earnings revisions than positive ones. Economic activity remains subdued. On a more positive note, falls in domestic and global equity markets, and a slight easing in long term interest rates, has reduced some of the pressure on valuations we've noted in previous reports.

We are currently enjoying a period of elevated new idea generation. Most of the new positions are somewhat under the radar but have the potential to rise through the ranks due to their pace of earnings growth and leadership in market niches.

The silver lining to the current market weakness is that it presents an opportunity to top up names where we have conviction. This of course assumes we have done enough work ahead of time to form good judgements about when to hold 'em and when to fold 'em. This conviction is rarely formed on the run.

We believe the portfolio is likely to generate double-digit organic revenue and earnings growth and trades on 14x forward pretax earnings. We believe if we are right on the quality characteristics of our companies, this combination of growth and value will deliver good outperformance over time.

## NET PERFORMANCE

| PERIOD | FUND RETURN | BENCHMARK RETURN | OUT / UNDER-PERFORMANCE |
|---|---|---|---|
| 1 month | -4.05% | -2.80% | -1.25% |
| 1 year | +14.65% | +7.33% | +7.32% |
| 3 year p.a. | +7.82% | +2.13% | +5.69% |
| 5 year p.a. | +9.30% | +5.56% | +3.74% |
| Since Inception | +13.23% | +6.29% | +6.94% |
| Since Incept p.a. | +153.76% | +57.99% | +95.77% |

## TOP 5 HOLDINGS

1. Life360 (360)
2. Generation Development (GDG)
3. Light & Wonder (LNW)
4. MA Financial (MAF)
5. Maas Group (MGH)

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# 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.

## 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.

## 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 | | | |
|---|---|---|---|
| **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** | 31 | **Admin & Custodian** | Link Fund Solutions |
| **Stock Limit** | 10% at cost | **APIR Code** | QVG9204AU |
| **Trust FUM** | $645m | **Platform Availability** | Netwealth, HUB24, AUSMAQ, POWERWRAP |

**CONTACT INFORMATION**

**Email** contactus@qvgcapital.com.au **Phone** **+61 2 8039 9060** **Email** qvg@linkmarketservices.com.au **Phone** **+61 2 8767 1114**