

## SUMMARY

March returned -7.9% versus -3.6% for the Small Ords Accumulation index taking since inception returns to +11.9% p.a.

## COMMENTARY

March was a difficult month for the market and an even more challenging one for the fund. Small Resources – aided by Gold – performed remarkably well (+4.6%) in what was otherwise a gloomy period for Small Industrial companies (-6.7%).

A bias to global growth names that helped performance in 2024 hurt this month. No one enjoys losing money, but we are, somewhat, comforted by the fact the negative share price revisions in March were largely sentiment driven and not accompanied by much in the way of bad fundamental news.

The current market correction is being felt most acutely in stocks that had a great 2024, are highly rated and well held. This is even more evident in the US market where Large Cap Technology stocks, despite their impressive fundamentals and little sign of earnings weakness, have led the market lower (NASDAQ -8.2%).

An unfortunate consequence of very few IPOs and a pick-up in takeovers over the past few years is crowding in to a handful of popular names. A fair criticism of our process is that we often own popular stocks. We'd argue their popularity is well-deserved given fundamentals. Nevertheless, a consequence of this crowding is that when everyone heads for the exits there can be a lot of big bodies trying to squeeze through a very skinny door. We are not running for the door. Our approach is not to try to dodge every correction in the market. Experience has taught us downturns are impossible to forecast and, as we discuss in the 'outlook', are often recovered relatively quickly.

Positive contributors to performance in March included office fit-out company **Shape**, auto-financier **Fleetpartners** and telco **Aussie Broadband**. It's noteworthy both Fleetpartners and Aussie both had active share buybacks during the period.

Detractors to performance were plentiful and included, but were not limited to, **Light & Wonder** which was down bigly as their major competitor Aristocrat expanded the scope of their recent IP infringement case. Light & Wonder has a highly motivated board and management team, multi-year game refresh cycle and best in class capital allocation. We continue to hold the stock at a what we believe is a compelling valuation of 12x fwd PE. Other detractors included **Lovisa** (consumer fears) **MA Financial** (market-linked), **Life360** (US tech), **HUB24** (market-linked), **IPG Group** and **SRG Global**.

## OUTLOOK

The fund and the market have just experienced a rapid -10% pull back. What does history tell us about corrections? Looking at data since the WWII we can see the following:

- Corrections are frequent: they occur every 2.5 years on average
- Corrections often deepen: a 10% drop turns into a 13% decline about 80% of the time
- 48% of corrections since 1945 escalated to a fall of 15% or greater
- Less than 30% of corrections turn into bear markets
- Corrections can be considered a 'cost of doing business' as on average they're recovered in just 4 months

No one knows what tomorrow brings but we do know from history that corrections are frequent and painful, but they're recovered relatively quickly. We have experienced numerous corrections in our time in the market. Whilst unpleasant they present a great opportunity to 'high grade' the portfolio and add quality names at prices that are unlikely to be achieved in more normal times. We are focused on positioning for the inevitable recovery by staying fully invested in companies that are of sufficient quality to participate on the upside when it comes.

## NET PERFORMANCE

PERIOD	FUND RETURN	BENCHMARK RETURN	OUT / UNDER-PERFORMANCE
1 month	-7.85%	-3.61%	-4.24%
1 year	+0.02%	-1.26%	+1.28%
3 year p.a.	+1.19%	-0.78%	+2.01%
5 year p.a.	+15.16%	+9.61%	+4.92%
Since Inception	+133.84%	+52.30%	+81.54%
Since Incept p.a.	+11.86%	+5.71%	+6.15%

## TOP 5 HOLDINGS

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

## 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>	30	<b>Admin &amp; Custodian</b>	Link Fund Solutions
<b>Stock Limit</b>	10% at cost	<b>APIR Code</b>	QVG9204AU
<b>Trust FUM</b>	\$595m	<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.