

## SUMMARY

February performance was -5.6% taking since inception returns to +13.3% p.a.

## COMMENTARY

The Fund's exposure to growth companies detracted from absolute performance this month. While our shorts contributed strongly to return, this was eclipsed by the larger size of our long positions. Internally we have described share prices as dominated by rates, rotation, redemptions, and robots. Importantly, each of these have led to a valuation contraction for our portfolio holdings but hasn't impacted earnings. To explain:

- Rising rates means falling share prices as the market readjusts to give rise to higher forward returns from shares.
- In a rising inflation period, the market has rotated away from quality growing industrials towards commodity producers. This is reflected in small industrials down -4.5% in Feb vs small resources up +1%. Over the last year this return gap for industrials vs resources was +0% vs +85%. We believe recent rotations have been supercharged by passive money, quant money and fast money.
- The recent environment has meant some large, well respected growth managers have faced outflows and funding these further compounds this divergence in returns.
- Lastly, and most impactfully, developments in Large Language Models (e.g. ChatGPT) have created fear in financial markets such that any companies perceived to be disruptable have been sold aggressively. Many of these companies (particularly software) are trading 30-50% lower than 12 months ago as a result of this fear.

Key contributors for the month included **IPD Group, Aussie broadband, Clearview Wealth** and **Wagners**.

Detractors included **ZIP, Lovisa, Light & Wonder** and **Maas Group**.

Our largest detractor, lending provider **ZIP**, delivered a 3% miss to expectations for their 1<sup>st</sup> half result and was whacked 35% on the day. The disappointment was heightened due to several factors, not least of which being their prior track record of earnings beats is now written off. Bad debts were higher driving margins lower. The market now grapples with the question of "high revenue growth at lower margin?" or "lower revenue growth at higher margin?". The stock appears however to be pricing lower growth at lower margin. We see a business trading on a single digit earnings multiple growing earnings north of 30%. As for margins, we draw comfort from the velocity of debt amortisation and management's ability to control margin.

Our short positions (though overshadowed by our longs) benefitted from weak results in food, beverages, data, pathology, childcare and even funds management.

## OUTLOOK

The good news that is masked by recent portfolio returns is that our assessment of the portfolio's fair value vs its price has rarely been wider. This has led us to back our fundamentally driven approach with greater conviction. We are generally reticent to add to individual positions that aren't working but in an environment of heightened and widespread dislocation in share prices that's exactly what we're doing. We've been trimming our mining services winners to buy beaten-down software names. This has cost us near term performance and could continue to do so but with a medium to long term view, the margin between current share prices and expected future valuations means we can own some of the best businesses on the ASX with abnormally good prospective returns.

## NET PERFORMANCE

PERIOD	FUND RETURN
1 month	-5.64%
12 months	+0.65%
3 years p.a.	+11.87%
5 years p.a.	+8.98%
Since Inception*	+133.53%
Since Inception p.a.*	+13.28%

\*Inception on 13th May 2019

## TOP 5 HOLDINGS

1. HUB24 (HUB)
2. Genus Group (GNP)
3. MA Financial (MAF)
4. Generation Development (GDG)
5. Aussie Broadband (ABB)

## 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 over 15 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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