

February performance was -6.8% versus the Small Ords -2.6%. Since inception returns are 13.1% p.a.

Performance was poor over February with the fund declining almost 7%. Business fundamentals were not nearly as bad. The table below shows the average forward earnings revision for our top holdings was modestly positive.

FY27 EPS revision for top holdings

Generation Development	-0.7%
Aussie Broadband	0.4%
MA Financial	0.4%
Life360	1.0%
ZIP Co	-2.2%
Hansen Technologies	5.6%
Ridley Corporation	5.8%
HUB24	3.1%
Guzman Y Gomez	2.7%
Genusplus	0.3%
Average	1.6%

Despite these positive earnings revisions, the fund is suffering from owning very limited weights to Small Resources which were up +0.9% for the month and +88.2% over the past year. Small Resources are sucking all the oxygen out of the room and are now outperforming Small Industrials by a record +87.1%. Compounding matters were AI disruption fears impacting software names and associated outflows from active managers who have been on the wrong side of this and the industrials to resources rotation.

ZIP Co hurt performance in February. We, and the market, were expecting the company to continue its recent practice of beating and raising earnings guidance. Instead, the market got a miss and downgrade. Although the miss was modest, lending businesses that see higher bad debts do not get the benefit of the doubt and the stock was off -35% in a day. At current prices, ZIP is on approximately 6x forward pre-tax earnings. Should bad debts plateau or growth be sustained at current levels then ZIP will rip.

An error during reporting season was our position in **Maas Group**. During February Maas announced the sale of their quarries and construction materials assets. This came as a surprise. Whilst not the highest returning assets – they rarely come cheap – we like the predictability and durability of construction materials and quarries. With the sale, Maas announced an investment in neo-cloud developer Firmus and a desire to use their \$600m+ of after-tax cash proceeds to invest ahead of the coming wave of AI capex. This pivot may prove to be an inspired move, but it was one that left us blindsided, so we sold.

OUTLOOK

February was a sharp reminder that in the short-term the most important determinant of share prices are the immediate liquidity needs of shareholders. This is tricky for us as we primarily base our investment decisions on a medium-term view around intrinsic values, the competitive advantages of the companies in which we invest and management's ability to deliver. We like to win and months like February are bruising. The world is changing. The rise of passive strategies, thematic investing and decline of active management mean the way stocks are priced in the short-term has also changed.

The good news is the divergence between our assessment of the fair value of our portfolio and its price has rarely been wider. This has led us to back our fundamentally driven approach even harder. An old trading adage is "losers average losers" but (selectively) this is what we have been doing. For example, we have been selling our few mining services winners to buy beaten-down software names. This has cost us short-term performance, and could continue to do so, but over the medium to long-term we are finding the price-to-value gap on some of the ASX's best businesses is compelling.

We are hosting our semi-annual webinar on Wednesday 25 March. You can register to attend [here](#)

NET PERFORMANCE

PERIOD	FUND RETURN	BENCHMARK RETURN	OUT / UNDER-PERFORMANCE
1 month	-6.75%	-2.57%	-4.18%
1 year	+12.30%	+23.05%	-10.75%
3 year p.a.	+13.94%	+12.52%	+1.42%
5 year p.a.	+8.28%	+6.60%	+1.68%
Since Inception	+184.97%	+94.41%	+90.57%
Since Incept p.a.	+13.12%	+8.14%	+4.98%

TOP 5 HOLDINGS

1. Generation Development (GDG)
2. Aussie Broadband (ABB)
3. MA Financial (MAF)
4. Life360 (360)
5. ZIP Co. (ZIP)

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 two decades and 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 1 August, 2018.



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.

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	28	Admin & Custodian	MUFG Corporate Markets
Stock Limit	10% at cost	APIR Code	QVG9204AU
Trust FUM	\$707m	Platform Availability	Netwealth, HUB24, AUSMAQ, POWERWRAP

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