CV Capital Pty Ltd

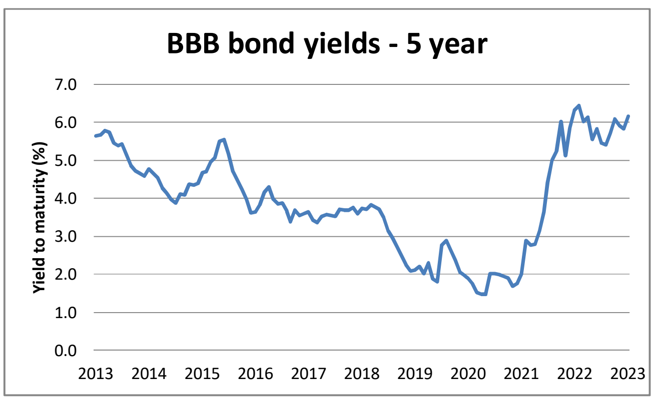
16 October 2023

SHAREHOLDER REPORT AS AT 30 September 2023

To my fellow shareholders & partners,

By now you should have received the dividend advice sent out in September via email. We have also updated the ASIC register for member's shareholding post the dividend reinvestment. For any shareholder who wishes to view a copy of ASIC company extract which details their shareholding, please reach out to me.

The share market has trended sideways since our last report. There are many risks weighing on investors' mind including conflicts in Gaza and Ukraine, China-US rivalry, rising interest rates and bond yields. Given the absence of a crystal ball the only comment I would make is that longer term bond yields are looking much more attractive than they have been in the last 10 years. As shown in the chart below, BBB rated 5 year bonds are currently yielding 6.15% which on a risk return reward perspective maybe quite attractive to some investors compared to equities given the contractual nature of the cash flows.



During the period when yields were low, some institutional funds (pensions, insurance) who used to invest in say AAA bonds were forced to invest in riskier assets in order to generate a return to meet their future liabilities. As bond yields rise, this is likely to dampen the demand for equities as investors switch from riskier assets back to bonds which could be a headwind for the stock market going forward.

As a side note, the easiest way for a retail investor to get exposure to bonds is via a bond ETF.

Fund Activity

We reduced our position in Academies Australasia Colleges (AKG) by 40%. AKG is a vocational education provider who was significantly impacted during the Covid-19 pandemic with the international border closure cutting off access to international students which made up a major portion of their student population. Its share price fell more than 50% during the pandemic. The company was conservatively managed with no debt (when we invested) whose management collectively owned circa 65% (skin in the game) of the company and were buying more shares. When we were first started buying shares at the end of 2020, its market capitalisation was $31.9 million and it had $16.9 million in cash. With a prior year net profit of $4.8 million, it was trading at a PE of 3.1x. Although the two year border closure caused its revenue to fall from$59.7 million in FY19 (pre-pandemic) to $36.0 million in FY22, they got through the pandemic without raising capital (debt or equity).

I had expected a strong recovery once the international student market re-opened. The other listed vocational education provider NextED Group, posted FY23 revenue growth of 218% pcp for their international vocation segment. Disappointingly, AKG only experienced a lackluster recovery with FY23 revenue only increasing 24% pcp. Management has blamed this lackluster recovery on the high rate of international student visa rejections. In FY23, AKG experienced the visa rejection of $10.6 million compared to $3.9 million in pre-Covid FY19, a 271% increase. According to management, the reason for the high visa rejection rates is due to labor government overhauling the immigration system. The Minister for Home Affairs has said that the immigration system is “broken” and the labor government is set to fix it. Given that this was not a risk I contemplated when buying AKG and the uncertainty it creates with regards to the timing of the “fix” and the potential impact to the international students, I have decided to significantly reduce our position in AKG. Fortunately, we broke-even on the sale of the shares. I do note it is interesting that NextED has done much better operating under the same immigration system.

Fund Performance

CV Capital’s return for FY2024 (1 July 23 – 30 Sept 23) is 12.1% (including FY23 dividends). Over the same period, our benchmark’s (STW) return was (1.0%) resulting in a 13.1% outperformance for the quarter. The FY2024 returns have been primarily driven by a 54% recovery in BBN’s share price since our last report and returns from our arbitrage trading.

Since inception our returns are 11.0% (before performance fees) and 10.3% (after performance fees) on an annual compounded basis.

The share price as at 30 September 23 is $1.26. Details as follows:

Indicative values	Per share
Securities portfolio value	$1.04
Cash	$0.22
Franking credits	-
Share price	**$1.26**
Less: Tax liabilities on unrealised gains	-
Subscription price	**$1.26**

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DARRELL CHEAH