QVG CAPITAL

Chris Prunty & Tony Waters
Directors
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Sydney, Australia

10 May 2024

Parliamentary Joint Committee on Corporations and Financial Services

Re: Concerns Regarding Proposed Reforms to Wholesale Investor and Wholesale Client Tests

Dear Members of the Parliamentary Joint Committee on Corporations and Financial Services,

We are writing to you as Directors of QVG Capital. QVG Capital was founded in 2017 and is a boutique wholesale investment manager with a focus on listed smaller companies. Our firm manages approximately $700 million on behalf of over 300 high net worth families, individuals and their advisors.

We note the proposed reforms related to the Wholesale and Sophisticated Investor qualification thresholds and wish to highlight some unintended consequences of these changes.

The proposed changes are not in the best interest of investors. We believe these changes appear to be a solution in search of a problem. Our operations are conducted under an Australian Financial Services Licence (AFSL), and we operate in a highly regulated and audited industry with considerable oversight and ongoing reporting. We believe it is hard to find widespread examples of market failure or wholesale managers abusing the trust of their clients under the current regime. In fact, in our experience the reverse is often true; a quick survey of the investment product landscape often finds that boutique wholesale managers are often best of breed in their categories. (This has a lot to do with investment managers wanting to run a business focused on the craft of investing not asset gathering or empire building often associated with retail funds – a topic for another Joint Committee!).

The reported intention to increase the wholesale investor threshold from its current $2.5 million net assets level to the rumoured $4.5 million would have impact on a portion of our investor base. We would hope and expect that, should changes be implemented, there would be some accommodation for our existing clients. I.e. they are grandfathered under the existing arrangements to continue to enjoy the returns they have achieved to date and so they are not forced to realise unnecessary capital gains.

The proposed changes would stifle innovation. The current wholesale investor system works well as it promotes a sensible balance between compliance, operating costs and innovation. The current regime has allowed us to grow from nothing in 2017 to a substantial business with our two funds delivering market-leading returns in their categories. This would have been much more difficult to achieve without the current wholesale investor regime as some proportion of our clients would not have met the wholesale investor test under the proposed changes.

Many funds management businesses start with a wholesale offering due to the lower complexity, compliance costs and regulatory burden relative to starting with a retail offering. Under the proposed changes this path to business establishment would no-longer be viable. We doubt raising the barriers to entry for new financial products and asset management business is the intent of these proposed changes.

In conclusion, we believe the current wholesale arrangements have served investors and managers well and the proposed changes have the potential to generate several unintended consequences including:

- Some current wholesale investors would be disadvantaged, as they would be prohibited from participating in investments they have previously enjoyed

- Some current wholesale investors would be forced into retail offerings run by large managers without ‘skin in the game’ that tends to prevail at boutique wholesale managers

- Wholesale managers, where many of the most dynamic asset management businesses start, will be harder to establish reducing competition and stifling innovation

We urge you to reconsider the proposed changes and better understand the role wholesale managers play in the market before implementing these changes.

Regards,

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