

INVESTMENT PROFILE

The Quest Long Short Australian Equities Fund aims to outperform the S&P/ASX 200 Accumulation Index after fees over the medium to long term with an actively managed portfolio of long and short positions.

Short selling (up to 30% of Fund NAV) aims to enhance returns when selected stocks are expected to fall or underperform. Proceeds may then be reinvested in preferred long positions to further enhance returns.

MARKET SUMMARY

The Quest Long Short Australian Equities Fund strongly outperformed in April with a return of 7.2%. The Fund returned **50.9% net of fees since inception** 1 year ago, over 20% ahead of the benchmark return of 30.8%.

Fund performance in the past year has been driven by a range of long and short positions across most sectors and market cap categories. Major positive stock contributors (>0.5%) have exceeded major negatives by **41 to 12**, an indication of good stock selection and risk management.

The market rallied for a seventh consecutive month in April as economic growth and company earnings continue to be upgraded. Technology and resources led the market higher, whilst energy and consumer staples lost ground. The Fund benefitted from exposure to several **iron ore and lithium** stocks. Iron ore rose 13% to US\$187/t, whilst lithium prices have doubled in 2021.

Inflation is building with huge price rises in a range of inputs from cotton and sugar to oil and lumber. An inflation spike could push US 10-year bonds towards 2% and trigger a healthy equity market pullback. In the meantime, we are diligently managing portfolio risk as the market continues its ascent.

PORTFOLIO FEATURES

| | |
|---------------------|---|
| Fund Inception | 30 April 2020 |
| Benchmark | S&P/ASX200 Accumulation Index |
| Investment Strategy | Fundamental with a key focus on business quality and free cash flow |
| Time Horizon | 5 years+ |
| Portfolio Manager | Richard Dixon |
| Stock Numbers | 69 (49 longs, 20 shorts) |
| Fund Exposure | 128% long, 29% short, 99% net |
| Active Share | 82% |
| Tracking Error | 6.3% (ex-ante) |
| Unit Price | \$1.4869 (NAV @ 30/4/21) |
| Research Ratings | Lonsec – Recommended Zenith – Recommended (new) |
| Platforms | Macquarie, Netwealth, HUB24, BT Wrap, Panorama, Asgard, MLC, Navigator, Mason Stevens |
| APIR Code | ETL4748AU |

PERFORMANCE DRIVERS – APR 2021

POSITIVE

Overweight – Orocobre, Mineral Resources, IGO, Aristocrat, Maas, Steadfast, Bingo Industries, Japara, Karoon Energy, Vista, Cleanaway, Charter Hall, ALS

Underweight – AGL Energy, Challenger, A2 Milk

NEGATIVE

Overweight – Carbon Revolution, Credit Corp

Underweight – Afterpay Touch, AP Eagers

| Performance* | | | | | |
|---|--------------|--------------|--------------|---------------|-----------------|
| To 30 April 2021 | 1 month | 3 months | 6 months | FYTD | Since Inception |
| Quest Long Short Australian Equities Fund | 7.2% | 13.2% | 26.5% | 37.3% | 50.9% |
| S&P/ASX 200 Accumulation Index | 3.5% | 7.5% | 20.3% | 22.1% | 30.8% |
| Value added | +3.7% | +5.7% | +6.2% | +15.2% | +20.1% |

*Fund performance and value added is net of all fees. Past performance is no guarantee of future performance.



OUTLOOK

We remain broadly positive on the market outlook as long as the global economy is supported by the rapid vaccine rollout and massive government stimulus. However, we do sympathise with recent comments by famed investor Stanley Druckenmiller questioning “the need for emergency settings when the emergency has passed”. He went on to say, “I can’t find any period in history where monetary and fiscal policy was this out of step with the economic circumstances. Not one.”

Bond yields have risen significantly in recent months and remain a risk for equity valuations. So far, the market has largely shrugged off rising yields due to offsetting GDP growth and the hope that rising inflation is only temporary. Valuations remain quite stretched in the US with the S&P 500 trading above 23x 2022 earnings and at the slimmest risk premium relative to bonds since 2010. Australia continues to look much better on these measures given our higher weighting to lower P/E multiple financials and resources.

We continue to be tilted towards banks, resources and small/mid-caps, especially re-opening beneficiaries. The major banks have recently delivered strong results as predicted, with provision writebacks and strong capital positions underpinning further earnings and dividend upgrades. Resources continue to generate massive free cash flows led by iron ore which has surged again in May to well above US\$200/t. We are being very selective with high P/E multiple industrials, as any disappointments are being harshly dealt with.

Regardless of near-term movements, our best approach is to continue to apply the Quest investment process that has worked so well over the last 16 years. We remain optimistic as the portfolio quality is high and despite strong returns over the past year, we still see value in our holdings. As always, we focus on companies that demonstrate an improvement in business quality and we have multiple examples of those in our portfolio.

PORTFOLIO ACTIVITY

The Long Short Fund was active once again in April as volatility, dispersion and style rotation remain elevated. We added to existing holdings in **Aristocrat** and **Charter Hall** as the earnings outlook is improving. Our short portfolio added value and we locked in profits in **Challenger** and **Oil Search**. Long trading positions in **Centuria Capital** and **Contact Energy** were exited after rallying strongly during April.

We topped up our major bank exposure via **NAB** and **Westpac** ahead of their strong 1H results in early May, whilst **Macquarie** and **Magellan** were reduced into recent strength. We exited our residual holding in **Kogan** as the outlook is tough given the inventory they are carrying whilst Amazon and other marketplaces expand.

We exited our holding in **Bingo** above \$3.40 after it jumped 13% on a confirmed takeover bid from Macquarie Infrastructure and Real Assets (MIRA). The proceeds were switched into **Cleanaway** at \$2.45 after they negotiated a great deal to acquire Suez’s Sydney Assets for \$500m. **Downer** was added ahead of their positive investor day which included news of an accretive 10% share buyback after recent asset sales.

We participated in a **Carbon Revolution** placement after they surprised the market with a large equity raising to fund a plant expansion to satisfy growing OEM wheel demand. We also committed to the upcoming IPO of **MLG Oz** which provides logistics supply chain services to mining and civil infrastructure companies.

Key overweight positions at month end included **Aristocrat Leisure**, **NAB**, **Ramsay Healthcare**, **CSL**, **Steadfast**, **Corporate Travel Management**, **Charter Hall**, **Orocobre**, **IGO** and **Credit Corp**.

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