

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 slightly lagged the market in June but still rose 45.6% in FY21. The Fund has returned **60% net of fees since inception**, well ahead of the benchmark return of 36.8%.

Fund performance since inception 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 **45 to 15**, an indication of good stock selection and risk management.

The market rallied for a **ninth consecutive month** led by a 13% rebound in the technology sector. The rally was broad based with five sectors up between 4-6%, whilst only materials and financials lagged. This was a reversal of the trend in recent months of value outperforming growth as bond yields retraced from recent highs.

Vaccination and interest rates remain the key equity market drivers. The vaccination program has been disappointing with the latest lockdowns spurring some urgency in the rollout. Interest rates have been volatile in recent months and we expect continued hints of inflation and a steady or rising interest rate scenario from here.

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	65 (45 longs, 20 shorts)
Fund Exposure	120% long, 26% short, 94% net
Active Share	87%
Tracking Error	5.2% (ex-ante)
Unit Price	\$1.5772 (NAV @ 30/6/21)
Research Ratings	Lonsec – Recommended Zenith – Recommended (new)
Platforms	Macquarie, Netwealth, HUB24, BT Wrap, Panorama, Asgard, MLC, Navigator, Mason Stevens, Praemium, Ausmaq
APIR Code	ETL4748AU

PERFORMANCE DRIVERS – JUNE 2021

POSITIVE

Overweight – Marley Spoon, Resmed, Origin Energy, TPG Telecom, Mineral Resources, Steadfast, Aristocrat

Underweight – OZ Minerals, Newcrest, Tyro

NEGATIVE

Overweight – SSR Mining, Oil Search, Catapult

Underweight – Altium, Afterpay, Zip, Wesfarmers

Performance*					
To 30 June 2021	1 month	3 months	6 months	1 year	Since Inception
Quest Long Short Australian Equities Fund	1.4%	13.7%	18.6%	45.6%	60.0%
S&P/ASX 200 Accumulation Index	2.3%	8.3%	12.9%	27.8%	36.8%
Value added	-0.9%	+5.4%	+5.7%	+17.8%	+23.2%

*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 whilst the global economy is supported by the rapid vaccine rollout and government stimulus. Many countries including the US and UK are enjoying the benefits of an efficient vaccine rollout which has covered more than two-thirds of the population and is approaching herd immunity. Whilst case numbers have been surging in many countries as the Delta strain spreads, this has been accompanied by only a modest rise in hospitalisation rates due to the effectiveness of the vaccines.

Bond yields retraced in June and early July on hopes that strong inflation numbers will be transitory and not require an imminent end to quantitative easing. This is supportive for equity valuations which are getting stretched in the US as the S&P 500 keeps setting new record highs. Australia continues to look better on these measures given our heavy weighting to lower P/E and higher yielding financials and resource stocks.

We remain tilted towards resources, healthcare and global re-opening beneficiaries. Banks have been supported by provision writebacks and capital management potential, however the latest lockdowns in Australia risk delaying some of these benefits. Resources continue to generate huge free cash flows led by iron ore which has settled above US\$200/t, although some commodities have recently followed the AUD lower.

We continue to be focused on bottom-up stock picking and our long-term returns will be primarily driven by stock specific exposures rather than macro themes. We are optimistic ahead of the August reporting season as the portfolio quality is high and we continue to 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 during June as volatility, return dispersion and style rotation remain elevated. Long trading positions in **Ampol**, **Computershare**, **Ansell**, **Treasury Wine Estates**, **Downer** and **Fletcher Building** were all exited after rallying strongly during June. **CBA** was reduced as it moved into expensive territory above \$100 on hopes of capital management at the August result. Proceeds were rotated into existing global industrials with improving outlooks including **Resmed**, **CSL**, **Carsales** and **Macquarie**.

We were very active in resources including adding to our preferred lithium stocks **IGO** and **Orocobre**. Lithium prices keep rising on massive EV battery demand and both stocks have immediate catalysts with transformative M&A deals completing. **Rio Tinto** was topped up into recent weakness and we bought back our **Oz Minerals** short which successfully hedged our copper exposure ahead of the 29Metals IPO. **Origin Energy** was exited after a strong rally and switched into **Oil Search** which looks very undervalued given current LNG pricing.

We participated in the IPO's of **29Metals** and **Silk Logistics** which both listed at \$2 in early July and are now trading around 15% higher. 29Metals is a large copper producer with two operating mines in Australia and a development project in Chile. Silk Logistics is a leading contract logistics company operating in an attractive and large addressable market. Both companies have valuation support and experienced management teams.

Key overweight positions at month end included **Aristocrat Leisure**, **Ramsay Health Care**, **CSL**, **NAB**, **Steadfast**, **James Hardie**, **Resmed**, **IGO**, **Credit Corp** and **Corporate Travel Management**.

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