

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 May with a return of 4.6%. The Fund has returned **57.8% net of fees since inception**, well ahead of the benchmark return of 33.8%.

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 **44 to 13**, an indication of good stock selection and risk management.

The market rallied for an **eighth consecutive month** in May led by financials (+4.4%) whilst the technology sector fell 10%. This was a continuation of the trend in recent months of value outperforming growth as bond yields rise and the global economy absorbs massive government stimulus.

Inflation continues to be a key focus for markets. Fears of inflation are understandable when commodities such as iron ore, crude oil and timber have more than doubled in the last year. Agricultural prices are also on the move and importers are reporting pricing pressures and major delivery delays. Whether this inflation proves transient or ongoing remains to be seen.

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	66 (46 longs, 20 shorts)
Fund Exposure	127% long, 28% short, 99% net
Active Share	87%
Tracking Error	5.4% (ex-ante)
Unit Price	\$1.5558 (NAV @ 31/5/21)
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 – MAY 2021

POSITIVE

Overweight – Aristocrat, ALS, Corporate Travel, SSR Mining, Computershare, Maas, Carsales.com, CSL, Access Innovation, Catapult, Paladin, MLG Oz

Underweight – Afterpay, Appen, Altium, AGL, Zip

NEGATIVE

Overweight – Carbon Revolution, Vista, Ramsay

Underweight – QBE Insurance, Woolworths

Performance*						
To 31 May 2021	1 month	3 months	CYTD	FYTD	1 year	Since Inception
Quest Long Short Aust Equities Fund	4.6%	14.9%	17.0%	43.7%	48.1%	57.8%
S&P/ASX 200 Accumulation Index	2.3%	8.5%	10.4%	25.0%	28.2%	33.8%
Value added	+2.3%	+6.4%	+6.6%	+18.7%	+19.9%	+24.0%

*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 massive government stimulus. Many countries including the US are enjoying the economic and social benefits of an efficient vaccine rollout which has covered two-thirds of the population. We remain slightly concerned that current monetary and fiscal policy settings are out of step with the economic circumstances.

Bond yields steadied in May and have retraced in early June on hopes that recent strong inflation numbers will be temporary. This has eased the pressure on equity valuations but they remain quite stretched in the US with the S&P 500 trading above 23x 2022 earnings. Australia continues to look much better on these measures given our heavy weighting to lower P/E and higher yielding financials and resource stocks.

We remain tilted towards banks, resources and healthcare, especially re-opening beneficiaries. The major banks delivered strong results as predicted in May, with provision writebacks and strong capital positions underpinning earnings and dividend upgrades. Resources continue to generate strong free cash flows led by iron ore which has settled above US\$200/t, although some commodities have followed the AUD lower in June.

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 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 during May as volatility, return dispersion and style rotation remain elevated. We added to existing holdings in **James Hardie**, **CSL** and **Nine Entertainment** as the earnings outlook remains strong. Our short portfolio added value and we locked in profits in **Afterpay** and **Appen**. Long trading positions in **Cleanaway** and **Paladin Energy** were exited after rallying strongly during May.

We topped up our major bank exposure by adding to **Westpac** and **NAB** after they delivered solid 1H results on cost-cutting and provision writebacks. **Macquarie** and **Rio Tinto** were reduced into recent strength with proceeds used to establish new positions in **Carsales**, **Resmed** and **Origin Energy**. Carsales is an A grade stock which was sold-down to a rare valuation discount near \$17 after acquiring US-based Trader Interactive.

We participated in an **Access Innovation** placement to fund the acquisition of US-based EEG Enterprises which looks very prospective to us. We also committed to the IPO's of **Keypath Education** and **29Metals** which list in June. Keypath is a partner with 32 universities in the US, Australia, Canada, UK and Malaysia. 29Metals is a large copper producer with two operating mines in Australia and a development project in Chile.

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

Contact the Manager

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