

QUEST LONG SHORT AUSTRALIAN EQUITIES FUND

NOVEMBER 2020

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 outperformed the market which surged 10.2% to post its strongest monthly gain since March 1988. The Fund has now returned 32.1% net of fees since inception, 12.3% ahead of the benchmark return of 19.8%.

The key market driver in November was the announcement of 3 COVID vaccines with promising results. There are now 7 vaccines approved for early or limited use and another 13 are in Phase 3 trials. A US election result that limits a strongly left agenda from the Biden administration also helped markets. Ongoing low interest rates are providing even further impetus.

COVID remains a potential threat to markets with the US recently recording over 200,000 cases per day. Cases in the UK have exceeded 30,000 per day, whilst Germany are close to 25,000 per day.

The IPO frenzy continued with more than 50 companies rushing to list before Christmas. We have been very selective taking an interest in only a few IPO's including 4D Medical, Nuix and Maas.

KEY PORTFOLIO FEATURES

Fund inception	30 April 2020
Benchmark	S&P/ASX 200 Accumulation Index
Investment Strategy	Fundamental with a key focus on business quality and free cash flow
Investment Horizon	3-5 years+
Stock Numbers	64 (45 longs, 19 shorts)
Exposure	124% long, 25% short, 99% net
Unit Price (30/11)	\$1.302
Ratings / Platforms	Lonsec – Recommended netwealth, HUB24, Mason Stevens

PERFORMANCE DRIVERS – NOV '20

POSITIVE

Overweight – NAB, Kazia, Lendlease, Corporate Travel, Aristocrat, Credit Corp, Min Resources, James Hardie

Underweight – Domino's Pizza, Treasury Wine Estates

NEGATIVE

Overweight – Marley Spoon, Kogan.com, Amcor

Underweight – Idp Education, Westpac, Qantas, Seek

PERFORMANCE*

To 30 November 2020	1 month	3 months	FYTD	Since Inception
Quest Long Short Aust Equities Fund	10.8%	10.9%	20.2%	32.1%
S&P/ASX 200 Accumulation Index	10.2%	8.2%	11.8%	19.8%
Value added	+0.6%	+2.7%	+8.4%	+12.3%

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

OUTLOOK

We remain positive on the market outlook. Australia appears to have COVID under control, especially compared to the situation in many other nations. Australia has a stable government, a sound health care system and importantly, we are a borderless country.

While the trade situation with China is less than ideal, exports continue to climb as China grows. Commodity prices are firm and the outlook for agricultural production is positive. There is strong demand for our property assets, especially industrial and residential. Interest rates are set to remain low, whilst government stimulatory spending continues. There are 36 major infrastructure projects in NSW alone. We expect Jobkeeper type support to taper but continue, especially in the event of another COVID wave.

Australia is bouncing out of recession. Stocks benefitting from renewed social activity are rebounding after lagging the market for months. The largest sectors of our market (banks and resources) are reasonably priced with undemanding multiples, healthy dividends and capital return potential in the New Year. The US does appear to be in a slow decline as a world power but remains the world's biggest economy. Fiscal stimulus will continue, especially with Biden somewhat limited in his ability to make sweeping change.

December is historically a positive month having risen 80% of the time over the last two decades, however the remarkable 10% rally in November may see some settling in December. Commodities are generally firm whilst the Australian dollar is on the rise moving from 70 US cents in late October to 76 US cents in December.

As mentioned previously, we aim to manage portfolio risk by spending our "risk budget" wisely through carefully considered long and short position sizing. Individual stock contributors to performance since inception have been broad based and spread across the large, mid & small cap spectrum. Major positive stock contributors have outnumbered negatives by nearly 3 to 1, an indication of good stock selection and risk management.

PORTFOLIO ACTIVITY

Long Short Fund performance in November was boosted by a diverse group of stocks including **NAB**, **Lendlease**, **Corporate Travel**, **Credit Corp** and **Mineral Resources** which all rallied 20-40% in the "risk-on" market. **Kazia Therapeutics** surged 75% after releasing some positive Phase 2 data analysis of Paxalisib for the treatment of Glioblastoma. We decided to take some profits after the stock doubled in a fortnight.

Portfolio activity remains elevated as volatility, stock dispersion and style rotation continued to feature. Several long trading positions including **Ampol**, **Dexus**, **Qube** and **Santos** were exited at healthy profits to fund buying in **BHP** and **Rio Tinto** as well as to participate in the IPOs of **Nuix** and **Maas Group**.

Nuix is a global provider of intelligence and analytical software used by corporates and government agencies. It is ranked a "B" in our Q Stocks filter with above average scores in ROE, regulatory risk and the ability to reinvest. Nuix traded well above listing price on debut in December.

Maas Group is a Dubbo based building materials business with interests in quarries, land subdivision, manufacturing and property development. After a career in rugby league, the CEO founded Maas Group in 2002 with one bobcat and has now successfully listed it on the ASX with a market capitalisation of \$700m.

Key overweight positions at month end include **NAB**, **CSL**, **Ramsay**, **Aristocrat**, **Sydney Airport**, **Steadfast**, **Charter Hall**, **Rio Tinto**, **BHP** and **Mineral Resources**.