

# QUEST LONG SHORT AUSTRALIAN EQUITIES FUND

OCTOBER 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 delivered a flat return in October to underperform the index for the first time since inception. The Fund has returned 19.3% net of fees over the last 6 months, well ahead of the benchmark return of 8.7%.

October was quite a challenging month for Quest as the market rotated towards an array of lower quality value stocks we did not own. It was also a relatively featureless month for many of our small cap stocks.

Corporate activity surged with a conditional bid for Link Administration which jumped 28% and impacted fund performance. A bid for Coca-Cola Amatil by Coca-Cola European Partners saw Coke rise 31%, whilst takeover speculation saw AMP rise 17%. Other perceived value names also rallied amidst the excitement.

**We are seeing a remarkable flow of new IPO's rushing to list by Christmas. The bankers want their fees! There are plenty on our active list but more than twice that in total. Quality and pricing are, so far, underwhelming.**

## KEY PORTFOLIO FEATURES

Fund inception	30 April 2020
Benchmark	S&P/ASX 200 Accumulation Index
Stock numbers	61 (41 longs, 20 shorts)
Gross exposure	124% long, 28.5% short
Net exposure	95.5%
Investment Horizon	3 – 5 years+
Investment Strategy	Fundamental with a key focus on business quality and free cash flow
Ratings / Platforms	Lonsec – Recommended HUB24, netwealth, Mason Stevens

## PERFORMANCE DRIVERS – OCT '20

### POSITIVE

**Overweight** – Steadfast, Resmed, NAB, James Hardie

**Underweight** – Beach Energy, Nanosonics

### NEGATIVE

**Overweight** – Catapult, Ramsay, Sydney Airport

**Underweight** – Link, ANZ, Zip, Afterpay, Westpac

## PERFORMANCE\*

To 31 October 2020	1 month	3 months	FYTD	Since Inception
Quest Long Short Aust Equities Fund	0.0%	4.8%	8.5%	19.3%
S&P/ASX 200 Accumulation Index	1.9%	1.0%	1.5%	8.7%
<b>Value added</b>	<b>-1.9%</b>	<b>+3.8%</b>	<b>+7.0%</b>	<b>+10.6%</b>

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

## OUTLOOK

---

We continue to have a positive view on the market coming into the end of the year. The US election result indicates a clear Biden victory, although Trump's unwillingness to concede suggests we are in for an interesting couple of months until the inauguration in January. We expect ongoing volatility but see the power of economic stimulus and a low interest rate regime as being dominant over the fluctuations in the political landscape.

As the US election outcome rolls through, the market remains hostage to a serious deterioration in the pandemic. US citizens are contracting the disease at a rate of 1 every 1.2 seconds with a death every 2 minutes. European medical services are approaching capacity in some countries and further shutdowns are highly likely. Recent positive COVID vaccine news flow cannot come soon enough. The current uncertainty means our management of risk is more critical than ever.

There are three main stages to the risk management process at Quest. In our first stage, we assess risk arising from business variability. This is a subjective assessment based on our company visitation program. The second stage is our bespoke valuation modelling using different discount rates based on various risk factors. The third stage is portfolio construction. We aim to keep portfolio risk constrained, spending our "risk budget" wisely through carefully considered long and short position sizing. Pleasingly, individual stock contributors to performance since inception have been broad based and spread across the large, mid & small cap spectrum.

In the final quarter of each year there is often a rush of IPO activity as Christmas approaches. This year the number is exceptional with 25 on our white board under review and apparently dozens in the pipeline. We have heard the list is so vast that listings are planned out until February. Our team are likely to bid on only a few of these deals, with the low hit rate a function of a lack of quality and unattractive pricing.

## PORTFOLIO ACTIVITY

---

The Long Short Fund was boosted by overweight positions in **Steadfast** and **Resmed** during October. Our core holding in Steadfast rose 11% after an AGM update guided FY21 EPS growth to between 10-15%. Resmed jumped 17% after reporting a stronger than expected 1Q21 profit result. We decided to take profits and reduce our long trading position as the valuation discount had materially closed on the swift re-rating.

Overweight positions in **Catapult**, **Ramsay** and **Sydney Airport** weighed on performance as they fell on the worsening pandemic overseas. After contributing strongly in recent months, the short portfolio detracted value amidst very difficult conditions including rampant takeover activity, both actual and speculated. Portfolio activity remains elevated as volatility, stock dispersion and style rotation continued to feature.

Fund holdings in **Catapult**, **BHP**, **Rio Tinto** and **CSL** were increased at attractive prices. We exited **Altium** above \$38 after a big rally since it was added in June near \$32. Altium is looking fully valued as the market ignores negative revenue and earnings revisions. Key overweight positions at month end include **Ramsay**, **CSL**, **James Hardie**, **Aristocrat**, **Steadfast**, **Lendlease**, **NAB**, **Sydney Airport**, **Macquarie** and **Magellan**.