



AUSTRALIAN EQUITIES HIGHLY CONCENTRATED PORTFOLIO (QAEHCP)

INVESTMENT PROFILE

The Quest Australian Equities Highly Concentrated Portfolio is a 10 stock equities portfolio with low market correlation.

The portfolio is a Separately Managed Account (SMA) actively managed by the team at Quest Asset Partners Pty Limited. Our objective is to outperform the market with a small selection of stocks generated by our investment process.

KEY PORTFOLIO FEATURES

Inception	1 July 2016
Investment Universe	ASX listed
No. of holdings	10
Quest AUM	\$1.25 billion
Strategy AUM	\$3 million
Investment Horizon	18 months – 3 years
Investment Strategy	Hi impact portfolio
Derivatives/Shorting	Nil

MARCH 2020 QUARTERLY

The Highly Concentrated portfolio fell 18.9% after fees compared to the benchmark which fell 23.4% over the quarter. The portfolio was 4.5% ahead of benchmark.

The portfolio has performed more consistently recently and has now outperformed the benchmark for 4 months in a row.

The PPT (portfolio price target) is now 47%. This suggests that if all the stocks moved to our target, the gain would be 47%. The PPT has moved higher with the market fall.

The market drivers shifted again in the March quarter as COVID-19 displaced other concerns in the market. The actual market reaction to COVID-19 lagged by nearly 8 weeks! Once the event became serious we saw a sharp drawdown well beyond the correction we were anticipating.

The local market has for the first time saw machine driven selling which created some jaw dropping intraday moves, particularly on the market close.

While a partial recovery has occurred, we think it more likely that the market dips again in April under the weight of discounted capital raisings and earnings downgrades. The counter weight is massive government spending in an attempt to offset the burden of economic shutdown.

The cash weighting is abnormally high at quarter end being 43% in the expectation that this current rally is in fact a dead cat bounce.

Market prices have been reset which has provided us with a list of targets for the next quarter. Our time horizon in this portfolio is 18 months to 3 years compared to our ASX300 portfolio which has a longer outlook. Initial investments are generally made at a 10% weighting. This portfolio is uncorrelated to the market and major fluctuations will occur.

PERFORMANCE AFTER FEES (PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 March 2020	3 months	6 months	1 year	2 years*	3 years*	Since inception* (1 July 2016)
Quest Aust. Equities Concentrated	-18.9%	-18.1%	-19.0%	-10.2%	3.1%	9.2%

*per annum



PORTFOLIO ACTIVITY

Portfolio trading was light during the period. The portfolio had 10 stocks for most of the quarter but finished with only 7 stocks which left a high cash level at month end at 43%.

Two stocks left the portfolio in the quarter. **Magellan Financial** was sold at \$61.68, a 20% gain. This is a great stock to own in a bull market as it is a high beta "A" grade. The change in the market resulted in the sell call. The price has fallen heavily since the sale.

A2Milk was sold in March at \$16.31 for a 35% gain. A2 Milk is one of only a few stocks in the market to rise during the quarter. Also an "A" grade under our process, A2Milk has defied the downturn. The Chinese logistic pathways have performed very well during the COVID-19 disruption. We again moved our base case valuation to above \$16 post result in February and sold in March.

The existing holding in **Carbon Revolution**, listed only in November, was increased in the March quarter at \$1.50 after an unexpected placement. The disruption to Ferrari operations in Italy meant it was critical to reinforce the balance sheet into 2021. We were of the view that a wave of capital raisings was imminent; this was one of the first raisings of this bear market. Quest have supported this raising as we regard highly both the team and the technology. Ferrari operations have since resumed. The raising was dilutionary but necessary given the current period of uncertainty.

Advertiser **GTN** was sold in the March. We are no longer confident that the inherent value of this stock will be realised in the current climate given the state of the advertising market. We have taken a loss on this one.

Property services company **Rea Group** was added during weakness at \$72.67, over 30% below levels earlier in the year. The position was sold profitably later in March as markets recovered.

During 2019, the portfolio failed to take profits on more than one occasion which detracted from performance

as some profitable positions reversed. This issue has been addressed with a stronger sell discipline in 2020.

Northern Star (NST) remains in the portfolio as our gold exposure. Northern Star purchased 50% of the Kalgoorlie Super Pit last year and expects production from all mines in 2020 to be 950,000 oz Au.

Charter Hall (CHC) did deliver an exceptional result in February as expected but has since fallen heavily in the recent correction. The fallout for property stocks is not yet clear post COVID-19 but the correction looks overdone on a number of REIT's.

Oneview Healthcare had a poor quarter and the ability to sell technology into hospitals in this environment is limited. This position is under review.

Aurelia Metals is still in the portfolio. The market has little interest in this polymetallic gold, copper and lead producer from Cobar but our valuation remains well above the share price. Recent plant upgrades and some excellent drilling results have seen Aurelia lift 44% in April.

The share price of **iSelect (ISU)** has performed poorly. Major shareholder **Innovation Holdings** and associates based in South Africa have moved again up to 28.6%. There is however still no sign of a merger with their competitor, the Compare the Market brand.

Mineral Resources (MIN) has been volatile and was very close to our target before the market fell back. The lithium price is still weak and we still expect the lithium price to hit nadir this year. There is considerable upside in this stock with sum of the parts valuation closer to \$19.

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