



QUEST LONG SHORT AUSTRALIAN EQUITIES FUND

MAY 2020

INVESTMENT PROFILE

The Quest Long Short Australian Equities Fund aims to outperform the S&P/ASX 200 Accumulation Index after fees over the 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

Welcome to the inaugural monthly report for the Quest Long Short Australian Equities Fund. After a heavy fall on May 1, the V-shaped market recovery continued with a rise of 4.4% in May. Pleasingly, the Quest Long Short Fund took advantage of the volatility and outperformed with a net return of 6.6% for the month.

Massive government stimulus combined with low interest rates and signs of a peak in COVID-19 infections in many countries encouraged investors. There was strong interest in laggard value stocks, especially the previously friendless banking sector.

As Wall Street becomes less representative of Main Street, cashed up investors continue to look through the domestically focussed Trump policies, Chinese trade wars, COVID-19 pandemic, deteriorating economic indicators and social unrest. Liquidity has aggressively pursued growth assets as evidenced by the NASDAQ index trading back at record highs.

KEY PORTFOLIO FEATURES

Fund Inception	30 April 2020
Benchmark	S&P/ASX 200 Accumulation Index
No. of holdings	55 (38 longs, 17 shorts)
Gross exposure	120.6% long, 21.3% short
Net exposure	99.3%
Investment Horizon	3 – 5 years
Investment Strategy	Fundamental with a key focus on business quality and free cash flow
Portfolio Manager	Richard Dixon

DRIVERS OF PERFORMANCE – MAY 2020

POSITIVE

James Hardie, Charter Hall, Goodman Group, Ansell, Ramsay Healthcare, Magellan, Carbon Revolution, Vista, Mineral Resources, Saracen Minerals, Evolution Mining, Alacer Gold, Rio Tinto, Worley Parsons

NEGATIVE

Afterpay, Computershare, CSL, Newcrest, Fortescue

PERFORMANCE*

To 31 May 2020	1 month	3 months	6 months	1 year	Since Inception
Quest Long Short Aust Equities Fund	6.6%	n/a	n/a	n/a	6.6%
S&P/ASX 200 Accumulation Index	4.4%	n/a	n/a	n/a	4.4%
Value added	2.2%	n/a	n/a	n/a	2.2%

*Fund performance and value added is net of all fees. Past performance is no guarantee of future performance. Individual returns will differ for investors, depending when the initial investment was established and the timing of any additional investments or redemptions.



OUTLOOK

Investors that are feeling a bit bemused by the strength of markets against a backdrop of crisis should relax. You are in good company with the strength of the rebound a surprise to most observers. **Whilst we also underestimated the power of mass global government stimulus, the fund held a combination of long, short and active trading positions that have outperformed in difficult market conditions.** We are very pleased with the ability of all the Quest portfolios to consistently outperform in such varied conditions during 2020.

A key learning over the last weeks has been the determination of the US Federal Reserve to maintain low interest rates until 2023 and to support the economy regardless of cost.

The recent rally has now started to **float all boats regardless of merit** as evidenced by the indiscriminate buying of laggard value stocks. We see this settling in the coming weeks and do not expect a uniform recovery from COVID-19 restrictions for all stocks. The withdrawal of guidance by so many companies has reduced visibility on the profit outlook. We could run until the August reporting season before receiving the bad news from most businesses.

Meanwhile, COVID-19 period capital raisings have risen to \$25.6 billion including Share Purchase Plans (SPP's) across 53 companies. These numbers will likely rise in coming months, especially if the rally continues.

PORTFOLIO ACTIVITY

National Australia Bank was a major addition to the portfolio alongside **Commonwealth Bank** which has been a longstanding Quest holding. National Australia Bank had, in our view, reached a level well below book value and our internal valuation as a result of extreme negativity in the banking sector. Banks have significantly lagged the market for more than three years now.

We added to our holding in general insurance broker **Steadfast** and purchased new positions in gold producer **Saracen Minerals** and polymetallic miner **Independence Group**. We have also made a small investment in **Mesoblast** as they received fast tracked FDA clearance for a clinical trial for a stem cell therapy to treat critically ill COVID patients.

Portfolio activity was significantly elevated during May, especially on the short side. This was due to the initial fund set-up, increasing volatility, higher stock dispersion and the huge style rotation to value late in the month. Numerous profitable short positions that were no longer suited to the value rotation such as Boral, Qantas, Worley Parsons and QBE were closed as part of our active risk management process.

Key overweight positions at month end include **James Hardie, Rio Tinto, Ramsay Healthcare, Aristocrat, Lendlease, Goodman Group, Amcor, Steadfast, Macquarie Bank and National Australia Bank.**

QUEST UPDATE

In addition to the successful launch our first unit trust with the **Quest Long Short Australian Equities Fund**, the suite of existing Quest portfolios continue to deliver strong performance outcomes for clients.

The **Quest Concentrated** SMA portfolio outperformed for the 5th month in a row in 2020 with a return of 5.9%, whilst the **Quest Highly Concentrated** 10 stock SMA portfolio delivered a strong return of 9.7%.

The **Quest Ex 20** SMA also had a very solid May with a gain of 12.0%, ahead of benchmark by 4.9%.

Disclaimer

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