

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 modestly outperformed in March with a return of 2.5%. The Fund returned **40.8% net of fees since inception** 11 months ago, 14.4% ahead of the benchmark return of 26.4%.

The market rallied for a sixth consecutive month buoyed by an incredibly strong February reporting season. Some of the recent P/E compression unwound as the market reacted more favourably to the significant earnings and dividend upgrades.

The IPO scene has moved from frenetic to calm, however the pipeline remains quite healthy despite several deals falling over. We see merger and acquisition activity as increasingly likely over the next few months as confidence in the recovery gathers pace.

US 10-year bond yields have been falling for 30 years and may have bottomed in August 2020 at 0.6%. The US 10-year climbed above 1.7% in late March on escalating inflation concerns. **This is a major move that has driven huge rotation from growth to value stocks without impacting the broader market rally.**

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	3-5 years+
Portfolio Manager	Richard Dixon
Stock Numbers	69 (49 longs, 20 shorts)
Fund Exposure	127% long, 28% short, 99% net
Active Share	85%
Tracking Error	6.2% (ex-ante)
Unit Price	\$1.3881 (NAV @ 31/3/21)
Research Ratings	Lonsec - Recommended
Platforms	Macquarie, Netwealth, HUB24, BT Wrap, Panorama, Asgard, MLC, Navigator, Mason Stevens
APIR Code	ETL4748AU

PERFORMANCE DRIVERS – MAR 2021

POSITIVE

Overweight – Airtasker, Aristocrat, JB Hi-Fi, Maas People Infrastructure, Computershare, Ansell

Underweight – Zip Co, Afterpay, Fortescue

NEGATIVE

Overweight – Marley Spoon, Kogan, Rio Tinto, IGO

Underweight – ANZ, Seek, Telstra, Wesfarmers

Performance*

To 31 March 2021	1 month	3 months	6 months	FYTD	Since Inception
Quest Long Short Australian Equities Fund	2.5%	4.4%	18.1%	28.1%	40.8%
S&P/ASX 200 Accumulation Index	2.4%	4.3%	18.6%	18.0%	26.4%
Value added	+0.1%	+0.1%	-0.5%	+10.1%	+14.4%

*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 and agree with recent comments by JPMorgan CEO Jamie Dimon that the economic rebound may be sustainable. He said “I have little doubt that with excess savings, new stimulus savings, huge deficit spending, more QE, a new infrastructure bill, a successful vaccine and euphoria around the end of the pandemic, the U.S. economy will likely boom. This boom could easily run into 2023.”

A significant positive is the rapid deployment of COVID vaccines in major economies. Vaccination rates in the US are now running at 4m doses per day. As a result, 75% of the population should be fully vaccinated by June. As a result, US mobility measures are recovering strongly. For instance, restaurant seating is back up to 80% of pre COVID numbers and daily aircraft movements have lifted above 75%.

Bond yields have risen significantly in recent months which is typically a concern for equity valuations. So far, the market has shrugged off this steepening due to the offsetting positive revisions to global growth and the belief that rising inflation is temporary. Valuations are getting stretched in the US with the S&P 500 trading around 23x 2022 earnings and at the slimmest risk premium relative to bonds since 2010. Australia looks much better on these measures given our higher weighting to lower P/E multiple financials and resources.

We continue to be tilted towards banks, resources and small/mid-caps, especially re-opening beneficiaries. Banks are now trading closer to our target prices, however we expect upcoming results to deliver further earnings and dividend upgrades. Resources continue to generate massive free cash flows on the back of strong commodity prices, especially iron ore, copper and lithium producers.

Regardless of near term movements, our best approach is to continue to apply the Quest investment process that has worked so well over the last 16 years. 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

Long Short Fund activity in March focussed on adding to existing holdings that had been de-rated despite reporting strong results including **Charter Hall**, **Aristocrat** and **James Hardie**. A few short positions added significant value once again this month and our short portfolio continues to be actively traded for risk management purposes. Long trading positions in **JB Hi-Fi** and **Santos** were exited after rebounding strongly.

We exited our small holding in **Airtasker** after a spectacular 50%+ IPO debut. We have followed it for many years and believe it is a good business, however the current valuation is way too high for us. Airtasker grabbed the attention of fast money in the market with early turnover value similar to **CSL** which is 300 times larger!

We topped up in several financials including **NAB**, **CBA** and **Magellan** as well as participating in the **Computershare** capital raising to fund the Wells Fargo Corporate Trust business in the US. We added **Aventus** and **Ampol** to the portfolio, with the latter recently providing a strong quarterly update. We also lifted our resources exposure by topping up in **ALS**, **Orocobre** and **IGO** at attractive prices.

Key overweight positions at month end included **Ramsay Healthcare**, **Aristocrat**, **NAB**, **Steadfast**, **CSL**, **Magellan**, **Corporate Travel**, **BHP**, **IGO** and **Mineral Resources**.

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