



QUEST LONG SHORT AUSTRALIAN EQUITIES FUND

AUGUST 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 navigated the reporting season well to outperform for a 4th consecutive month with a net return of 4.6% compared to the benchmark gain of 2.8%. The Fund is up 19.2% since inception 4 months ago which is 850bps ahead of the index return of 10.7%.

Fund performance has been driven by a broad range of long and short positions across the large, mid and small cap universe. Major positive stock contributors continue to outnumber negatives by a ratio of 3:1, indicating good stock selection and risk management.

A key driver of the strong equity market rally since March is low interest rates which have rendered cash and bond markets highly unattractive to investors. This combined with huge global government stimulus and mass accessibility to equity markets, has helped create a dream scenario for bottom-up stock pickers.

We believe the environment for fundamental stock picking is the best in a decade and is helping us deliver very strong returns for Quest clients.

KEY PORTFOLIO FEATURES

Fund inception	30 April 2020
Benchmark	S&P/ASX 200 Accumulation Index
Stock numbers	63 (44 longs, 19 shorts)
Gross exposure	126.2% long, 26.7% short
Net exposure	99.5%
Investment Horizon	3 – 5 years+
Investment Strategy	Fundamental with a key focus on business quality and free cash flow
Fund Rating	Lonsec - Recommended

PERFORMANCE DRIVERS - AUGUST

POSITIVE

Overweight – 4D Medical, Kazia Therapeutics, Catapult, Kogan.Com, Charter Hall, Altium, Aristocrat, Ampol, Paladin Energy, James Hardie, Amcor, CSL

Underweight – Telstra, AGL Energy, Whitehaven Coal

NEGATIVE

Overweight – A2 Milk, Saracen Minerals, Alacer Gold

Underweight – Treasury Wine Estates, Qantas, Afterpay

PERFORMANCE*

To 31 August 2020	1 month	FYTD	3 months	Since Inception
Quest Long Short Aust Equities Fund	4.6%	8.4%	11.8%	19.2%
S&P/ASX 200 Accumulation Index	2.8%	3.3%	6.1%	10.7%
Value added	+1.8%	+5.1%	+5.7%	+8.5%

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



OUTLOOK

The fiscal year 2020 reporting season is now complete and we are pleased to report there were no material disappointments or negative surprises amongst any of our investee companies that reported. As expected, the virtual nature of the season made it an impersonal experience with dozens of listeners on most result calls. We supplemented this with numerous 1 on 1 Quest-only calls to round out our analysis.

We predicted that companies would vigorously write down asset values and we got far more than we expected. The energy sector was the worst affected as the lower oil price materially impacted asset values. Despite this, many companies are now in better shape as massive structural change brought on by COVID has delivered greater flexibility and lowered operational costs. In general, investors have also been very forgiving in relation to pandemic issues and are clearly looking to the future.

Our team continue to see this market as ideal for stock pickers with a disciplined approach to valuation. Quest performance has been delivered by a wide range of stocks rather than a narrow group of trendy tech plays. The market is prone to waves of optimism & pessimism that overextend reality but provide great opportunities.

The major issues for equity markets over the balance of the year include the pace of the pandemic recovery, timing of a potential vaccine, the US Presidential election in November and the likely duration of the current low interest rate & high government stimulus phenomenon.

PORTFOLIO ACTIVITY

The Long Short Fund owned some outstanding performers in August including **Kazia Therapeutics** +95%, **Catapult** +36%, **Paladin Energy** +32%, **Kogan.Com** +25%, **Charter Hall** +19% and **Altium** +11%. Portfolio activity remained elevated in August as market characteristics such as rising volatility, higher stock dispersion and style rotation continued to feature.

Kazia Therapeutics is a highly promising biotech pursuing approval for a brain cancer treatment (Paxalisib). Recent FDA granting of a number of helpful designations saw the share price spike above \$1, well ahead of our initial entry below \$0.50. **Catapult** responded well to the first full year result under new CEO Will Lopes and his revamped management team. **Kogan.Com** rose by a quarter as e-commerce activity exploded.

Corporate Travel Management was added to the fund in August. The stock has halved since January and staged a strong recovery during the month after posting a highly commendable result given the circumstances. We see certain stocks as having higher return potential in a pandemic recovery environment, and Corporate Travel is one of those. Another recovery story is **Sydney Airport** which has also returned to the fund.

Alacer Gold gave up 12% in August as the yellow metal rally stalled. We see the merger with Canadian gold miner SSR Mining as a major positive as it reduces the risk of a single gold asset in Turkey and provides exploration upside in Canada and the USA. Alacer will merge and change ASX code to SSR in September.

Our newly acquired holding in **4D Medical** had a spectacular listing jumping more than 100% on day 1. 4D Medical has developed an imaging technology that presents colour images of airflow in the lungs. The boisterous debut was excessive in our view and we have sold this holding.

Key overweight positions are relatively unchanged at month end and include **James Hardie, BHP, Alacer Gold, Ramsay Healthcare, Ansell, CSL, Aristocrat, Amcor, NAB and Magellan**.

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