

QUEST LONG SHORT AUSTRALIAN EQUITIES FUND

DECEMBER 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 outperformed the market which edged 1.2% higher to consolidate the massive November rally. The Fund has now returned 34.9% net of fees since inception, 13.7% ahead of the benchmark return of 21.2%.

The key market drivers from the previous month supported the market once again in December. These included the promising vaccine progress and a pro-stimulus US election outcome. Ongoing low interest rates also remain supportive of equities globally.

Resources and technology stocks performed strongly in this environment, with both sectors rallying around 9% in December. Strong commodity prices including iron ore and lithium helped our positions in IGO, Mineral Resources and Rio Tinto.

The pre-Christmas IPO frenzy included a couple of standouts that Quest participated in. We have been very selective and only invested in a few IPO's including Nuix and Maas which rose 50% and 35% respectively on their December 4 debut.

KEY PORTFOLIO FEATURES

Fund Inception	30 April 2020
Benchmark	S&P/ASX 200 Accumulation Index
Investment Strategy	Fundamental with a key focus on business quality and free cash flow
Time Horizon	3-5 years+
Stock Numbers	64 (45 longs, 19 shorts)
Exposure	121% long, 24% short, 97% net
Unit Price	\$1.3294 (NAV @ 31/12/20)
Ratings/ Platforms	Lonsec – Recommended netwealth, HUB24, Mason Stevens Macquarie, MLC Wrap, Navigator

PERFORMANCE DRIVERS – DEC '20

POSITIVE

Overweight – IGO, Nuix, Maas Group, Marley Spoon, Credit Corp, Kogan.com, Rio Tinto, Mineral Resources

Underweight – Idp Education, Qantas, Westpac

NEGATIVE

Overweight – A2 Milk, Kazia, Corporate Travel, Catapult

Underweight – Fortescue, Afterpay, Whitehaven Coal

PERFORMANCE*

To 31 December 2020	1 month	3 months	6 months	Since Inception
Quest Long Short Aust Equities Fund	2.1%	13.1%	22.7%	34.9%
S&P/ASX 200 Accumulation Index	1.2%	13.7%	13.2%	21.2%
Value added	+0.9%	-0.6%	+9.5%	+13.7%

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

OUTLOOK

Whilst we remain cognisant of the ongoing risks posed by the COVID pandemic, we remain positive on the market outlook for 2021. The global vaccine rollout is underway whilst massive government stimulus and record low interest rates are likely to continue. We expect an accelerating economy driven by pent up demand. We expect the market to continue to move higher over the year with potential for some sharp gyrations as improving visibility and the prospect of better times ahead becomes priced in by the market.

Regardless of near-term market movements, our best approach is to continue to apply the Quest investment process that has served so well over the last 15 years. Looking at our portfolio we remain optimistic. The quality of our portfolio is high and despite the good returns of 2020 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. We expect further opportunities to add to these holdings during 2021.

In conclusion, we highlight an interesting observation from one US strategist. He noted that a 10% or more gain in the final two months of the year (in the US) has led to a higher market in the following year, every single time since World War II, with January also higher every single time. With November /December 2020 delivering a 14% gain in the US, the prospect of a higher market into 2021 looks achievable.

PORTFOLIO ACTIVITY

Long Short Fund performance in December was boosted by a continuation of the “risk-on” rally which saw further strong gains in **Credit Corp**, **Mineral Resources** and **Rio Tinto**. Credit Corp surged 20% after buying the Australian debt ledger book of Collection House and upgrading FY21 guidance. The Fund also benefitted from a recovery in recent laggards **Marley Spoon** and **Kogan.com** which were topped up early in the month.

The Fund invested in the IPOs of **Nuix** and **Maas Group** made spectacular debuts with day 1 gains of more than 50% and 35% respectively. Nuix is a global provider of intelligence and analytical software used by corporates and government agencies. Maas Group is a Dubbo based building materials business with interests in quarries, land subdivision, manufacturing and property development.

We also participated in the \$765m capital raising by polymetallic miner **IGO Limited** to buy 49% of Tianqi Lithium Energy Australia. This gives IGO a 25% stake Greenbushes, widely regarded as the best lithium mine in the world. IGO finished the month nearly 40% above the \$4.60 raising price as the market clamoured for exposure to “green energy” metals used to develop electric vehicles.

Key overweight positions at month end include **NAB**, **CSL**, **Ramsay**, **Lendlease**, **Steadfast**, **Macquarie**, **Ancor**, **Aristocrat**, **Rio Tinto** and **BHP**.