

### 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 rose 3.1% in February as the market advanced 1.5%. The Fund has returned **37.4% net of fees since inception** 10 months ago, 14% ahead of the benchmark return of 23.4%.

The **reporting season was one of the strongest in 20 years** as lower costs boosted margins and earnings. Muted share price reactions resulted in P/E compression, suggesting some of the good news was already priced in.

Stronger than expected earnings drove large upgrades to FY21 dividend forecasts, especially for resources (+18%) and banks (+15%). These reporting season trends and rising bond yields, supported further rotation to cyclicals.

Quest portfolios had another good reporting season, with around **90% of our companies delivering results that either exceeded or met our expectations**.

US 10-year bond yields have been falling for 30 years but may have reached a nadir in August 2020 when rates fell below 0.6%. The US 10-year climbed above 1.4% in late February on rising inflation concerns. This was a major move that impacted long duration technology, healthcare, consumer staples and utility stocks while banks, resources and industrial cyclicals generally rose.

### 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	67 (45 longs, 22 shorts)
Fund Exposure	124% long, 28% short, 96% net
Active Share	80%
Tracking Error	6.3% (ex-ante)
Unit Price	\$1.3542 (NAV @ 28/2/21)
Research Ratings	Lonsec - Recommended
Platforms	Macquarie, Netwealth, HUB24, BT Wrap, Panorama, Asgard, MLC, Navigator, Mason Stevens
APIR Code	ETL4748AU

### PERFORMANCE DRIVERS – FEB 2021

#### POSITIVE

**Overweight** – Corporate Travel, Sezzle, Rio Tinto, Marley Spoon, Credit Corp, Mineral Resources, BHP

**Underweight** – Appen, Seek, Wesfarmers, AGL, Hub24, Zip Co, Altium, Elmo, Stockland, Atlas Arteria

#### NEGATIVE

**Overweight** – Nuix, Kogan.com, Carbon Revolution

**Underweight** – Fortescue, ANZ, Scentre Group

#### Performance\*

To 28 February 2021	1 month	3 months	6 months	FYTD	Since Inception
Quest Long Short Australian Equities Fund	3.1%	4.0%	15.3%	25.0%	37.4%
S&P/ASX 200 Accumulation Index	1.5%	3.0%	11.5%	15.2%	23.4%
<b>Value added</b>	<b>+1.6%</b>	<b>+1.0%</b>	<b>+3.8%</b>	<b>+9.8%</b>	<b>+14.0%</b>

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



## OUTLOOK

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We remain positive on the market outlook as the global vaccine rollout is well underway while government stimulus and central banks remain supportive. However, bond yields have now moved significantly off record lows which is a concern for equity valuations. The strength of the recovery has delivered a market where growth is more widespread as the economy stabilises. Earnings growth can now be found beyond technology stocks and there may be further rotation from growth to cyclical stocks experiencing upgrades.

The reporting season endorsed this trend, albeit with significant volatility as high expectations were often already priced in. It was one of the strongest reporting seasons of the last two decades with margins expanding as costs fell materially while revenues were resilient or even increased. The de-rating experienced by quality companies that delivered strong results has created opportunities by restoring some value.

We continue to be tilted towards banks, resources and small/mid-caps, especially re-opening beneficiaries. The banks are now trading closer to our target prices, however they remain supported by earnings and dividend upgrades. Resources continue to generate cash bolstered by strong commodity prices and we are confident our three lithium producers are well placed. Many of our small cap stocks continue to trade well below valuation.

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 16 years. Looking at our portfolio, we remain optimistic as the 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. We expect further opportunities to add to these and other new positions during 2021.

## PORTFOLIO ACTIVITY

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Long Short Fund activity in February was mainly focussed on key reporting season results as well as active trading in stocks such as **Reliance Worldwide**, **Santos**, **Stockland** and **JB Hi-Fi** as volatility persisted. The short portfolio added significant value during the month and several positions were bought back or “covered” to lock in gains. A long trading position in **Sezzle** was exited after nearly doubling in recent months.

**Westpac** was added to the Fund after a positive trading update which means we now own 3 of the 4 majors. We topped up in **Ramsay Healthcare**, **CSL** and **Steadfast** after strong results, while our **Sydney Airport** holding was increased as it is a high quality re-opening beneficiary. **Corporate Travel Management** (+22%) was also lifted after posting a strong result with upside potential from a timely US acquisition.

**BHP**, **Rio Tinto** and **Mineral Resources** rallied 13 to 15% after delivering stronger than expected earnings and dividends, while **Credit Corp** rose another 12% after delivering a strong result and an FY21 profit upgrade.

Key overweight positions at month end included **NAB**, **Ramsay Healthcare**, **CSL**, **Aristocrat Leisure**, **Macquarie**, **James Hardie**, **Steadfast**, **Rio Tinto**, **BHP** and **IGO**.

## Contact the Manager

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## Disclaimer

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