

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 fell 1.2% in January as the market edged up 0.3%. The Fund has returned **33.3% net of fees since inception** 9 months ago, 11.7% ahead of the benchmark return of 21.6%.

After a rollicking ride last quarter, the market continued to chase cyclical stocks before a sell-off in late January on massive hedge fund deleveraging after the extraordinary GameStop trading saga in the US.

In addition to the inauguration of the 46th US President, the highlight was ongoing positive economic news and Federal Reserve stimulus. Encouraging local data for jobs, housing loans, personal saving, car sales, agricultural output and exports, along with additional Reserve Bank stimulus, is very hard to ignore.

Regardless, Australian and US 10-year bonds have now moved well above 1%. Despite the ongoing pandemic, it is not surprising that GDP forecasts are in the ascent.

January was especially volatile for technology stocks. They started poorly on rising bond yields and value rotation, before US BNPL stock Affirm doubled on its IPO debut and put a rocket under Australian peers such as Afterpay, Zip and Sezzle.

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	64 (45 longs, 19 shorts)
Gross Exposure	145% (121% long, 24% short)
Net Exposure	97%
Unit Price	\$1.3135 (NAV @ 31/1/21)
Research Rating	Lonsec - Recommended
Platforms	Macquarie, Netwealth, HUB24, BT Wrap, Panorama, Asgard, MLC, Navigator, Mason Stevens
APIR Code	ETL4748AU

PERFORMANCE DRIVERS – JAN 2021

POSITIVE

Overweight – Sezzle, Bingo Industries, Nuix, NAB, Salt Lake Potash, Orocobre, BHP

Underweight – Fortescue, Mirvac, Xero

NEGATIVE

Overweight – SSR Mining, Lendlease, Magellan, Origin Energy, Catapult, Amcor

Underweight – Afterpay, Westpac, Wesfarmers, Telstra, Wisetech

Performance*

To 31 January 2021	1 month	3 months	6 months	FYTD	Since Inception
Quest Long Short Australian Equities Fund	-1.2%	11.8%	17.1%	21.3%	33.3%
S&P/ASX 200 Accumulation Index	0.3%	11.9%	13.0%	13.6%	21.6%
Value added	-1.5%	-0.1%	+4.1%	+7.7%	+11.7%

*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 as the global vaccine rollout is underway whilst government stimulus and low interest rates remain supportive. However, bond yields are moving higher which is slightly worrying for equity valuations. The strength of the recovery has delivered a market where growth is more widespread as the economy stabilises. Growth can be found beyond technology stocks and there may be some catch up by laggard stocks left behind as popular growth stocks cruised higher.

The current profit reporting season has endorsed that so far, albeit with ongoing volatility as expectations are often well and truly priced in. Results have been very strong so far with margins expanding as variable costs have fallen and revenues have been resilient or even increased for some companies.

Banks should continue to rerate from last year's lows as profits and dividends are on the rise driven by a surging housing market and extremely low bad debt provisioning. Commodity prices are strong and consensus upgrades are likely as we push out of the northern winter and into mid-year. We maintain a positive view on resources as well as the healthcare sector, with a broad range of quality small cap stocks filling out the portfolio.

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 holdings during 2021.

PORTFOLIO ACTIVITY

Long Short Fund activity in January was mainly repositioning ahead of reporting season and some active trading in stocks such as **Incitec Pivot**, **Woodside** and **Adairs** as volatility persisted. Recent addition **Bingo** (+32%) surged on news of a potential takeover. Resource plays **Salt Lake Potash** (+27%) and **Orocobre** (+12%) both re-rated, whilst technology stocks **Sezzle** (+31%) and **Nuix** (+11%) also rallied strongly.

We established a small position in **Cyclopharm** via a placement at \$2.60. The company raised \$30 million to capitalise on its expected FDA approval which would finally allow it to market its well-established nuclear imaging device in the US. We also committed to the small holding in the upcoming IPO of **Airtasker** which is scheduled to list in mid-March.

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

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