



# QUEST LONG SHORT AUSTRALIAN EQUITIES FUND

JULY 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 pace of the V-shaped market recovery slowed but the index still edged 0.5% higher in July. The Quest Long Short Fund strongly outperformed with a return of 3.6% and an inaugural quarterly gain of 13.8%.

Fund performance since inception has been driven by long and short positions across the large, mid and small cap spectrum. Major positive stock contributors have outnumbered negatives by a ratio of 3:1, indicating good stock selection and risk management.

The opposing forces of massive government stimulus and pandemic fears continue to lock horns. So far, stimulus has won out and we see this continuing, even as we confront the reality check of reporting season.

Whilst we exited some positions a few months ago as a result of the pandemic including Sydney Airport and office owner Dexu, our strategy of finding new ideas while lifting overall portfolio quality continues.

We've been reviewing plenty of new opportunities and decided to invest in the IPO of medical imaging specialist 4D Medical ahead of the float in August.

## KEY PORTFOLIO FEATURES

Fund Inception	30 April 2020
Benchmark	S&P/ASX 200 Accumulation Index
Stock Numbers	61 (41 longs, 20 shorts)
Gross exposure	124.6% long, 28.2% short
Net exposure	96.4%
Investment Horizon	3 – 5 years
Investment Strategy	Fundamental with a key focus on business quality and free cash flow
Fund Manager	Richard Dixon

## PERFORMANCE DRIVERS - JULY 2020

### POSITIVE

**Overweight** - Catapult, Orocobre, Goodman Group, Credit Corp, Senex Energy, Alacer Gold, Saracen, Kogan.Com, James Hardie, Rio Tinto, ALS Limited

**Underweight** – Qantas, Zip Co, Woodside, Westpac

### NEGATIVE

**Overweight** – Ramsay Healthcare, Carbon Revolution

**Underweight** – Fortescue, QBE Insurance, Newcrest

## PERFORMANCE\*

To 31 July 2020	1 month	3 months	6 months	1 year	Since Inception
Quest Long Short Aust Equities Fund	3.6%	13.8%	n/a	n/a	13.8%
S&P/ASX 200 Accumulation Index	0.5%	7.6%	n/a	n/a	7.6%
Value added	+3.1%	+6.2%	n/a	n/a	+6.2%

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



## OUTLOOK

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Our team continue to see this market as ideal for stock pickers with a disciplined approach to valuation. Quest performance is coming from a wide range of stocks rather than a narrow list of momentum driven tech stocks.

Reporting season is now in full swing and it has been very unusual given one given the predominance online presentations attended by dozens if not hundreds of listeners. We anticipate limited or no guidance from companies and only broad analyst questioning. One on one sessions with our investee companies is a priority in order to extract value from the season.

We expect companies to take this opportunity to write down asset values particularly in relation to previously revalued assets, ageing assets, intangibles and capitalised spend. We have already seen billions written down by oil and gas explorers. Pandemic related expenses are also likely to feature prominently. Investors are so confident of better times ahead that we expect the market to accept below the line losses. This reporting season is likely to be more about outlook for FY21 and beyond than historical metrics.

## PORTFOLIO ACTIVITY

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Activity remained elevated in July as previously mentioned market characteristics such as rising volatility, higher stock dispersion and massive style rotation continued to feature. The very strong fund performance in July was driven predominantly by a range of long positions across the large, mid and small cap spectrum.

Standout fund performers in July included **Catapult +46%**, **ALS +29%**, **Orocobre +28%**, **Credit Corp +22%**, **Senex Energy +20%**, **Goodman Group +14%**, **Kogan.Com +13%** and **Saracen Minerals +11%**.

We have added to our recently acquired holding in A rated technology stock **Altium**. We also added to existing overweight positions in **Magellan**, **Ramsay Healthcare** and **CSL** which has now fallen 20% from peaks earlier this year. We committed to the **4D Medical (4DX)** IPO at \$0.73 which lists in August. 4DX has developed an imaging technology that presents colour images of airflow in the lungs.

We continued to hold 3 iron ore stocks at month end, namely **BHP**, **Rio Tinto** and **Mineral Resources**. The iron ore price has been over US\$100/t for nearly 80 days due to demand and supply disruption from Brazil. The market is increasingly positive on iron ore with indications that broking analysts will continue to upgrade price estimates. As the herd arrive, we are thinking more about exit prices now.

Key overweight positions at month end include **James Hardie**, **Rio Tinto**, **Alacer Gold**, **Ramsay Healthcare**, **Ansell**, **CSL**, **Aristocrat**, **Amcors**, **Steadfast** and **Magellan**.

### Disclaimer

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