



# QUEST LONG SHORT AUSTRALIAN EQUITIES FUND

JUNE 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 V-shaped market recovery continued for a third month with a rise of 2.6% in June. The Quest Long Short Fund outperformed on the back of some timely selling as the recent value rotation unwound on renewed COVID-19 fears.

The indiscriminate market rotation to value in late May/early June did not suit the Quest process which concentrates on business quality. The rotation was short lived and fund performance quickly rebounded due largely to short selling in a range of industrial cyclical stocks.

The dominant market issue continues to be the enormous global government stimulus to protect the economy while it is locking horns with a new deterioration in COVID-19 cases. Stimulus is winning, at least in market terms. Liquidity is excessive and trawling for a return above a pitifully low cash rate.

History shows fiscal stimulus works and we will see more this year, particularly in a US election year.

## KEY PORTFOLIO FEATURES

Fund Inception	30 April 2020
Benchmark	S&P/ASX 200 Accumulation Index
No. of holdings	60 (39 longs, 21 shorts)
Gross exposure	118.3% long, 20.3% short
Net exposure	98%
Investment Horizon	3 – 5 years
Investment Strategy	Fundamental with a key focus on business quality and free cash flow
Portfolio Manager	Richard Dixon

## DRIVERS OF PERFORMANCE – JUNE 2020

### POSITIVE

**Overweight** - Vista, Kogan.Com, Cleanaway, Rio Tinto, James Hardie, Gold Road Resources, Alacer Gold

**Underweight** – Webjet, Qantas, Sydney Airport, Challenger, Flight Centre, Stockland, Evolution Mining

### NEGATIVE

**Overweight** - Catapult, Carbon Revolution, Mesoblast

## PERFORMANCE\*

To 30 June 2020	1 month	2 months	6 months	1 year	Since Inception
Quest Long Short Aust Equities Fund	3.1%	9.9%	n/a	n/a	9.9%
S&P/ASX 200 Accumulation Index	2.6%	7.1%	n/a	n/a	7.1%
Value added	+0.5%	+2.8%	n/a	n/a	+2.8%

\*Fund performance and value added is net of all fees. Past performance is no guarantee of future performance. Individual returns will differ for investors, depending when the initial investment was established and the timing of any additional investments or redemptions.

## OUTLOOK

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The determination of the US Federal Reserve to combine fiscal stimulus with low interest rates until 2023 confirms a strategy of supporting the economy regardless of cost. This will continue in the US and locally to soften the mooted “fiscal cliff” in September.

In this environment, we believe that experienced stock pickers with smaller funds under management (less than \$3-\$4 billion) are well placed to prosper in the tough times. Large fund managers are struggling to keep up with deft boutique competitors.

The next two months will be very interesting. Guidance from companies has largely been withdrawn which has removed the risk of profit downgrades until the reporting season in August. We expect companies in reporting season to take this opportunity to write down asset values. This will likely include capitalised IT, ageing assets, intangibles and COVID-19 costs. It is a good time to do so whilst the market is in a forgiving mood. Investors are looking ahead to 2022 and beyond while a second COVID-19 wave remains a serious concern.

Risk management remains a prime focus, especially the avoidance of unpleasant surprises. Meanwhile, COVID-19 period capital raisings have risen to **\$28 billion including SPP’s** across 62 companies. This will likely keep rising, especially after the ASX recently extended its COVID-19 capital raising relief measures.

## PORTFOLIO ACTIVITY

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Activity remained quite elevated during June, especially within the short portfolio once again. Market features we outlined last month including rising volatility, higher stock dispersion and the style rotation to value continued into June. Short positions were re-initiated in a range of cyclicals including travel related stocks that had rallied to extreme levels on unrealistic hopes of an imminent return to normal post COVID-19.

We added to our newly acquired holding in **National Australia Bank**. Since buying last month, we are now seeing increased optimism from broking analysts. Our rationale is that the discount to book value was too great despite the obvious challenges. NAB added a further 2.3% in June while our **Commonwealth Bank** holding rallied 8.9%. We believe CBA will continue to declare reasonable dividends, unlike most of its peers.

The Fund continues to hold **BHP, Rio Tinto** and **Mineral Resources** which are all exposed to iron ore which surged above US\$100/t on strong Chinese demand and global government stimulus. These stocks could potentially deliver positive earnings and dividend surprises during the August reporting season. We added gold exposure via a new holding in **Gold Road Resources** alongside existing positions in Alacer and Saracen.

**Credit Corp** is a new holding. The company is a debt purchaser and consumer lender operating in Australia and the USA. The management team has a long track record of efficient capital allocation and a strong compliance record in an industry which has seen many less disciplined players fail. The share price sell-off on concerns over collections performance has created a good buying opportunity.

We also established a new holding in A rated technology stock **Altium** after it pulled back to more reasonable levels near \$32 on short term revenue headwinds. Altium is a US based company with a 35 year track record developing printed circuit board (PCB) design software products to a diverse range of global industries.

This remains very much a stock pickers market which suits the Quest investment process.

Key overweight positions at month end include **James Hardie, BHP, Rio Tinto, Alacer Gold, Ramsay Healthcare, Ansell, Aristocrat, Goodman Group, Steadfast and Macquarie Bank**.

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