



# QUEST LONG SHORT AUSTRALIAN EQUITIES FUND

SEPTEMBER 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 defied the weaker market in September to deliver a positive return and outperform for a 5<sup>th</sup> consecutive month. The Fund has returned 19.3% net of fees since inception, nearly triple the benchmark return of 6.6%.

Fund performance continues to be driven by a diverse range of long and short positions across the large, mid and small cap universe. Major positive stock contributors have outnumbered negatives by 4 to 1, indicating good stock selection and risk management.

While investors are familiar with the ongoing conundrum of pandemic versus low rates and massive stimulus, markets were concerned in September of a protracted and disputed US election result. Polling in October is suggesting a decisive Biden victory which has seen equity markets quickly recoup the falls.

**We continue to see great conditions and plentiful opportunities for fundamental stock pickers. We expect an increase in corporate activity and there is also a rush of new floats before Christmas.**

## KEY PORTFOLIO FEATURES

Fund inception	30 April 2020
Benchmark	S&P/ASX 200 Accumulation Index
Stock numbers	60 (42 longs, 18 shorts)
Gross exposure	122.5% long, 25.3% short
Net exposure	97.2%
Investment Horizon	3 – 5 years+
Investment Strategy	Fundamental with a key focus on business quality and free cash flow
Ratings / Platforms	Lonsec – Recommended HUB24, netwealth, Mason Stevens

## PERFORMANCE DRIVERS – SEPT '20

### POSITIVE

**Overweight** – Carbon Revolution, Coronado, Opticomm, James Hardie, Centuria Capital, Service Stream

**Underweight** – Origin, Woodside, Afterpay, Zip, Sezzle, Openpay, Orica, Woolworths, Wesfarmers

### NEGATIVE

**Overweight** – A2 Milk, Steadfast, Paladin, Credit Corp

## PERFORMANCE\*

To 30 September 2020	1 month	3 months	FYTD	Since Inception
Quest Long Short Aust Equities Fund	0.1%	8.5%	8.5%	19.3%
S&P/ASX 200 Accumulation Index	-3.7%	-0.4%	-0.4%	6.6%
<b>Value added</b>	<b>+3.8%</b>	<b>+8.9%</b>	<b>+8.9%</b>	<b>+12.7%</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 continue to have a positive view on markets into the new year. Volatility given the economic situation and a US election is a given. The potential for a disputed and drawn out election result is likely to cause a correction however we see a Biden victory as more likely. Markets are likely to be more subdued after a Democrat victory and there will be concerns about tax increases and anti-trust moves against large tech corporations. There will be ongoing stimulus however as the incoming administration really has no choice.

Domestically, low interest rates prevail while the Australian budget has built a survival bridge with a massive emphasis on fiscal stimulus targeting employment. The 2021 debt of \$872b is forecast to move to \$1,016b by the end of FY2022 and \$1,083b in 2023. Interestingly, funding costs in 2023 are expected to be ~\$13b which is actually lower than in 2021 due to the extremely low cost of government borrowing.

Corporate activity including mergers and acquisitions will likely increase in coming months. There was a lot of activity in the pipeline pre COVID-19 and a lot of it will return as confidence improves. Already **Saracen** and **Northern Star** have agreed to a merger of equals, **Link Administration** has received a conditional takeover bid from a private equity consortium and **Opticomm** is the target of a bidding war.

As mentioned last month, COVID has delivered greater flexibility and lowered operational costs for many companies. It has also dramatically accelerated structural trends that were already underway such as the rise of e-commerce which has seen stocks like **Kogan** soar. Investors remain broadly complacent about pandemic issues and are clearly looking to the future as they keep buying the dips in recovery stocks.

## PORTFOLIO ACTIVITY

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The Long Short Fund owned numerous strong performers which ignored the 4% market fall in September including **Carbon Revolution** +64%, **Coronado** +55%, **Opticomm** +17%, **Centuria Capital** +13% **Corporate Travel** +11%, **Service Stream** +9% and **James Hardie** +6%. Portfolio activity remained elevated as rising volatility, higher stock dispersion and style rotation continued to feature. Significant value was added from the short portfolio which was actively traded during the month as numerous opportunities emerged.

**Marley Spoon (MMM)** is a new addition to the Fund. The company provides subscription meal kits in Australia, US and Europe. It has been a clear beneficiary of COVID which has accelerated a developing trend. As conditions normalise, many customers will choose to remain with the service for its convenience and cost effectiveness. The business is now profitable and has achieved scale advantages that are not easy to replicate. We believe Marley Spoon is well positioned for the global opportunity in subscription meal kits.

**Salt Lake Potash (SO4)** has also been added to the Fund. The company is developing a Sulphate of Potash (SOP) evaporative brine pond project near Wiluna in WA. The project is 60% complete and due to produce in early 2021. Commissioning and ramp up risks are reduced given the team assembled is very experienced in remote construction. The product, SOP, competes in a stable global market with Potassium Chloride (MOP). SOP is more expensive but has a lower chloride content and is highly sought after by fruit and vegetable producers. We expect valuation gain as the project moves to commissioning in December.

Fund holdings in **Sydney Airport**, **A2 Milk** and **Kogan** were lifted. We exited **Opticomm** at \$6 as it moved well above our valuation on takeover activity. Key overweight positions at month end include **James Hardie**, **BHP**, **Ramsay Healthcare**, **CSL**, **Aristocrat**, **Sydney Airport**, **Lendlease**, **NAB**, **Steadfast** and **Magellan**.