



## AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

### INVESTMENT PROFILE

The Quest Australian Equities Concentrated Portfolio is a Separately Managed Account (SMA), actively managed by Quest Asset Partners Pty Limited. Our objective is to outperform the S&P/ASX300 Accumulation Index. The SMA structure allows the investor to retain beneficial ownership of securities via a custodian while maximising transactional visibility. A unit trust is unable to provide this level of visibility.

### APRIL SUMMARY

April has seen an astonishing rally of 9% in the ASX300, regaining nearly half the losses of March. The driver was a series of global stimulus packages that encouraged investors to look “across the valley” and adopt an optimistic stance. The bears were trampled by the bulls as the US Federal Reserve unleashed trillions in economic support.

Countering that optimism is the reality of the damage inflicted on the global economy and the likelihood that many businesses may never be the same. We also have concerns that the deteriorating relationship between China and the USA may reintroduce a combative trade war that could fly out of control as the republican government looks to for a scapegoat in an election year.

The tension in the market is shown by the 9% rally in April being followed by a 5% fall on the first trading day of May! This instability will continue for some weeks at least. Our team continue to look for opportunities to upgrade portfolio quality amidst these fluctuations. Strategically, we tend to be buyers on the weaker days.

The market low point of 4,360 intraday on 23<sup>rd</sup> March for the ASX300 may have been the low. At April end, we sit 23% below the peak in February.

APRIL 2020

### KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	33 now, maximum 35
Quest AUM	\$1.01 billion
Strategy AUM	\$61 million
Investment Horizon	3 – 5 years
Investment Strategy	Fundamental with a key focus on business quality and free cash flow
Derivatives/Shorting	Nil
Lonsec Rating	Reviewed and Rated by Lonsec.

### LARGER RAISINGS SO FAR\* .....

National Bank	\$3,500m
Ramsay Healthcare	\$1,400m
QBE	\$1,320m
Auckland Airport	\$1,200m
Oilsearch	\$1,160m
Lendlease	\$1,150m
Cochlear COH	\$1,100m
Newcrest	\$1,100m
<b>Total so far:</b>	<b>\$16.5 billion</b>

\*includes SPP's

PERFORMANCE	BEFORE FEES AND TAX			(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)			
	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
To 30 April 2020							
Quest Aust. Equities Concentrated	10.2%	-19.4%	-1.5%	6.1%	7.1%	8.9%	10.6%
ASX 300 Accumulation Index	9.0%	-20.4%	-9.1%	2.0%	3.5%	5.9%	6.4%
Value added	1.2%	1.0%	7.6%	4.1%	3.6%	3.0%	4.2%

\*per annum



## OUTLOOK

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We are an optimistic team at Quest but we are surprised at the sanguine attitude of investors to what is a massive disruption to the normal world order. There seems to be an assumption that the consumer, once free of the shackles of social distancing, will leap back into normal routine. We doubt whether consumers will move quickly, they may seek different sources of goods, they may buy less or change tastes completely. They will certainly be less willing to attend crowded places and travel overseas. Some services will be discarded in favour of saving. Consumers may be more particular and less willing to spend.

We anticipate weak unemployment and GDP numbers to deliver a jolt of reality in time. We are also concerned with the management of the COVID crisis in the US. Infections are not under control and we expect ongoing challenges as the country attempts to re-open. We are therefore prepared for further market falls which will provide opportunities at lower prices, although we may not revisit March lows. That suggests a further weakening of about 5% to 10%.

Weak economic results inevitably lead to earnings downgrades. Earnings estimates are too optimistic with the consensus PE for industrials at 25 times in 2021 and 23 times in 2022, ex Financials and Miners. Capital raisings now total over \$16 billion with the average discount being 19%. The most popular reason is strengthening the balance sheet. There is more capital raising to come in May.

## PORTFOLIO ACTIVITY

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There is no pressure to buy shares on the stock market when discounted offerings arrive on a daily basis. In April, we continued to raise the quality of the portfolio by participating in discounted raisings for cinema software provider **Vista Group**, hospital leader **Ramsay Healthcare** and developer **Lendlease Group**.

We have built a holding in general insurance broker **Steadfast** which has replaced **Suncorp** in the portfolio. Biotech **Kazia Therapeutics** has joined the portfolio after a placement at 40 cents raising \$7m.

In April, we reduced our long standing holding in **Sydney Airport**. In order to position for the next three years, we favour stocks that have a greater ability to bounce back; the runway for this business looks uncertain.

There were some profits taken in **CSL**, **Mineral Resources** and **A2 Milk** in April. **CBA** remains our only bank holding at this time. The portfolio has very little retail or oil and gas exposure.

Our team have no concerns on the balance sheet strength of any of our holdings.

## QUEST UPDATE

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The Quest Long Short unit trust has been established and started trading in April 2020. This is a new product run by Richard Dixon, a very experienced long short manager, who has joined our team in February 2020. The trust is open for direct investments while platform positions are being established.

The Quest Ex 20 SMA had a strong April with a gain of 19.1%, ahead of benchmark by 13.6%.

The Quest Highly Concentrated 10 stock portfolio lifted 17% in April, well ahead of benchmark returns.

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