



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

JUNE 2020

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 to our clients.

JUNE MARKET SUMMARY

The market rose for the third month in a row by 2.4%. The Quest portfolio return was 2.3%.

The Quest return for the fiscal year 2020 was positive while the market was well down by 7.6%. Outperformance was excellent in relative terms being 9.3% ahead pre fees of the benchmark.

This is our third largest outperformance in a fiscal year since inception and the seventh time we have beaten the market by more than 4% in 16 years.

While the value rotation early in the month did not suit the Quest process (which concentrates on business quality), a number of our small stocks did not deliver this month. As in 2019, the value rotation was short lived.

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

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	33 now, maximum 35
Quest AUM	\$1.18 billion
Strategy AUM	\$77 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.



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30 June 2020	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	2.3%	19.3%	1.7%	8.9%	9.7%	11.1%	11.1%
ASX 300 Accumulation Index	2.4%	16.8%	-7.6%	5.2%	6.0%	7.7%	7.7%
Value added	-0.1%	2.5%	9.3%	3.7%	3.7%	3.4%	3.4%

*per annum



OUTLOOK

In the year to June the portfolio performed extremely well beating the benchmark by more than 9% despite the traumatic environment. A very solid result.

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, superior stock pickers with smaller funds of less than \$3-\$4 billion are well placed to prosper in the tough times. Large managers are not keeping up with the deft boutique competitors.

The next two months will be interesting. Guidance from companies is largely withdrawn removing the threat of downgrades until reporting in August. We are in a period of silent running. We expect companies in reporting season to take this opportunity to write down asset values. This will include capitalised IT, ageing assets, intangibles and absorbing COVID-19 costs. It is a good time to do so as the market will be forgiving given the environment. Investors are looking ahead to 2022 and beyond while a second COVID-19 wave is a big concern.

Risk management is a prime focus, the avoidance of unpleasant surprises. Meanwhile, COVID-19 period capital raisings have risen to **\$28 billion including SPP's** across 62 companies.

PORTFOLIO ACTIVITY

We added to our newly acquired holding in **National 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. National Bank added a further 2.3% in June while our **Commonwealth Bank** holding pushed up 8.9%. We believe CBA will pay a dividend in September.

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 has sold off considerably around concerns over collections performance. The competitive environment for debt purchasing in Australia is likely to be favourable as competitors face solvency issues.

The portfolio continues to hold 3 iron ore stocks: **BHP, RIO and Mineral Resources**.

The position in insurance broker **Steadfast** was increased. We have taken some profits again on including **LendLease, Amcor, James Hardie and Mineral Resources**. **Telstra** has been sold to fund investments listed above. We declined the opportunity to invest in the **Qantas** placement in June. We remain negative on tourism and were surprised at the enthusiasm of institutions to invest in an airline during a pandemic.

This is very much a stock pickers market which suits our investment process.

QUEST UPDATE

*The **Concentrated ASX300** portfolio returned a positive pre fee result despite the market falling over the period.*

*The **Quest Ex 20 SMA** also had a very solid year with a gain of 12%, ahead of that benchmark by 17%.*

*The **Quest Highly Concentrated 10 stock SMA** portfolio had a 5% return for the fiscal year outperforming by 12.7%.*

*The **Long Short** had a solid start with outperformance in each of the first two months.*

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