



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

MARCH 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. A unit trust is unable to provide this level of visibility.

MARCH SUMMARY

March was a wicked month for markets continuing a correction that started on the 22nd February. It rolled unimpeded into March. Quest portfolios have fallen less than the market benchmark.

The Australian market fell 20.8% in March after a 7% fall in the previous month. The nadir was on 23rd March with the XKO sinking below 4,500. Interestingly, it only stayed that low for a day. This may have been the low.

A correction of this magnitude delivered a similar pattern to previous corrections. Large price falls, volatile swings, huge trading quantities, hysterical headlines quoting the billions of dollars of losses and a sudden interest in balance sheet analysis. The new trait was huge machine driven trading on market close that caused uncomfortable price shifts.

This is a social and economic correction as well as a financial correction. There is no one on the planet unaffected by the current situation.

Our approach is to upgrade portfolio quality as higher quality stocks become cheaper. Lower stock entry levels have delivered a growing target list for our team who take a three year view.

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 |  |

CASH RAISINGS SO FAR.....

| | |
|------------------------------|---------------|
| Carbon Revolution CBR | \$25m |
| Cochlear COH | \$880m |
| Ooh Media OML | \$167m |
| IDP Education | \$190m |
| Webjet | \$275m |
| Katmandu | \$207m |
| Next DC | \$672m |

and there will be a lot more.....

PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

| To 31 March 2020 | 1 month | 3 months | 1 year | 3 years* | 5 years* | 10 years* | Since inception* |
|-----------------------------------|---------|----------|--------|----------|----------|-----------|------------------|
| Quest Aust. Equities Concentrated | -20.6% | -22.9% | -7.6% | 3.1% | 5.0% | 7.6% | 10.0% |
| ASX 300 Accumulation Index | -20.8% | -23.4% | -14.5% | -0.6% | 1.4% | 4.8% | 5.9% |
| Value added | 0.2% | 0.5% | 6.9% | 3.7% | 3.6% | 2.8% | 4.1% |

*per annum



PORTFOLIO ACTIVITY

Markets are in a major correction phase. We are sitting at 27% from the peak in February now, much more than expected but an ideal opportunity for investors as markets will price a recovery phase.

The now concluded bull market made it very difficult to find new investible stocks. Markets were very fully priced. We have a serious correction now and a lengthening list of stock opportunities. The timing of re-entry is critical however; we are not in a rush.

Our investment approach is to create a portfolio of stocks that, under our process, will deliver at least a 15% return of the medium to long term. When bull markets run for years, it becomes harder to raise the quality of the portfolio as quality stocks become too expensive. **This correction makes the task easier as many stocks have fallen drastically. We think a number of stocks will spring back quickly at some point.**

In March we sold our holdings in **Nine Network** because, with the market lower, we had better opportunities elsewhere. The collapse of the oil price in March and the reality that oil and gas demand will be lower for longer led us to sell both **Woodside Petroleum** and **Worley**. We also sold **Oilsearch** in February.

In March we added **REA Limited** back into the portfolio at more than 30% less than our sale price back in July. **LendLease** has returned to the portfolio as has **Suncorp**.

There were increases in some existing holdings including **Macquarie Bank**, **Goodman Group**, **Alacer Gold**, **Lend Lease**, **James Hardie** and **Sydney Airport**. In mid-March we supported an unexpected raising by newly listed **Carbon Revolution**. The disruption to Ferrari in Italy meant it was critical to reinforce the balance sheet in the

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event that clients were unable to receive or pay for carbon wheels over the next few months.

We were of the view that a wave of capital raisings was imminent; we needed to beat the rush. Quest have supported this raising as we have high regard for this company and believe that over the next few years we will reap our reward, albeit a little later than we anticipated.

It is the role of markets in times of stress to support companies with prospects while others may perish. There are likely to be dozens of distressed raisings in coming weeks. We are likely to support only a few. Previous crashes tell us that some companies will be lost in the coming weeks.

Our team have no concerns on the viability of any of our holdings as our process is focussed on cash flow and includes multiple forms of risk analysis, particularly in relation to balance sheet strength.

QUEST UPDATE

The Quest ASX300 portfolio is currently running 6th in the February Morningstar survey for equity managers over 1 year. Quest is ranked top quartile over 1 year, 3 years and 5 years.

The Quest Long Short Fund is likely to commence in April 2020. This is a new product run by Richard Dixon, a very experienced long short manager, who has recently joined our team.

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