



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 to our clients.

MAY MARKET SUMMARY

A further rise in May of 4.6% in the benchmark sent the bears scurrying. The Quest portfolio outperformed the market again despite the volatility.

The extraordinary size of government backed stimulus with low interest rates and signs of a peak in COVID-19 infections in many countries encouraged investors. There was a noticeable interest in laggard stocks particularly the recently friendless bank sector. There was also evidence of some "Fear of Missing Out" buying. FOMO !

As Wall Street becomes less representative of Main Street, cashed up investors continue to look through the domestically focussed Trump policies, Chinese trade wars, COVID-19 pandemic, deteriorating economic indicators and social unrest. Liquidity has aggressively pursued growth assets.

It is now apparent that the low point of 4,360 intraday on 23rd March for the ASX300 is the low for 2020.

At end May, the ASX300 sat 18% below the peak of February, notably lagging the S&P 500 which is now only 9.7% below the all time high. The NASDAQ has now moved above the peak levels of February.

MAY 2020

KEY PORTFOLIO FEATURES

| | |
|----------------------|---|
| Inception | 9 February 2005 |
| Investment Universe | ASX listed |
| No. of holdings | 33 now, maximum 35 |
| Quest AUM | \$1.15 billion |
| Strategy AUM | \$75 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 31 May 2020 | 1 month | 3 months | 1 year | 3 years* | 5 years* | 10 years* | Since inception* |
|-----------------------------------|---------|----------|--------|----------|----------|-----------|------------------|
| Quest Aust. Equities Concentrated | 5.9% | -7.3% | 2.2% | 8.8% | 8.4% | 10.4% | 11.0% |
| ASX 300 Accumulation Index | 4.6% | -9.7% | -6.5% | 4.5% | 4.4% | 7.2% | 6.7% |
| Value added | 1.3% | 2.4% | 8.7% | 4.3% | 4.0% | 3.2% | 4.3% |

*per annum



OUTLOOK

Investors that are feeling a bit bemused by the strength of markets against a backdrop of crisis should relax. You are in good company with the strength of the rebound a surprise to most observers. **While we also underestimated the power of mass global government stimulus, the portfolio carried a combination of stocks that have outperformed a tricky market for the 5th month in a row.** We are very pleased with the ability of the portfolio to perform in such varied conditions.

A key learning over the last weeks has been the determination of the US Federal Reserve to maintain low interest rates until 2023 and to support the economy regardless of cost.

The recent rally has now started to **float all boats regardless of merit**; we see this settling in the coming weeks and do not expect a uniform recovery from COVID-19 restrictions for all stocks. The withdrawal of guidance by so many companies has reduced the visibility on the revenue and cost experience. We could run until August before receiving the bad news from some businesses.

Meanwhile, COVID-19 period capital raisings have risen to \$25.6 billion including SPP's across 53 companies.

PORTFOLIO ACTIVITY

National Bank was a major addition to the portfolio alongside our long standing holding in **Commonwealth Bank**. National Bank had, in our view, reached a level well below our valuation as a result of extreme negativity in the banking sector. Banks have lagged the ASX300 for three years now.

During May we participated in Shareholder Purchase Plans (SPP) on behalf of clients after discounted raisings by **Ramsay Healthcare** and **Lendlease Group**.

We have added to our holding in general insurance broker **Steadfast** and purchased new positions in gold producer **Saracen Minerals** and polymetallic miner **Independence Group**. We have also made a small investment in **Mesoblast**.

We have taken some profits on a few stocks including **A2Milk**, **Alacer Gold**, **Mineral Resources** and **Aristocrat**. Investments in **iSelect** and **GTN** have been sold both having performed well below our expectations. Our holding in **Dexus** has been sold.

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

QUEST UPDATE

The **Quest Long Short** unit trust has completed the first month of trading in May 2020. Managed by Richard Dixon, the trust is available for direct investment via our office. We are working on adding it to various platforms at present.

The **Quest Highly Concentrated** 10 stock SMA portfolio has had a strong May with a 9.7% return.

The **Quest Ex 20** SMA also had a very solid May with a gain of 12.0%, ahead of benchmark by 4.9%.

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