

AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

OCTOBER 2020

INVESTMENT PROFILE

The 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 for our clients.

MARKET SUMMARY

The Quest portfolio return was a small loss of 0.1% in October while the ASX300 gained 1.9%. This was the first time we lagged the index since June.

The main cause was a rotation toward stocks at the lower end of the valuation spectrum which we did not own. Quest also had a featureless month for many of our smaller stocks.

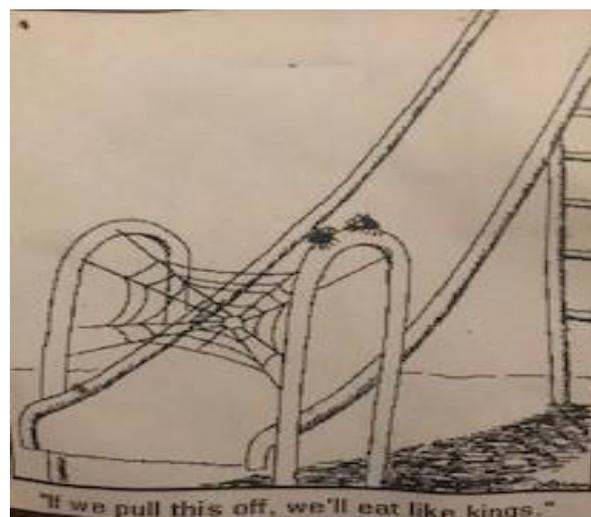
Corporate activity continued with a conditional bid for Link Administration which bolted 28% in October. A bid for Coca Cola by Coca Cola European Partners saw Coke rise 31%. There was speculation that a bid or break up proposal for AMP was likely. AMP rose 17%. Many other cheaper names rallied amidst the excitement. None of these stocks are held in our portfolio.

We are seeing a remarkable flow of new IPO's rushing to list by Christmas. The bankers want their fees! There are plenty on our active list but twice that in total. Quality and pricing are, so far, underwhelming.

Toward the end of the month, the market drifted noticeably as the US election loomed. The market fell for 6 of the last 7 days in October.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	33 now, maximum 35
Quest AUM	\$1.13 billion
Strategy AUM	\$84 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.



Bankers are set for an IPO fee bonanza pre Christmas.

PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 October 2020	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-0.1%	2.9%	3.3%	9.8%	10.7%	10.7%	11.2%
ASX 300 Accumulation Index	1.9%	1.2%	-7.9%	4.2%	6.9%	6.9%	6.8%
Value added	-2.0%	1.7%	11.2%	5.6%	3.8%	3.8%	4.4%

*per annum



OUTLOOK

We have a positive view on the market coming into the end of the year. At the time of writing the US election result indicates a Biden victory. We expect ongoing volatility but see the power of economic stimulus and a low interest rate regime as being dominant over the fluctuations in the political landscape.

As the US election rolls through, the market remains hostage to a serious deterioration in the pandemic. US citizens are contracting the disease at a rate of 1 every 1.2 seconds with a death every 2 minutes. European medical services are approaching capacity in some countries. Further shut downs are likely. The uncertainty means our management of risk is critical. This topic was covered in some detail in our recent September Quarterly Report to clients.

In the final quarter of each year there is often a rush of IPO activity as Christmas approaches. This year the number is exceptional with 25 on our white board under review and apparently dozens in the pipeline. We have heard the list is so vast that listings are planned out until February.

Our team are likely to bid on only a few of these deals; the low hit rate being a product of a lack of quality and unattractive pricing as well as a limited stock availability.

PORTFOLIO ACTIVITY

October was dominated by the US election and a lengthy IPO pipeline. Quest trading was minimal in October.

No new positions were established while existing positions were increased. These included A2Milk, CSL, Corporate Travel and National Bank. We lifted our Marley Spoon holding by participating in a placement.

The only sale of significance was further trimming in James Hardie which has been an absolute winner recently. This year, Hardies had added 30% after a boisterous 84% gain in 2019. The stock has been driven by success in the US market.

Quest portfolios better performers in October were **Steadfast** up 11%, **Xero** up 9 while **Commonwealth Bank**, **LendLease** and **Credit Corp** all rose 8%.

Weaker were **Catapult** down 20% and **Corporate Travel** down 15%, both affected by the poor sentiment associated with a worsening pandemic situation. **Vista Group** and **Sydney Airport** fell 7%.

QUEST EX 20 AND LONG SHORT GATHER SOME PACE

The Ex20 portfolio has had an excellent year with a number of small cap stocks delivering good returns. The Ex20 portfolio delivered 21.8% for the 12 months to end October.

We have established a new Long Short unit trust which launched in May. The portfolio is run by Richard Dixon with Equity Trustee acting as the Responsible Entity. The Long Short has returned over 19% for the 6 month period so far.

The Ex 20 is an SMA on the Mason Stevens platform while the Long Short unit trust is available direct and on the Mason Stevens, Netwealth and Hub 24 platforms with Macquarie to be added in coming weeks.

The Highly Concentrated 10 stock portfolio fell 4% in October and has a 25% return over 12 months.

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