



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

SEPTEMBER 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.

SEPTEMBER MARKET SUMMARY

The Quest portfolio eased 1.6% in September while the ASX300 lost 3.6%.

The annual return to the end of September is 4.6% which is a healthy 14.6% ahead of the benchmark.

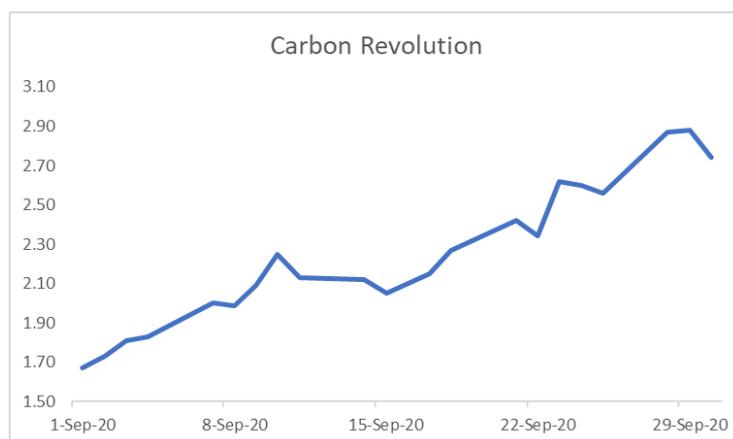
While investors are familiar with the ongoing conundrum of pandemic versus low rates and ongoing stimulus, the recent market concern is that of a protracted and disputed US election result. The latest polls, for what they are worth, has suggested Joe Biden will win this election decisively. A disputed result was, for most of September, a major concern of US investors and contributed to the 3.9% fall in the S&P500.

Most of this fall has been made up already in October. A protracted US election result is, in our view, the major risk over the next few weeks.

We continue to see a steady flow of new opportunities for fundamental stock pickers. We expect an increase in corporate activity. There is also a rush of new floats pitching for listing before Christmas.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	33 now, maximum 35
Quest AUM	\$1.3 billion
Strategy AUM	\$90 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.



Carbon Revolution rose 64% in September.

PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30 September 2020	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-1.6%	5.5%	4.6%	10.5%	11.9%	11.0%	11.2%
ASX 300 Accumulation Index	-3.6%	-0.1%	-10.0%	4.9%	7.4%	6.9%	6.7%
Value added	2.0%	5.6%	14.6%	5.6%	4.5%	4.1%	4.5%

*per annum



OUTLOOK

We continue to have a positive view on markets into the new year. Volatility given the economic situation and a US election is a given. The potential for a disputed and drawn out election result is likely to cause a correction however we see a Biden victory as more likely. Markets are likely to more subdued after a Democrat victory and there will be concerns about tax increases and anti-trust moves against large tech corporations. There will be ongoing stimulus however as the incoming administration really has no choice.

Domestically, low interest rates prevail while the Australian budget has built a survival bridge with a massive emphasis on fiscal stimulus targeting employment. The 2021 debt of \$872b is forecast to move to \$1,016b by end FY2022 and \$1,083b in 2023. Note that the funding cost in 2022 of \$13.4b is only slightly higher than 2021 while 2023 is actually lower thanks to the lower cost of borrowing.

*Corporate activity including take overs and mergers will lift in the next months. There was a lot of activity in the pipeline pre Covid-19 and a lot of it will return. Already **Saracen** has announced a merger with **Northern Star**, **Link Administration** has received a conditional takeover bid from a consortium of private equity firms and **Opticomm** has received two proposals. The iron ore price is a risk as we head into a northern hemisphere winter. Iron ore is USD\$122t having peaked at USD\$127 in September.*

PORTFOLIO ACTIVITY

Quest portfolios better performers in September were **Carbon Revolution** up 64%, **Opticomm** up 17% thanks to a competing takeover bid, **Corporate Travel** was up 13% while **James Hardie** rose 6%. The ASX300 fell 3.6% so any positive return was noteworthy.

Marley Spoon (MMM) has joined our stock list. Marley provides subscription meal kits in Australia, US and Europe. It has been a clear beneficiary of COVID with more people ordering delivered meals to cook at home rather than going out to shop. We believe COVID has seen an acceleration of a developing trend. As conditions normalise, many customers will choose to remain with the service for its convenience and cost effectiveness. We have followed Marley Spoon since before its IPO and have seen its quality score improve over time. Importantly, Marley Spoon is now profitable and has achieved scale advantages that are not easy to replicate. We believe Marley Spoon is well positioned for the global opportunity in subscription meal kits.

Salt Lake Potash (SO4) has been added to our holdings. The company is developing a Sulphate of Potash (SOP) evaporative brine pond project near Wiluna in Western Australia. The project is 60% complete and due to produce in early 2021. Obvious risks are commissioning and ramp up however the team assembled is very experienced in remote construction. The product, SOP, competes in a stable global market with Potassium Chloride known as MOP. SOP is a favoured alternative despite being more expensive as it has lower chloride content. SOP is sought by producers of fruit, vegetables and berries. We expect valuation gain as the project moves to commissioning in December.

There have been additions to holdings in **Sydney Airport**, **A2 Milk**, **LendLease** and **Kogan**. We have sold **Opticomm** at \$6 which has moved beyond our valuation having become the subject of contested takeover bids. This has been a winner for our investors having listed at \$2 in November 2019.

OTHER QUEST FUNDS DELIVER BIG RETURNS

The Ex20 portfolio delivered 23% for the 12 months to end September, the Highly Concentrated 10 stock portfolio returned 26% for the 12 month period while our new Long Short Fund has returned 19% in the 5 months since inception in May.

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