



Market Review

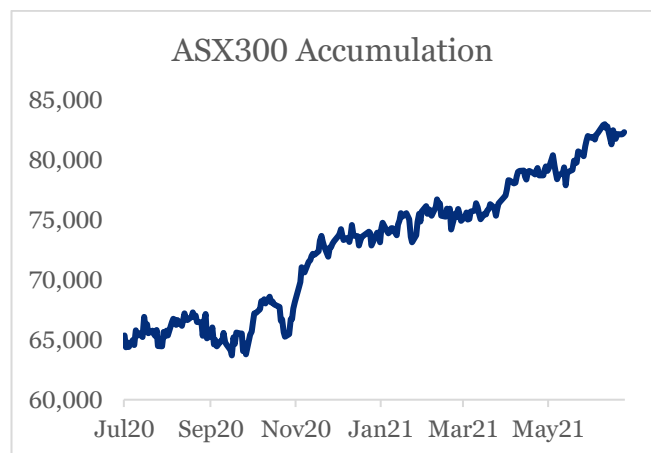
The rebound market surge has continued since the pandemic correction in March 2020. The ASX300 accumulation rose another 8.5% in the June quarter continuing an almost unbroken run of positive months in the 2021 fiscal year.

Every month this fiscal year has seen a positive month except September despite the risks surrounding interest rates, inflation, world trade, US elections and the pandemic. The ASX300 Accumulation Index has risen 28.4% in fiscal 2021.

Domestically, most sectors were firm in the quarter led by InfoTech, Discretionary and Communications with only Energy and Utilities falling. InfoTech gained 12% in the quarter with Altium leaping 38% after receiving a takeover bid. Afterpay rose 16%. The highly rated InfoTech defied any concerns of higher interest rates in this period. US 10 year bonds actually fell 16% to 1.47%.

Discretionary stocks led by ARB Corporation, Aristocrat and Dominos all rose more than 20% and continued to revel in the pandemic conditions.

Globally, the US S&P 500 rose 8.1%, with leadership provided by the IT stocks. The NASDAQ gained 9.5% while Japan fell 1.3%. The FTSE rose 4.8% while the Shanghai Composite added 4.3%.



Source: Iress

The local economy appears to have moved beyond the rebound stage now and exudes confidence. The **NAB Business Survey** (before the latest lock down) delivered exceptional optimism with a record overall confidence score including all sub-components. The results were similar across all states. Mining reports the strongest conditions with finance, business and property also strong. Services are booming. Employment is remarkably firm while capacity utilisation is also high suggesting further business investment will be needed. This strength does suggest inflationary pressures increase but this has not yet pushed into wage growth which would influence inflation. The RBA optimistically insists that rates will remain low until 2024!



Source: NAB

Corporate activity is rampant in this environment both in terms of new listings and corporate activity. There were six IPO's of material size in the quarter, the largest being Australian Clinical Labs with a \$411m raise (we did not bid) and Keypath Education at \$212m (we did participate).

Takeover action included Crown Casino, Boral, Altium, Vocus Group, Tabcorp, Galaxy Resources, Mainstream, Japara Healthcare, Affinity Healthcare and Milton Corporation.



Portfolio Review

In the June quarter two new IPO's were added to our portfolio. There was also a major transaction in our unlisted holding in Lendi which has added material value. Three stocks were sold.

Quest supported the IPO of **Keypath Education** (KED) which listed in June. Keypath partners with universities to deliver technology-enabled higher education, primarily for a post graduate cohort. Online Program Management (OPM) is a rapidly growing but under-penetrated sector of tertiary education with Covid adding further impetus. We rate KED a "B" under our process.

Keypath was founded in 2014 by current CEO Steve Fireng. Whilst a more recent entrant, the Keypath team have an established history of success in growing OPM partnerships. Keypath currently has 31 partners including 10 in Australia (such as University of NSW) and another 22 internationally. The CEO previously established a similar business that was bought by UK major Pearson Education for \$US650m in 2012.

Our research has shown universities generally lack the resources to deliver digital student recruitment. A pandemic environment requires proven models for online education including areas of health sciences where Keypath is a leading provider. Growth in Online Project Management is anticipated to continue as universities expand online education.

Quest portfolios have committed to the IPO of **29Metals** (29M) with the listing due in early July. The company has two active Australian copper mines with gold, zinc and silver bi-products. There is an exploration project in Chile. The feature mine is Golden Grove east of Geraldton in WA which has a long history of production under a range of operators.

This company is "C" rated under our process, like most miners. Mining companies are capital intensive businesses and subject to commodity price and currency fluctuations. Currently these risks are mitigated by firm commodity prices. At Quest, we are most enthusiastic about iron ore, lithium and copper. 29Metals extends our exposure to copper which benefits from the global decarbonisation process. Copper is essential for electrical transmission, electric vehicles, solar

panels and wind farms. We are also aware of the lack of copper exposures available in our market.

There were no material additions to existing positions in the quarter.

Our **Bingo Industries** (BIN) holding was sold in the market in May as we believe the takeover will conclude successfully and minimal upside remained. Bingo has been bid for by MIRA, a subsidiary of Macquarie Bank specialising in infrastructure. This was our third successful trade in Bingo.

Lendlease (LLC) has also left the portfolio. The lack of certainty in forecasting Lendlease earnings combined with a change in both CEO and CFO led to our target price downgrade. A good move too as Lendlease downgraded post our sale.

Kogan (KGN) was sold after failing to meet our expectations. This position was sold at a loss. The company over stocked as huge demand during the pandemic ceased abruptly in the March quarter leaving surplus stock on hand with associated holding costs.

Quest has held a position in unlisted mortgage lender **Lendi** since December 2017. This investment has been valued at cost in our portfolio until now. Lendi has recently completed a merger with **Aussie Home Loans** which has provided a very significant 40% uplift in value for existing Quest investors back in 2017. Lendi ordinary shares were purchased at \$71.47 but post the merger have traded at the new valuation of \$101.82. Many of our investors also own Convertible Notes which have now been converted to shares post the merger and gained 36% on valuation. We have elected to retain this investment in the larger merged group which is a disruptor in the national \$1.9 trillion Australian mortgage market. Lendi intends to progressively digitalise the mortgage origination industry and holds 13% of the large broker originated segment.

Lendi will provide their IT software to Aussie Home Loans brokers while utilising the cash flow from the larger Aussie business to invest in the digital business. Major mortgage lenders CBA, ANZ and Macquarie have demonstrated support by maintaining or increasing their shareholdings. The merger has however delayed the planned listing by approximately two years.

**Biggest Quest movers for the quarter**

Best		Worst	
Maas Group	+69%	Carbon Rev	-48%
Mineral Res	+41%	Salt Lake Potash	-21%
Lendi	+40%	Kazia	-18%
Orocobre	+36%	Lendlease	-11%
Marley Spoon	+26%	Credit Corp	-9%

Quest marginally outperformed the index for the quarter pre fees.

The largest contributor, **Maas Group** (MGH), has proven an excellent investment since IPO in late 2020. Strong demand and entrepreneurial acquisitions have created significant value. In contrast, **Carbon Revolution** (CBR) has fallen back as the global computer chip shortage impacted customer vehicle production. The company raised additional funds in May to expand production.

Performance Fees

A performance fee will be payable on the June quarter returns.

Market View

In terms of the broader portfolio, we retain our positive stance with no major changes to the portfolio in the quarter.

Vaccination and interest rates remain the key local market drivers. The vaccination program has been disappointing with the latest lockdowns spurring some urgency in the rollout. This refocus is late but supports our positive recovery view.

Interest rates are well off the nadir now and inflation is a popular topic amongst investors. After a prolonged period of very low rates, we expect continued hints of inflation and a steady or rising interest rate scenario from here. Quest portfolios have low exposure to highly priced growth tech names which are the most vulnerable to higher rates.

We remain positive on the outlook for banks, commodities, healthcare and certain small caps. Many of our small cap stocks continue to trade well below our valuation targets.

Quest portfolios have performed well in the quarter and over the full year.

On the following pages we have summarised each of our Funds (colour coded!) and respective performance by fund.

In summary:

The flagship **Concentrated** Portfolio rose 8.6% in the quarter and 32.8% annually post fees.

The **Ex 20** delivered 10.3% in the June quarter and 43.7% annually post fees.

The new **Long Short** unit trust returned 13.7% for the quarter and 45.6% post fees for the fiscal year. The Long Short was established in May 2020.

The **Highly Concentrated 10** stock fund returned 2.5% for the quarter and 20.1% post fees for the year.



Quest Ex20 SMA

The Quest Ex20 Fund was launched in January 2017. The Ex20 Fund is a Separately Managed Account (SMA) format like the flagship Quest Concentrated Fund. The Fund is available on the Mason Stevens and Xplorewealth investment platforms.

The top 20 stocks in the Australian market account for around 55% of the ASX300 index which includes the major banks, BHP, RIO, Woolworths etc. This leaves the Ex20 fund to invest in a vast range of interesting companies with arguably higher return potential. The Ex20 fund should be considered higher risk than our Quest Concentrated Portfolio which typically has around 40-50% invested in the top 20 stocks.

The portfolio is managed by Troy Cairns and Swapan Pandya leveraging the same Quest investment process as our other portfolios. The same rigour is applied to stock selection. It is a bottom-up driven process where our best ideas are assembled in a portfolio with strong regard for risk management. Around 50% of the stocks held in this portfolio overlap with the Quest Concentrated Portfolio. These are complemented with additional small cap investments.

This portfolio can hold up to 40 stocks. Generally, the portfolio will be invested in larger companies which have a more reliable or predictable outlook, with around a third of the portfolio held in small caps. It will also include investments not found in the index. Capital preservation is a priority. Portfolio risk is carefully controlled by focusing on the size of each individual investment. This is particularly the case for smaller, riskier companies. Whilst these may have high return potential it also harder to predict their earnings path.

The four-year track record has been strong. Returns have been excellent whilst risk, which can be calculated in various ways, has been well managed. One risk measure is the Information Ratio, which represents how well an investor is compensated for the risks taken in the portfolio. A measure over 0.6 is generally well regarded. The ratio for the Ex20 portfolio since inception currently measures 1.4%.

The portfolio has returned 19.6% p.a. post fees since inception which compares very favourably to the index at 10.3% p.a.

To 30 June 2021	3months	6months	1yr	2yrs (p.a)	3yrs (p.a)	Inception (p.a)
Quest Ex-20 Aust Equities*	+10.3%	+11.7%	+43.7%	+25.8%	+19.2%	+19.6%
ASX300 Acc. ex ASX20 index	+7.4%	+8.9%	+24.9%	+8.8%	+8.4%	+10.3%
Value added	+2.9%	+2.8%	+18.8%	+17.1%	+10.8%	+9.3%

* Returns shown are after fees

Past performance is no indicator of future performance.



Quest Long Short Unit Trust

The Quest Long Short Australian Equities Fund started in May 2020 as Quest's first unit trust. We hired Richard Dixon to set-up and manage the Fund given his successful two decades of long short experience. The Long Short Fund employs what is commonly referred to as a 130/30 or Active Extension strategy to achieve greater utilisation of the Quest investment process.

The Fund aims to outperform the S&P/ASX 200 Accumulation Index after fees over the medium to long term with an actively managed portfolio of long and short positions. Short selling (up to 30%) aims to enhance returns by selecting stocks that are expected to fall or underperform. Proceeds are then reinvested in favoured long positions to further enhance returns.

The Long Short Fund will typically hold most of the 30-35 stocks in the Quest Concentrated portfolio, as well as a selection of small caps owned in the Ex-20 fund. Short positions will be predominantly ASX200 stocks not owned in Quest long only portfolios. Short candidates will typically rate poorly on our measure of quality or value and may be affected by structural decline, increasing competition, flawed business models, weak financials or poor management.

The Fund may also hold up to 10% of total exposure in active trading positions to take advantage of tactical and event-driven opportunities. As a result of the short selling and active trading, turnover will be higher than other Quest funds. The Fund typically holds around 70 positions comprised of approximately 50 longs and 20 shorts. Risk management is a key focus with short selling limited to 30% in total and 3% in any one stock. Liquidity risks are closely monitored whilst stop loss limits and pair trades are also employed to manage or hedge portfolio risk.

Key research houses Lonsec and Zenith have both given the Long Short Fund a **Recommended** rating which is a great achievement for a relatively new Fund. The Fund is available on a range of investment platforms including Macquarie, BT, MLC, Netwealth, HUB24, Mason Stevens and Praemium. Equity Trustees is the Responsible Entity and Mainstream is Fund Administrator with a \$50,000 minimum investment. Applications can also be made directly using this link to the PDS: <https://questap.com.au/products-and-perf/long-short-australian-equities-fund/>.

Fund performance has been very strong with a **net return of 60% since inception**, well ahead of the benchmark return of 37%. Performance has been driven by a broad range of long and short positions across most sectors and market cap categories. Major positive stock contributors (>0.5%) have exceeded major negatives by a ratio of 3 to 1, an indication of good stock selection and risk management.

To 30 June 2021	3 months	6 months	1 year	Since inception
Quest Long Short Aust Equities Fund*	13.7%	18.6%	45.6%	60.0%
S&P/ASX 200 Accumulation Index	8.3%	12.9%	27.8%	36.8%
Value added	+5.4%	+5.7%	+17.8%	+23.2%

* Returns shown are after fees

Past performance is no indicator of future performance.



Quest Highly Concentrated 10 Stock SMA

The Quest Australian Equities Concentrated Portfolio is a Separately Managed Account (SMA) available on the Mason Stevens SMA platform. The portfolio owns a maximum of 10 stocks with initial weights of 10% in most cases.

The objective is to decisively outperform the market while paying no heed to market indices.

The Portfolio Manager is Chris Cahill who has always been interested in taking on an absolute return portfolio. Stock ideas are generated by the same Quest investment process as other portfolios.

Initially, the 10 Stock was run as a model for 20 months from June 2016 to February 2018 when active money was introduced. It is anticipated that this portfolio may close at only \$20 million.

This portfolio is not correlated to the market and may suit an experienced equities investor who is looking for a higher risk, more specialised and volatile portfolio. The stock time horizon is 18 months to 3 years, shorter than the 3-5 years of our flagship portfolio.

After 5 years, it is apparent that a 10 stock portfolio can massively out-perform for weeks or months but that the opposite is also true. Periods of high return are often followed by lower returns as the market shifts away from our chosen few stocks. The timing of sell decisions and rotation is more critical than in a conventional portfolio.

The portfolio may take large positions based on a particular theme. The portfolio is currently tilted to lithium producers being 33% of total fund value. The most successful position is iron ore and lithium producer Mineral Resources which has now tripled plus dividends since purchase 2.5 years ago.

Turnover varies historically given the larger position size but investors should expect to see 2 to 3 positions transact on average per quarter.

<u>To 30 June 2021</u>	3 months	6 months	1 year	2 years (p.a.)	3 years (p.a.)	Since inception (p.a.)
Quest Aust. Equities Highly Concentrated*	2.5%	-6.3%	20.1%	12.3%	4.8%	6.7%

* Returns shown are after fees

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