Market Review

Equity markets continue to rally as the post COVID economic recovery more than offsets worries relating to a steepening yield curve. The ASX 300 Accumulation Index followed on from December quarter's chunky rise of 13.8% with an additional 4.2% gain. In terms of global markets, the US S&P 500 rose 5.8%, with leadership shifting from growth sectors (Healthcare +1.3% & NASDAQ +2.8%) to value sectors such as Energy +29.6% and Financials +16%. The German market lead the way rising 9.4% while Japan lifted 6.3%. The FTSE rose 4%. The Shanghai Composite was down 0.9%.

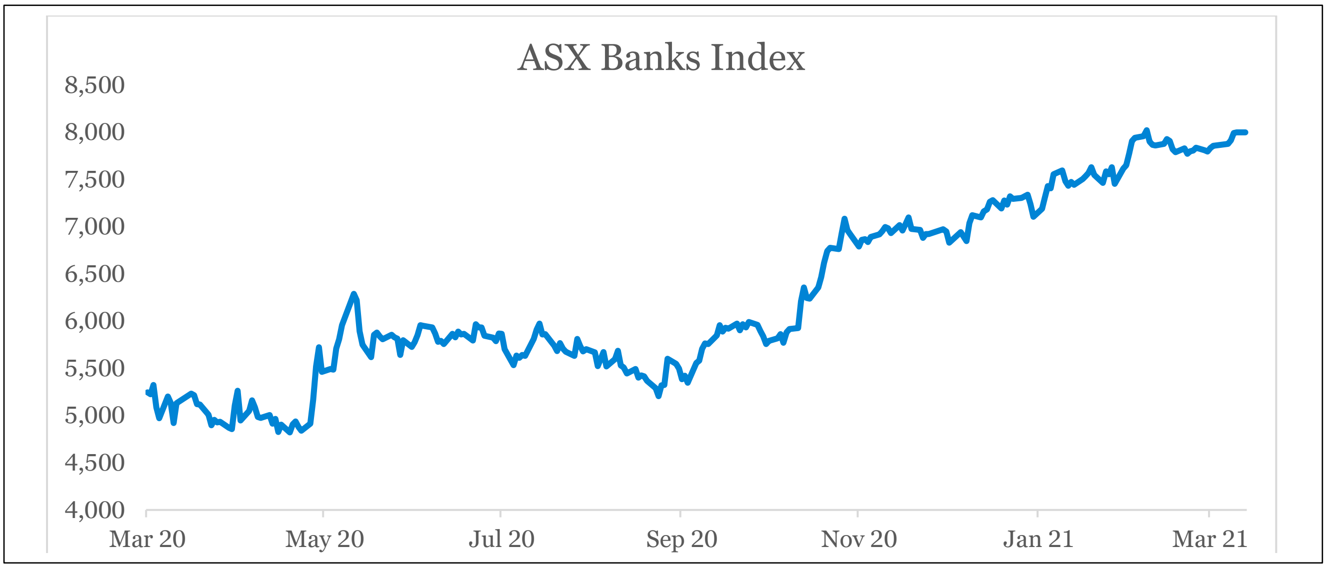
Domestically, the shift from growth to value was also evident, with the Banking sector +14.7%, in contrast to the Information Technology sector which tumbled 11.5%. The ASX Top 100 outperformed the ASX Small Companies Index for the first quarter since March 2020. The chart below shows the ongoing recovery of the banking sector which is nearly back to January 2020 levels.

Expectations of global recovery prompted a 31% lift in the Brent Oil price during the quarter but also prompted Australian and US 10-year bond yields to rise 0.7% and 0.8% respectively. The $A finally eased slightly to 76c after rising 45% from a low of 55c to the USD in the tumultuous month of March 2020.

The new US political leadership had an early win with the passing of the $US 1.9 trillion American Rescue Plan Act. The Biden team quickly proposed an additional $US 2 trillion for infrastructure and jobs. The scale of these actions has prompted significant positive revisions to US GDP expectations, with JPMorgan now forecasting US GDP to rise 6.2% in 2021. The second proposal is to invest about 1 percent of GDP per year over eight years, funded by higher corporate taxes.

Vaccine rollout rates have also been topical, with Israel, the UK & US leading the world. More than 60% of the Israeli population have had at least 1 vaccine dose. Australian is well behind, matching Bangladesh at 3.4 doses per 100 people. This rollout cannot come fast enough as a number of countries enter a third lockdown to stem the spread of COVID. More on this below.

February reporting season in Australia was one of the strongest in years. Revenue proved more resilient than expected and when coupled with tight cost control, including savings from less marketing and travel expenditure, total ASX 300 FY21 EPS lifted 7% across the month of February. The biggest positive surprises were Banks, where EPS rose 24% in the month, Mining and Covid beneficiaries such as homewares retailers. This trend was witnessed elsewhere as Global EPS rose more than 3% over the same period.



Source: Iress

In other news, the mooted bid for **AMP** -19% shifted into a partial acquisition of subsidiary AMP Capital. In a drawn-out deal that feels like it will never end, a breakup of AMP seems highly likely.

A shareholder in AMP from the float that was given shares as a result of owning AMP life policies should be aware (but probably is not) that the tax-based price of the float is $10.30 which means the upside of owning AMP is that there is a capital loss of $9 in every share. This is more than the share price! If you are one of these hapless shareholders get some advice; you may be able to offset other capital gains.

Bingo Industries (BIN) +24% received a $3.50 acquisition proposal from a consortium including CPEC and **Macquarie Group** (MQG) subsidiary MIRA. The Board have allowed due diligence to take place. Three months have now passed with no further updates.

Vocus (VOC) +35% also received a Scheme bid from MIRA, this time with Aware Super. Quest have built a holding in Bingo since the bid this quarter. Quest do not own AMP or Vocus.

Tabcorp (TAH) +20% received a number of unsolicited proposals for their Wagering and Media business. Blackstone bid for **Crown** (CWN) +22% and **REA** expanded their mortgage activities with a bid for **Mortgage Choice** (MOC) +34%.

There are still dozens of IPO's progressing toward float but at a slower pace than in 2020. Size and quality continue to be an issue. There seems to be a lot of "flip and move on" investor attitude towards some of these floats.

Iron ore held up over the quarter with a small 4% lift to US$165/T. Our portfolio owns **BHP**, **RIO** and **Mineral Resources** (MIN). The large profit margins from iron ore miners delivered good dividends in the mid-year results and this will occur again in August. BHP for instance reported a mined cost of US$12.46 per tonne in February leading to a 73% EBITDA iron ore margin.

The lithium price has finally recovered from the over-supply of the last two years with a doubling in the lithium price this quarter. While new supply is inevitable with higher prices, the auto makers, battery suppliers and lithium processors are now well advanced in plans for a swing over to electric vehicles.

European subsidies have led to a rush for EV's with a third of sales now EV. China has a target of 2035 on total conversion to EV. Joe Biden is talking about building half a million charging stations. Auto manufacturers are much further advanced in securing battery supply and releasing new designs. Battery mega factories are now a reality not a concept. Volkswagen has committed to an EV version of the full range by 2030. So, it is game on in EV land but Australian adoption will lag due to lack of incentives, longer distances and a lack of availability in vehicle ranges.

Orocobre (ORE) is our longest standing lithium related holding, producing lithium from brine in the mountains of Argentina. There is excellent leverage to price in this stock. **Mineral Resources** own the Wodgina hard rock lithium mine in Western Australia in partnership with Albemarle while **IGO Limited** (IGO) recently bought into the Greenbushes lithium mine also in Western Australia. Recent reports by lithium companies indicate strong upward price momentum.

This Quest Quarterly carries our new logo which was introduced in the January product monthlies. It is our second rebrand since 2004, the loyal but dated "Q" has gone and we hope readers like the new look!

Portfolio Commentary

The Quest portfolio lagged the market in the March quarter, delivering 3% pre fees. The primary reasons were weak returns from a few smaller stocks and not owning ANZ which was up a mighty 24% in the quarter. Our bank holdings do include CBA, NAB and now WBC.

Biggest movers for the quarter			
Best		**Worst**	
Airtasker	+62%	Niux	-37%
Kazia	+37%	Kogan	-36%
Vista	+31%	SSR Mining	-30%
Westpac	+26%	Carbon Rev	-23%
Maas Group	+19%	Magellan	-14%

Kazia Therapeutic (KZA) delivered a 37% return this quarter. Kazia has risen 300% over the last 12 months to $1.59 per share at the end of March. Kazia was added to the portfolio in April 2020 at $0.40 as the company raised capital to progress clinical trials of Paxalisib to treat glioblastoma (GBM), the aggressive and most common form of brain cancer. Recent data continues to suggest Paxalisib is more effective in extending life than the current standard of care. As a result, US brain cancer oncologists have entered Paxalisib in their own major, multi centre, multi country trial alongside other potential GBM treatments. This Phase III FDA registration trial is attracting attention given the lack of trial success in GBM treatments in the past. Kazia has recently signed a distribution licence for China that could be worth more than $376m. The current market capitalisation is only $200m.

Biotech investment is an area Quest approaches with trepidation. The likelihood of success is low however with proof of concept in humans, considerable research to understand the science as well as reviewing alternative treatments in development, can improve the odds for investors. Clients may recall the success we had funding Viralytics' medical research spend, also in the vast oncology area, with Merck eventually bidding for Viralytics at a significant premium.

There was an addition to the portfolio during the quarter with the IPO of **Airtasker** (ART). We have followed this business for years and made a small investment in the well sought IPO. Airtasker describes themselves as a community platform, connecting people to tasks. Airtasker started in Sydney in 2011 and has grown into a viable offering across Australia, with beachheads in the UK, New Zealand and Singapore. We see the value of the platform is in its considerable accumulation of distinctive jobs, such as finding someone to recover a drone from a tree. A Quest Director away on holidays in January used an Airtasker to relocate a chicken coup!

There are already a number of established providers in more mainstream jobs such as **Seek** (SEK) & **hipages** (HPG). The hipages IPO has not been a successful float, trading down 11% relative to the IPO price in November 2020. We chose not to participate in the hipages IPO.

The Airtasker holding was sold shortly after listing at a significant gain of 49%. The scale of the Airtasker gain surprised our team as the company was not floated cheaply and the valuation restrained our interest in the IPO. Airtasker is currently valued at twice the hipages market capitalisation despite having less than half the revenue. We are concerned that we are witnessing some irrational investor behaviours, reminiscent of the **GamesStop Corp** volatility in the US that spooked the Nasdaq in February.

Aurelia Metals (AMI) has also moved into the portfolio after a dilutive raising to buy the Dargues gold mine near Canberra. This lifted the total exposure to gold and provided diversity to the two existing polymetallic mines, Hera and Peak, which are near Cobar in NSW. The production profile looks good in 2021 with upside from exploration. The Federation discovery looks particularly prospective near Cobar. Aurelia produce gold, copper, zinc and silver but has missed the price action of larger stocks over the last year.

The biggest movers in our Quest portfolio for the quarter were **Kazia Therapeutics** (KZA)+37%, **Vista Group** (VGL) +28%, **Westpac** (WBC)+13% (added to the portfolio this quarter), **MAAS Group** (MGH) up 22%, **National Bank** (NAB) +15% and **Corporate Travel** (CTD) up 12%. The banking sector was very firm lifting 11.3% this quarter.

Kogan (KGN) fell 36% with concerns over stock levels after massive lifts in volumes last year. We expect this stock will clear in the next few weeks. **SSR Mining** (formerly Alacer Gold, SSR) eased 29% in line with most gold stocks while **Carbon Revolution** (CBR) fell 22% on lack of news rather than bad news.

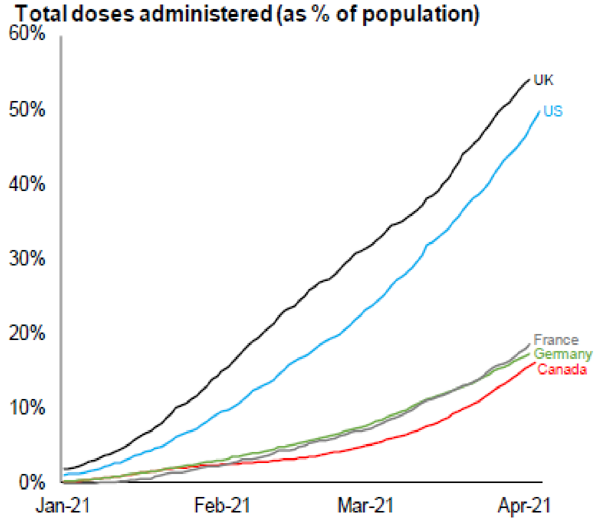
After considerable work on newly listed **Nuix** (NXL), we decided to exit the holding for a small gain. Nuix fell back heavily in late February when they provided their first set of results post IPO. Most prior gains were lost. Despite reaffirming guidance for the full year, the results were below our expectations. The lack of revenue growth in a rapidly expanding sector and the reliance on achieving sales in the fourth quarter of FY21 brought us to the conclusion that the risk reward balance had changed.

We took some profits in **Credit Corp** (CCP) and **Macquarie** (MQG). Credit Corp has performed strongly after acquiring the debt ledger assets of distressed competitor Collection House. This has provided a near term boost to earnings as well as improved the competitive environment in Australia.

The holding in **Sydney Airport** (SYD) has been increased to lift exposure to reopening beneficiaries. The banks, **Credit Corp, Corporate Travel** (CTD) and **Vista Group** (VGL) are all beneficiaries of reopening activity. **Goodman Group** (GMG) was the main funding source at attractive prices as we reduced exposure to bond sensitive holdings.

After 30 years of falling bond yields, the nadir may have already been seen in August 2020. Inflation is expected to rebound in 2021, primarily from oil prices up more than 200% from the March 2020 lows. This rebound may prove temporary as capacity excesses will still remain to limit price movement. Having said that, pockets of inflation are emerging. The 0.45% lift in movement in the US 10-year bond rate in February was the 15th largest monthly movement in the last 30 years (360 observations). We highlighted this risk in the previous quarter. So far, the market has shrugged off this steepening due to the offsetting positive revisions to global growth. This accords with our view on the likely path of markets as stated in the Quest December quarterly, '... we remain positive for 2021. We expect an accelerating economy driven by pent up demand.'

A significant positive is the rapid deployment of COVID vaccines in major economies. Vaccination rates in the US are now running at 4m doses per day. As a result, 75% of their population should be fully vaccinated by June. With doses initially focused on the most vulnerable, COVID hospitalisations in the US are well below the January peak levels. As a result, US mobility measures are recovering strongly. For instance, restaurant seating is back up to 80% of pre COVID numbers and daily aircraft movements have lifted to 75%. Europe is currently well behind although dose administration is now accelerating. The following chart details the dose rollout in various countries:



Source: Macrobond, Macquarie Macro Strategy

Fees

A performance fee was paid during the quarter for the strong previous quarter's returns. There are no performance fees due for this March quarter other than those accounts who invested post September 2020.