



Market Review

Global markets were positive in July and August but saw a sentiment shift in September after a prolonged run. The S&P/ASX300 accumulation rose 1.8% in a quarter that included reporting season and large dividends from **BHP**, **RIO**, **Fortescue Metals** and **Commonwealth Bank** totaling an impressive \$20.8 billion.

The local market had one of the stronger global 12 month returns, rising 30.9%.

After a torrid 2020, global GDP has materially rebounded with growth of 6% expected for CY2021. Despite the post pandemic rebound, a number of drivers have contributed to a softer September including i) higher bond yields as the US Fed looks to reduce stimulus, ii) concern over the US debt ceiling, iii) anxiety about China's **Evergrande** property collapse and iv) the impact of shortages in markets such as energy affecting Europe, the UK, India and China.

Energy was the strongest sector in the quarter with a 7.6% return. Brent oil rose 4.5%. A \$35bn scrip bid for **Afterpay** (APT) by US financial disruptor **Square** (SQ) lifted the Information Technology sector 4.4%. Square will list in Australia if the bid succeeds. Materials was the weakest sector down 3.3% as iron ore fell from \$220/t to \$115/t with concern over the property outlook in China. This weakness together with potentially higher US rates dragged the \$A down 3.6%.

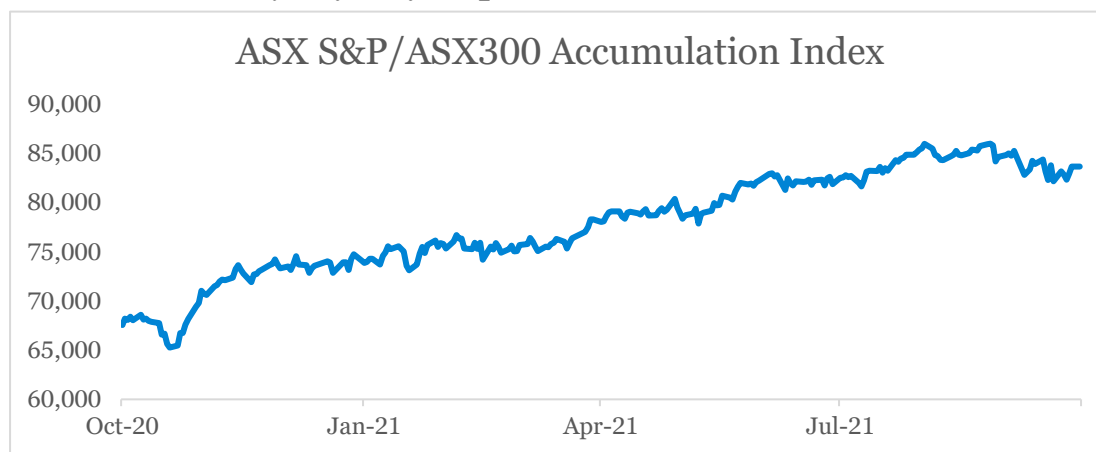
Corporate activity is rife and the pipeline of new IPO's is lengthening as the bankers look for fees before the Christmas holidays. **Sydney Airport**

(SYD) is under bid from a consortium of infrastructure investors led by IFM and subsequently agreed to allow due diligence on the 3rd bid of \$8.75 per share. Similarly, electrical distributor **AusNet Services** (AST) received competing bids from Brookfield Asset Management and pipeline operator APA. **Transurban** (TCL) announced a rights issue to fund their consortium's purchase of the remaining 49% of inner Sydney tunnel network Westconnex from the NSW Government. Wesfarmers (WES) bid for pharmaceutical distributor Australian Pharmaceuticals (API).

A "confidential, unsolicited, non-binding and indicative proposal" by global investor EQT Fund Management to acquire local data services leader **Iress** was withdrawn, sending the share price down 27%.

Upcoming IPO's that the Quest team will be looking at include steel distributor Vulcan Industries, hotel software provider SiteMinder, embryonic business lender Judo Bank and infrastructure manager Ventia. There will be many more in the run up to Christmas.

An interesting development this year is the rush by companies to appear clean and green as social license expectations become more demanding. A conference earlier in the year with dozens of attendee companies indicated widespread adoption of standards on a range of issues including emissions, equality, diversity, recycling and work-place safety. While some presentations suggested there was work still to do, many businesses are well down the track in broadening their definition of stakeholder value creation.



Source: Iress



Portfolio Review

The portfolio performed well in the September quarter, with the major contributors listed in the table below.

There are several new stocks in the portfolio at the end of this quarter.

Quest invested in the IPO of **29Metals** (29M) which listed in July. Initially trading below par, the stock has consolidated a 15% gain. The company has two active Australian copper mines with polymetallic biproduct and an exploration project in Chile. The main copper producer is Golden Grove in Western Australia with the Capricorn Copper mine located in north west Queensland. The float price was \$2.00; the last trade in September was at \$2.29.

An increase in our exposure to copper fits our strategy of investing in metals that will assist in the global decarbonisation process ie lithium, nickel, cobalt and copper. Apparently, these are now “green minerals” or “future facing commodities”.

Largest Quest moves for the quarter

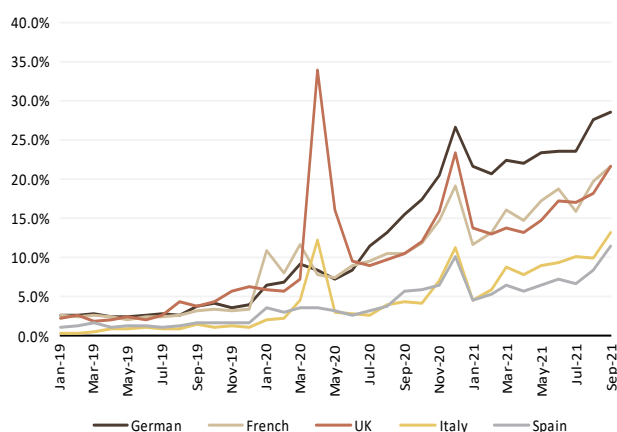
Best		Worst	
Sydney Airport	+42%	Marley Spoon	-53%
Core Lithium	+24%	BHP	-17%
Orocobre	+23%	RIO	-17%
Kazia Therapeutics	+19%	Mineral Resources	-13%
IGO Limited	+18%	Fortescue Metals	-12%

In September we participated in a raising for prospective Northern Territory miner **Core Lithium** (CXO) to fund project development only 28km from the Darwin port. The spodumene project benefits from the proximity of basic services thus reducing project cost. The process of extracting lithium bearing spodumene from host rock is relatively simple as gravity separation is

intended rather than flotation. Demand from battery producers for lithium is expected to increase 8-fold by 2030. This allows viable producers such as Core Lithium to attract offtake and funding agreements from major players. Core has two offtake agreements including Chinese based Ganfeng. Ganfeng has invested \$1 billion in lithium projects and offtakes around the world including the **Pilbara Minerals** (PLS) Pilgangoora mine and **Mineral Resources** (MIN) Mt Marion mine, both in Western Australia.

Quest continues to hold three other lithium producers being **Orocobre Limited (ORE)**, Mineral Resources and **IGO Limited**. Orocobre has finalised the merger with **Galaxy Resources** (GXY) and now trades as a combined vehicle retaining the ORE code for now.

Lithium prices have more than doubled in the last year and we see the supply demand dynamic remaining favorable for some years yet. The graph below shows the monthly boom in EV penetration in Europe.



During the quarter we sold our **RIO** holding and switched to **Fortescue Metals** (FMG) after collecting the recent RIO dividend. Fortescue provides more leverage to the iron ore price without the exposure to Mongolian copper issues and the recently announced Serbian lithium project. The Fortescue Directors actually live in Australia which is important at a time when social license is increasingly prominent. We are also interested in the inspired commitment to emission reduction that has resulted in 10% of NPAT being directed to the Fortescue Future Industries project that is investing in hydrogen



research as an alternative power source for trucking fleets. This shift of net profit into alternate fuels research has not been met with approval from investors. Fortescue is currently below our entry price.

The **Westpac** (WBC) holding has been sold and switched into **Bank of Queensland** (BOQ). We see more valuation upside in BOQ. New leadership at BOQ is driving a number of changes. The new CEO is experienced banking executive George Frazis. The company has acquired ME Bank to build scale benefits, is undertaking core banking IT upgrades, agreed simpler benefits sharing arrangements with their local branch 'Owner Managers' and restructured approval processes to boost their share of the Australian mortgage market. Against a backdrop of firm house prices, these changes are already showing some momentum.

Quest has bought back into **Insurance Australia Group** (IAG). The share price had been falling for two years since buffeted by declining margins, increased catastrophe events and finally a pandemic. We are of the view that a lot of bad news has now been priced. IAG is carrying a pandemic business disruption provision of over \$1 billion. This looks overly conservative. Our entry price was \$4.91 with IAG now trading at \$5.30.

We also added **Transurban** (TCL) to the portfolio. Transurban has tracked sideways for 18 months despite a strong market with both traffic disruption and concerns that a major fund raising was imminent to acquire the balance of the Westconnex project from the NSW Government. This transaction and associated capital raising have now occurred. Transurban is a post Covid reopener as traffic builds while tolls benefit from annual adjustment often above CPI. Transurban is the dominant player in the Sydney roads system which will shortly return to life.

Magellan Financial (MFG) has been sold due to performance concerns. The business has grown quickly with a superior marketing campaign that has swept up investors and advisers. FUM breached \$100 billion and unfortunately performance has struggled. Magellan went defensive post the pandemic last year. It was the wrong call. There are signs of investor restlessness

with outflows now being reported. Magellan have also strayed into an unexpected investment in a new stock broking firm together with a share in a Mexican take away food restaurant. The share price has fallen over 30% since we sold the stock. We think it will be tough to turn around a \$100 billion global share portfolio.

NZ based **Aroa Biosurgery** (ARX) was added to the portfolio via a recent placement. Aroa has suite of biologic products targeting complex wounds and soft tissue reconstruction. It is well-established in the US, having sold products there since. The funds raised allows Aroa to accelerate their US expansion plans. A recent update showed that sales continue to grow strongly, benefiting from the improved hospital environment in the US.

Quest participated in a capital raising by **Steadfast** (SDF) in September. The company raised \$200m of new capital to acquire Coverforce for \$411m. Coverforce is a private insurance broker focused on the SME sector. The issue was at \$4.51 ex dividend. Steadfast benefits from escalating insurance premiums and improved domestic economic activity. Steadfast continues to acquire interests in their extensive broker network which we believe will support returns into the future. Steadfast are currently trading at \$4.85.

Performance Fees

A performance fee was paid in the September quarter based on June quarter returns. Some clients will incur a small performance fee for this quarter depending on client cashflows and high water marks.



Outlook

We retain our positive view on markets despite pressures that have emerged in recent weeks. We acknowledge that some sectors of the market appear expensive and that a correction would be healthy.

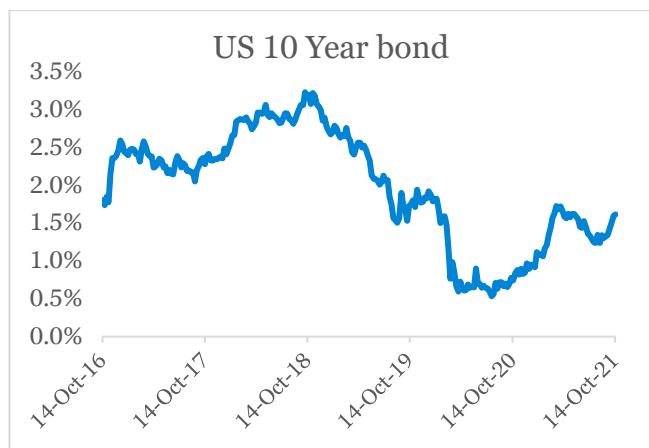
A correction is possible given

- i) higher bond yields as the US Fed looks to reduce stimulus,
- ii) concern over the US debt ceiling,
- iii) the Evergrande property collapse in China leaving US\$300 billion in debt,
- iv) the impact of supply shortages particularly in energy.

While we may see some volatile days, we do not believe it is cause for concern. A decent correction requires a drawdown of 5% to 8%. Corrections quell market hubris, highlight the chase the pace style of analysts, provide a life lesson for new investors and present new opportunities. We saw this in March 2020. Market corrections are healthy.

Vaccines have turned the tables dramatically in favour of mankind and a recovery behavioral stampede is likely. We own recovery situations such as travel business **Corporate Travel**, **Sydney Airport**, **Commonwealth Bank**, **National Bank**, **Bank of Queensland** and **Transurban**.

We believe that tech stocks are generally expensive. We do hold small caps **Catapult** and **AI Media** in this sector but neither have so far enjoyed the exuberance of the tech leaders.



Source: Iress

Healthcare names in our portfolio including **CSL** and **Ramsay** have been disrupted by the pandemic and will benefit from normalisation. A lot of spare time has led to a surge in gambling particularly on-line and this technology is entrenched. Quest have done very well in gaming business **Aristocrat Leisure**. Despite the string of monthly market gains this year, a few of our small stocks remain below our valuations. These include **Catapult**, **Carbon Revolution**, **Marley Spoon** and **AI-Media**.

We believe the iron ore stocks **BHP**, **Fortescue** and **RIO** are over sold. Iron ore prices collapsed as the Chinese Evergrande issue worried the market. We have banked the considerable franked dividends knowing that volatility was likely. While we do not see a return to iron ore above US\$200, a medium-term price above US\$120 is anticipated. This level would deliver strong cash margins for the major producers.

We maintain our view that our lithium holdings **Mineral Resources**, **Orocobre** and **IGO** will deliver over the coming years. We reiterate the enormity of the Electric Vehicle revolution and the unstoppable commitment to net zero emissions. The outlook for all battery componentry, particularly lithium, is very strong.

The existing and planned global battery mega factory construction out to 2030 now exceeds 200 facilities existing or planned. Plants can take 3 to 5 years to build. Mines can take 5-10 years from discovery to production. It is likely that feedstock supply lags demand in this rampant factory roll out. Some large auto makers are negotiating their own feedstock from miners rather than rely on traditional battery manufacturers. It is possible that shortages are so great by mid-decade that global EV adoption becomes curtailed. The recent chip shortage is ongoing and has resulted in auto production lines being temporarily shut down.

In conclusion, market uncertainty can turn sentiment quickly. We see the early signs that a 5-8% correction is possible. Regardless of the cause, the market needs to periodically correct to flush out hubris. Accordingly, we retain our positive market view through to the New Year despite volatility being likely in the coming weeks.



Summary of Funds

Quest Concentrated SMA

The Concentrated SMA is the subject of this report and carries a maximum of 35 stocks in a best ideas portfolio. Stock selection is bottom up involving dozens of company contacts feeding our proven Quest Investment Process. Our team revels in understanding each company, rating the attributes of that company in Stage 1 of the process and valuing the business in Stage 2. Stage 3 is portfolio construction. During our first years we invested heavily in our rating and valuation ability but in our second decade, the emphasis has been on risk, correlations and understanding the portfolio dynamics. This stage is about construction and risk assessment.

The positioning of this flagship Quest fund is discussed in this quarterly.

Performance							
To 30 September 2021	3 months	1 year	3yrs (pa)	5yrs (pa)	10 yrs (pa)	15yrs (pa)	Since inception (pa)
Quest Aust Equities Concentrated*	3.6%	33.4%	15.2%	15.0%	14.8%	10.9%	12.5%
ASX300 Accumulation index	1.8%	30.9%	9.9%	10.5%	10.8%	6.8%	8.0%
Value added	+1.8%	+2.5%	+5.3%	+4.5%	+4.0%	+4.1%	+4.5%

* Returns are pre fees based on our JBWere platform portfolios. Past performance is no indicator of future performance.

Quest Ex20 SMA

The Quest Ex20 Fund launched in January 2017 and has performed strongly. The Ex20 Fund is currently available via a Separately Managed Account (SMA) format like the flagship Quest Concentrated Fund. Around 50% of the stocks currently held overlap with the Quest Concentrated Portfolio. It has strong exposure to stocks likely to benefit from decarbonization, the so-called “future facing commodities” as well as the under-valued small caps mentioned earlier.

The Ex20 fund has seen good returns from companies that will enjoy improved fortunes as the Australian economy reopens, post COVID. Around 50% of the portfolio is exposed to this theme, including travel stocks, domestic consumer goods and services businesses and healthcare. In an environment of rising bond yields the portfolio has only minor exposure to “bond proxies” such as property and utilities. Similarly, holdings in “COVID beneficiaries” and tech names have been carefully selected. The portfolio is skewed to companies that rate well under the Quest quality filtering process and we believe valuation upside remains, despite the good returns over recent months.

During October, Quest is launching the Ex20 as a Unit Trust which is available directly from Equity Trustees as Responsible Entity. The trust will have the same portfolio as the Ex20 SMA already on offer.

Performance						
To 30 September 2021	3 months	6 months	1yr	2yrs (pa)	3yrs (pa)	Inception (pa)
Quest Ex-20 Aust Equities*	+5.9%	+16.2%	+29.5%	+26.3%	+20.9%	+19.8%
ASX300 Acc. ex ASX20 index	+4.8%	+12.6%	+27.9%	+8.9%	+9.6%	+10.9%
Value added	+1.1%	+3.6%	+1.6%	+17.4%	+11.3%	+8.9%

* Returns shown are after fees. Past performance is no indicator of future performance. These are Preliminary unaudited returns.



Quest Long Short Unit Trust

The Quest Long Short Australian Equities Fund started in May 2020 and is managed by Richard Dixon. The Long Short Fund is a unit trust that employs a 130/30 or Active Extension strategy to achieve greater utilisation of the Quest investment process.

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. Shorts will typically rate poorly on our measure of quality or value and may be affected by structural decline, increasing competition or poor management. The Fund typically holds around 70 positions comprised of approximately 50 longs and 20 shorts.

Lonsec and Zenith have both given the Long Short Fund a **Recommended** rating. The Fund is available on numerous investment platforms. Applications for a minimum \$50,000 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 strong with a **net return of 68.8% since inception**, well ahead of the benchmark return of 39.2%. The Fund more than tripled the index during the September quarter with a net return of 5.5% driven by a range of long and short positions. We remain invested in most of the recent long contributors including Orocobre, IGO, Steadfast, Ramsay, Corporate Travel, Santos, Maas Group and Atomos, whilst a few shorts including AGL were bought back after large share price falls.

Performance				
To 30 September 2021	3 months	6 months	1 year	Since inception
Quest Long Short Aust Equities Fund*	5.5%	19.9%	41.5%	68.8%
S&P/ASX 200 Accumulation Index	1.7%	10.1%	30.5%	39.2%
Value added	+3.8%	+9.8%	+11.0%	+29.6%

* 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 platform. The portfolio owns a maximum of 10 stocks with initial weights of 10% in most cases.

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

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.

The portfolio may take large positions based on a particular theme. The portfolio is currently tilted to lithium producers being 37% of total fund value. The most successful position is iron ore and lithium producer Mineral Resources which has now tripled plus dividends since purchase nearly 3 years ago. This SMA is uncorrelated with market indices and therefore benchmarks are not quoted.

Performance						
To 30 September 2021	3 months	6 months	1 year	2 year (pa)	3 year (pa)	Since inception (pa) (Feb 2018)
Quest Aust Equities Highly Concentrated *	7.4%	10.2%	7.0%	17.8%	7.8%	8.3%

* Returns shown are after fees. Past performance is no indicator of future performance.