



Invest with Experience

Quest Australian
Equities
Concentrated
Portfolio

QUARTERLY REPORT
MARCH 2022



Australian Equities Concentrated Portfolio

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Portfolio Movement

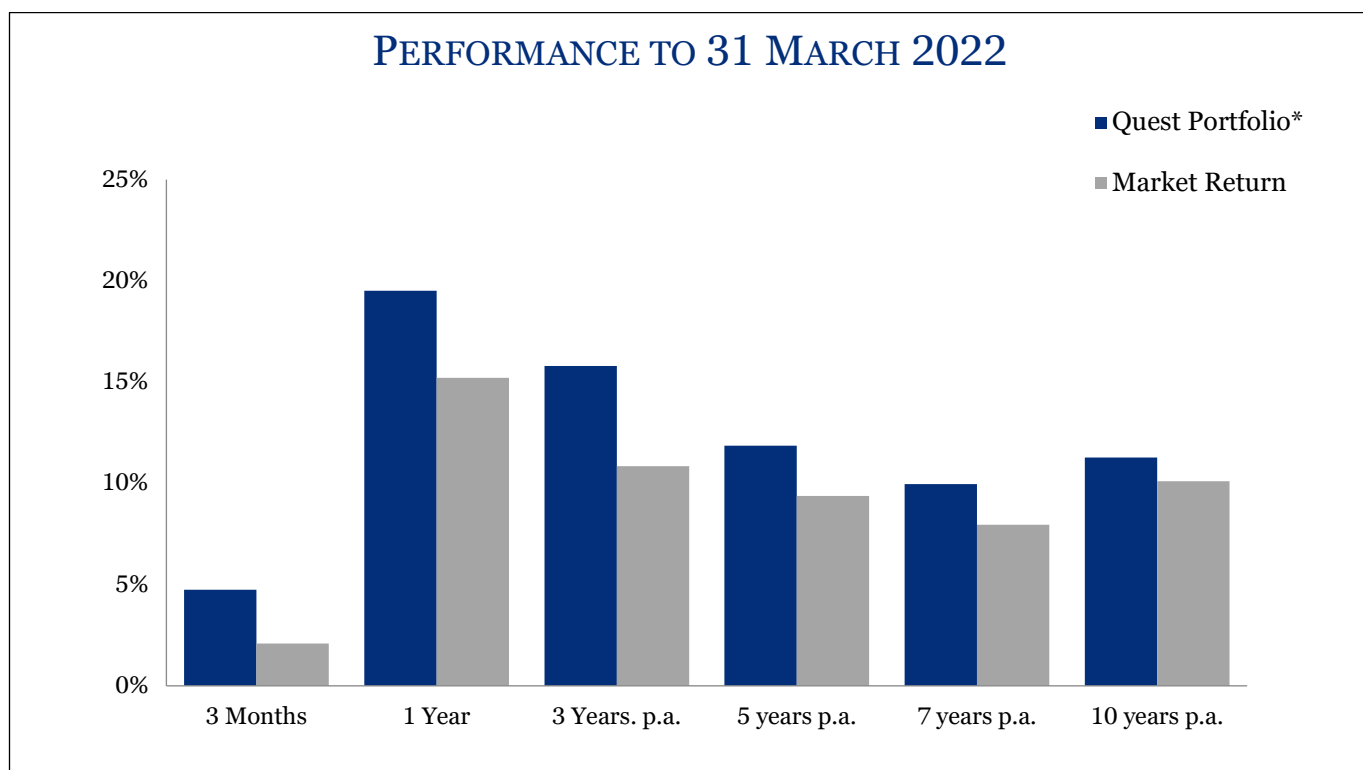
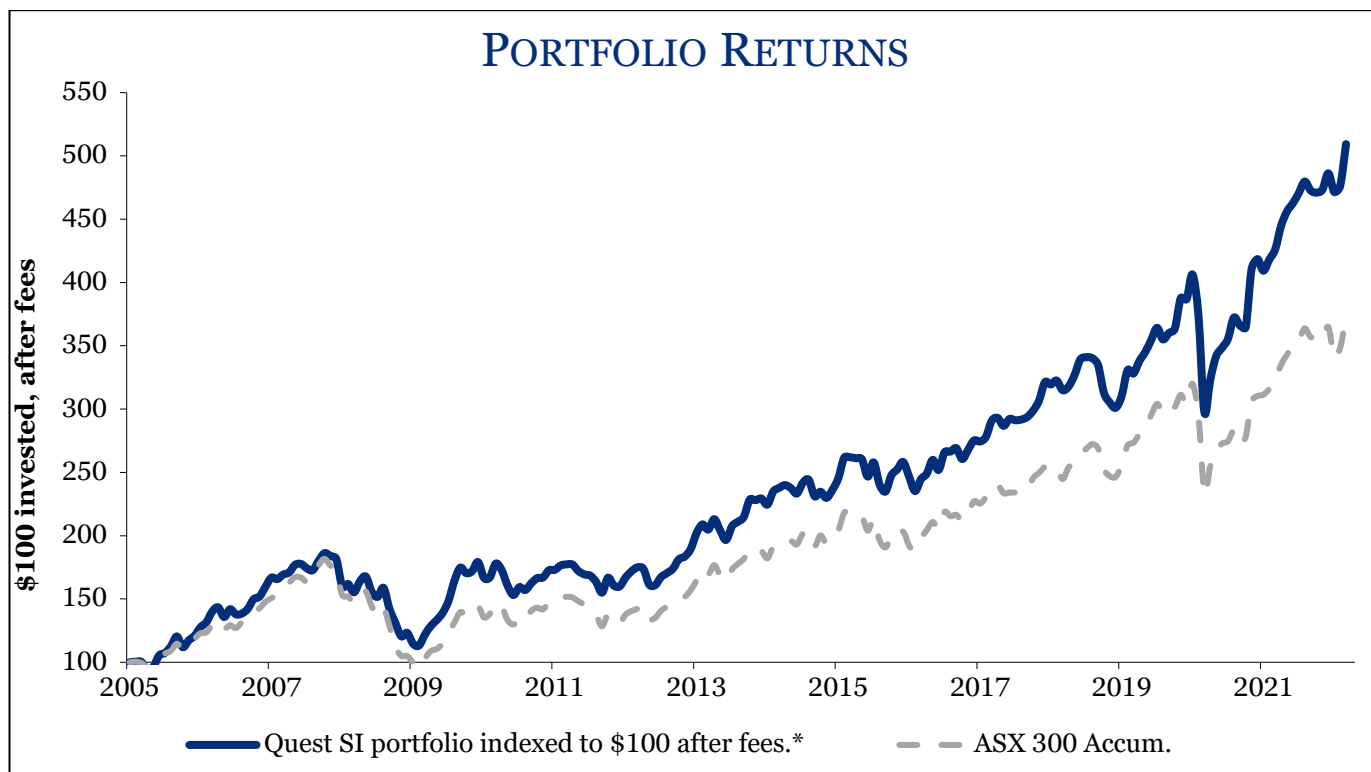
Previous market value 31 Dec 2021	
Contributions during Quarter	
Portfolio movement*	
Market Value 31 March 2022	

Your portfolio performance for the quarter*	4.86%
Market return (S&P / ASX 300 Accumulation Index)	2.08%
Your portfolio performance for the 12 months*	19.66%
Market return (S&P / ASX 300 Accumulation Index)	15.21%

* Includes fees for the period.



Portfolio Returns



* The portfolio returns shown above are for an actual client portfolio on the JBWere Multi Asset Platform. They demonstrate the returns achieved if invested in the Quest portfolio since inception (February 2005). Individual returns will differ for investors that made an initial investment after this inception date or where additional investments, redemptions or any SPP investments have been made. Quest returns are net of fees. Past performance is not a reliable indicator of future performance.



Market Review

The Australian equity market was the strongest of major markets despite escalating US and European inflation data and the invasion of Ukraine rattling investors. Australian and US 10 bond yields climbed quickly to 2.8% and 2.3% respectively. The chart below details that rapid escalation in yields. The US 10 year bond was 1.5% last September and only 0.7% 18 months ago. Escalating funding costs and the conflict spooked many equity markets with the German DAX falling more than 9%, the Shanghai Composite falling 11% and the Nasdaq 9%.

A market effect of the conflict was that Australia became a haven for global investors seeking a safe harbour. Commodity prices have been firm but the war created further supply constraints. Russia is the world's largest wheat exporter and a major supplier of energy into Europe. Sanctions are anticipated to have a lasting impact. The Australian dollar looked cheap as a resource-based currency in a stable country far from the drama in Europe. Investors poured in, buying both the currency and equities.

The Aussie dollar rose 3% in February and another 3% in March to close at US\$0.748. Lithium continues to surge with various products up 80% or more. Nickel spiked 61%. Already sky high European gas prices rose a further 51%. Oil, iron ore and wheat all rose more than 30%.

Despite a significant headwind from rising Australian bond yields, the S&P/ASX300 Accumulation Index gained 2.1% for the quarter. Energy +25%, Utilities +13% and Materials +12% were the leading sectors, continuing the recent pattern. High PE sectors of Info Tech -14% and Healthcare -11% were the least popular.

Central Banks are belatedly changing course. Focus is shifting from supporting growth to controlling inflation. Global inflation is expected

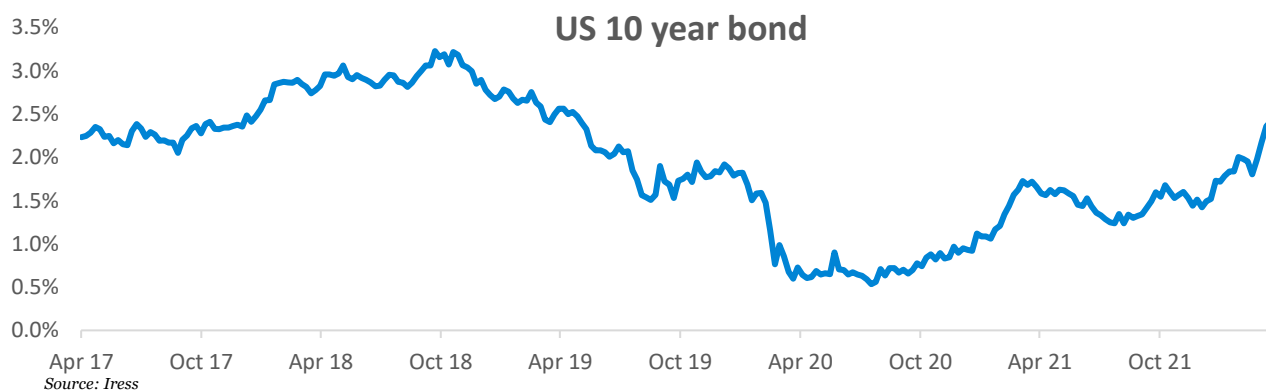
by JPMorgan to reach 6.5% in 1H22, with the US already above 8%. A number of Central Banks have already started lifting rates.

RBNZ is well into this rotation, having moved their cash rates three times since October 6th. Auckland house prices are easing and will provide a test case for Australia's east coast. Locally, RBA rhetoric is gradually changing course but rates are still 'highly accommodative'. In recent days **Macquarie Bank** (MQG) has become the first local bank to materially lift term deposit rates, reversing a trend in place since late 2009.

Reporting season in February confirmed a strong local economy. ASX 200 revenues rose 9% and margins were mostly better than expected.

In corporate news, Hochtief announced a \$22 cash bid for the minority shareholders in **CIMIC** (CIM), Fibre infrastructure provider **Uniti Group** (UWL) received multiple bids with most recent at \$5 from a Morrison-Brookfield consortium and bidders for **Virtus Health** (VRT) continue to emerge with latest bid being \$8.13. Quest holding **IGO Limited** is negotiating a merger with **Western Areas** (WSA).

Revelations from inquiries into casinos operated by **Crown** (CWN) and **Star Entertainment** (SGR) have continued to disappoint stakeholders and the regulators. SGR fell 12% during the quarter as the independent review commissioned by the NSW gaming regulator began in March. Damning evidence of potential money laundering breaches led Matt Bekier to resign as Managing Director and CEO.





Portfolio Review

The Quest portfolio provided a return well above the index for the March quarter despite the New Year providing a few surprises. The model portfolio delivered 4.8% pre fees.

We started the quarter with an excellent January after altering the portfolio stance in the second half of 2021. We had lowered our bank position, realised the gains from **James Hardie** (JHX), sold most property holdings and cut tech exposure. Markets had rebounded strongly from the March 2020 Covid low and optimism was abundant, most notably in tech valuations. To us the future looked more turbulent. Markets appeared to be ignoring the impact of Central Banks changing course.

Returns from long standing Quest holdings in lithium producers was again exceptional. Leading the way was Core Lithium (CXO) which added almost 1% to the portfolio return. The holding in Core Lithium was sold after more than doubling in a matter of weeks. We sold too early in hindsight!

IGO Limited rose 23% and **Allkem** (AKE) rose a further 10%. Lithium prices for spodumene, lithium chloride and lithium hydroxide climbed to record highs as battery producers fought for supply. The chart on the following page details the success of Quest's first Lithium investment in 2014 in **Allkem** (previously **Orocobre**).

BHP rebounded strongly as S&P adjusted the local weighting post DLC and iron ore prices rallied. **Santos** benefited from tighter energy markets and is well positioned for Europe's switch from Russian gas reliance. The recent investment in underpriced IPO **Ventia** proved timely with a further 23% price rise this quarter. **Macquarie Bank**, with a large energy markets business, rose 12% while **Catapult** (CAT) rebounded 12%.

The March quarter therefore delivered an unexpected event but the portfolio result was satisfactory.

Largest March Qtr portfolio moves

Best		Worst	
Core Lithium	+133%	Carbon Revolution	-36%
Stanmore Coal	+57%	Siteminder	-33%
BHP	+30%	AI-Media	-25%
Santos	+25%	Aroa Biosurgery	-24%
Ventia	+24%	Kazia	-18%
IGO	+23%		

Last quarter we wrote about adding Santos to the portfolio. Sanctions on Russia have highlighted the need for energy security as we transition to low emissions energy. Two new holdings were added in the quarter that both benefit from this theme:

Boss Energy (BOE) is one of three licensed uranium exporters in Australia. Boss owns the Honeymoon mine in South Australia and raised \$120m in March to finance the restart of the mine. We paid \$2.15 per share in the March placement.

We expect plant restart to take 14 months. The other two producers are also in South Australia; BHP and the privately owned Beverley Mine. Australia has the largest reserves of uranium and is the 2nd largest producer but well behind Kazakhstan. Boss fits our strategy of investing in future facing energy sources. Current share price is \$2.50.

Stanmore Resources (SMR) has been around since 2009 as a small coal miner but the recent acquisition of BHP metallurgical mines after raising \$694m has made it a lot larger. We participated in this raising in March 2022 at \$1.10 per share.

Stanmore will now operate the open cut South Walker Creek and Poitrel mines in Queensland. They are quality met coal mines providing strong cash flow. Should current coal prices be maintained, SMR will deliver a very solid dividend yield. Fundamentally this stock is just too cheap. Stanmore has gained over 50% since the placement.

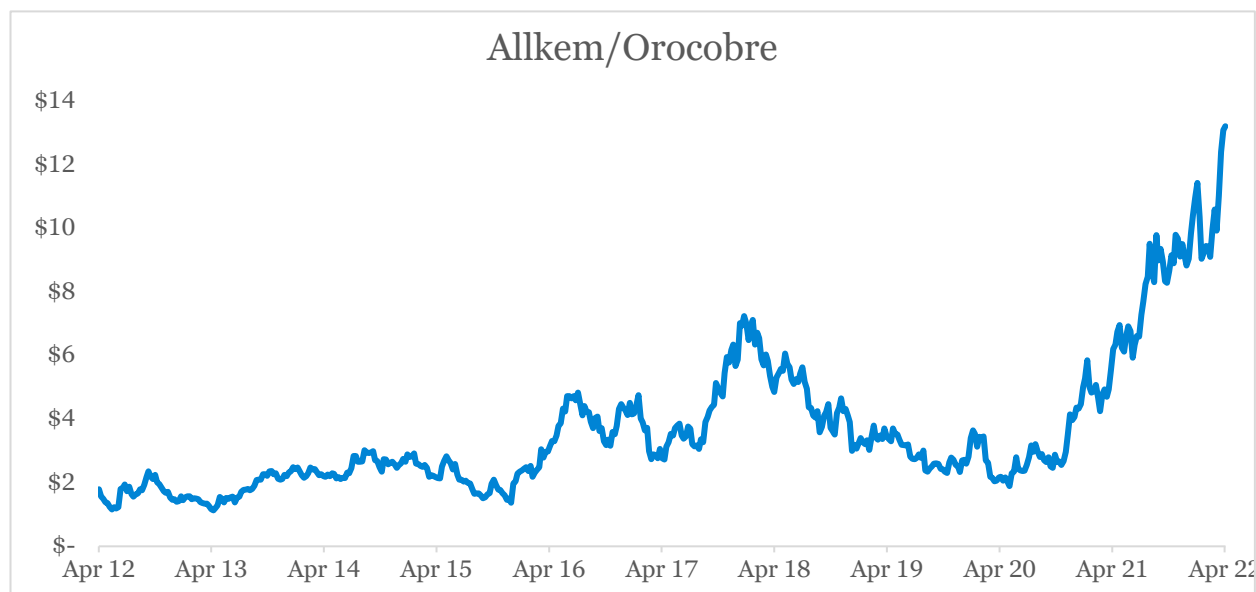


We added to the **Woolworths** (WOW), **Transurban** (TCL), **Mineral Resources** (MIN) **Ventia Services** (VNT) and **Macquarie Bank** (MQG) holdings during the quarter.

A trade in **Pilbara Resources** (PLS) was successful in March with the stock being bought and sold for a 10% gain within the month.

The Quest holding in **Fortescue Metals** (FMG) was also sold after a solid run. The hype about the new Fortescue Future Industries division was, in our view, a bit over done given the very early stage of this concept. We have sold the position.

Our **BHP** holding has been reduced after another good half yearly result and the dividend ex-date. In June we expect BHP to issue **Woodside Petroleum** shares (in dividend format) as part of the merger of BHP Petroleum into Woodside.



Source: Iress



Outlook

The macro picture remains complex with concerns over interest rates, inflation, wage rises, logistical delays, conflict in Europe and an upcoming election.

Australia is an investors safe haven and the currency is gaining strength reflecting commodity demand.

It is nearly 2 years since the US 10 year bond reached a nadir after a thirty year slide on 31st July 2020. The medium term will see higher rates as forecast clearly by the US Federal Reserve. Quantitative Easing (QE) is now morphing to Quantitative Tightening (QT).

We are surprised at how relaxed and positive markets are given the magnitude of economic change that is now only weeks away.

Locally, inflationary pressures are obvious and are likely to continue. Wage claims are now a daily news item given cost of living rises and the approaching election. Companies are facing staffing shortages. Petrol is up. Higher electricity, and mortgage rates are coming.

Thus our more conservative portfolio that was repositioned late last year to cater for an inflationary environment.

Ultimately Quest is a bottom-up investment manager looking to build a best ideas portfolio but the following notable positions should provide us some hedge against inflation include **National Bank** (benefits from higher lending rates), **BHP** (higher commodity prices), **Santos** (global pressure on energy prices), **Transurban** (ability to raise tolls), **Woolworths** (ability to pass on costs) and **Ventia Services** (ability to pass on costs of business).

Performance Fees

A performance fee is payable for the performance of the March quarter.