QUEST

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QUARTERLY REPORT
DECEMBER 2010

John Citizen Family Superfund

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Mr John Citizen

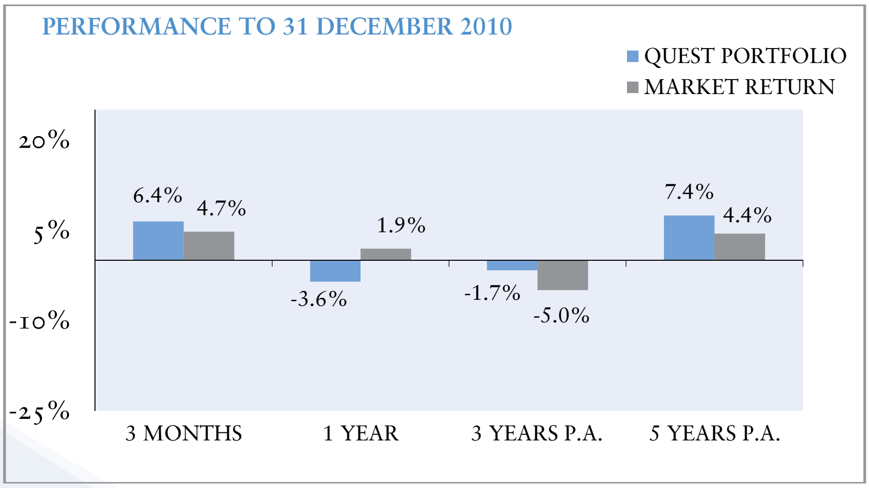
123 ABC Street
Sydney NSW 2000

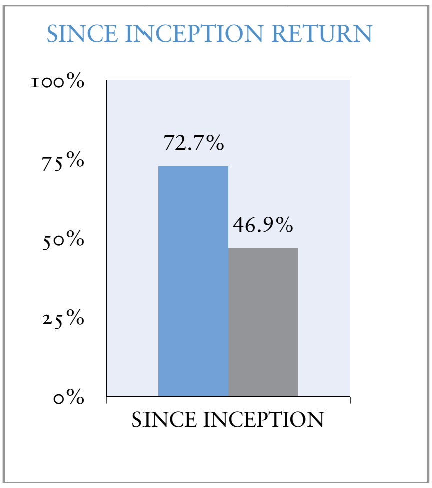
Account Name: John Citizen Family Superfund

PORTFOLIO MOVEMENT – 31-DEC-10	
PREVIOUS MARKET VALUE 30-SEP-10	
CONTRIBUTIONS DURING QUARTER	
PORTFOLIO MOVEMENT*	
MARKET VALUE 31-DEC-10	

YOUR PORTFOLIO PERFORMANCE FOR THE QUARTER*	
MARKET RETURN (S&P / ASX 300 ACCUMULATION INDEX)	4.65%

*Includes fees for the quarter





** The portfolio returns quoted above represent the return 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 or redemptions have been made. Quest returns are net of fees. Past performance is not a reliable indicator of future performance.

MARKET SUMMARY

EQUITIES CONTINUED TO RALLY AS ECONOMIC INDICATORS FROM THE USA CONTINUE TO IMPROVE. COMMODITY PRICES REMAINED FIRM WHICH MAINTAINED THE STRENGTH OF OUR CURRENCY. COMMODITY PRICES WILL BE A KEY FACTOR IN THE FORTUNES OF THE MARKET IN 2011.

Australian equities delivered another positive quarter with the benchmark rising 4.7% over the three months to December. This was the sixth quarterly rise over the last seven quarters since the financial crisis. The Quest portfolio performed ahead of the market this quarter.

In order to summarise the calendar year, we have gathered some key statistics for the last twelve months.

ASX 300	-2.2%
Dow Jones	11.0%
S&P 500	12.8%
Japan Nikkei	-3.0%
ASX Industrials	-7.4%
ASX Resources	10.1%
ASX Financials	-9.2%
ASX Small Companies	10.2%
BHP	4.9%
CBA	-7.4%
AUD rise against USD	14.0%

Source: Iress

The table shows how flat the broader Australian market has been over the last 12 months. Industrials have struggled, miners have travelled well and small companies continue to bounce back. The US market was much stronger than our local market. US bonds saw interest rates fall sharply while Australian rates rose.

The industrial sector was under pressure for most of the year. Government retail stimulus ceased in 2010 which subdued retail turnover. Banks were under the threat of Government regulation, as were pathology companies, Telstra and resource stocks. The best performers in 2010 were all small miners, many of which more than doubled. The large miners that actually produce product, revenue and profits, lagged.

Qantas deserves a mention for enduring a very tough year; a disruptive Icelandic volcanic eruption in April was followed by an A380 engine failure near Singapore in November resulting in the grounding of all A380 aircraft. In December, Europe suffered a massive cold snap resulting in groundings in London that lasted for days until a similar event on the US east coast grounded flights once again.

Corporate activity, while below levels of 2009, included some notable deals. Fosters decided to de-merge, Westfield split into Westfield Group and Westfield Retail in an attempt by management to gain a better market rating, particularly in the USA. Shell sold down a 34% holding in Woodside to 24% and may continue to reduce in 2011. Stockland sold their strategic stake in GPT creating a good opportunity for bargain hunters (including Quest). AMP finally won the battle for AXA in a deal valued at $14 billion, a deal that is still to conclude.

The Directors of Healthscope played a very solid hand by extracting a big price for their hospitals and pathology business from a consortium of private equity firms. The business was initially bid for at a healthy $5.50 per share before multiple revised bids led to a final price of $6.26 and retention of a dividend by shareholders!

In October, a proposal to merge the Australian Stock Exchange with Singapore Exchange was met with a barrage of protest. The scheme is still very much alive and will be one of the major issues for the New Year.

Amongst resources, Centennial Coal was taken over by Thailand's Banpu. Centennial produces 14 million tonnes of coal mainly for local power production in NSW. The conclusion of the takeover sees another resource move into international hands.

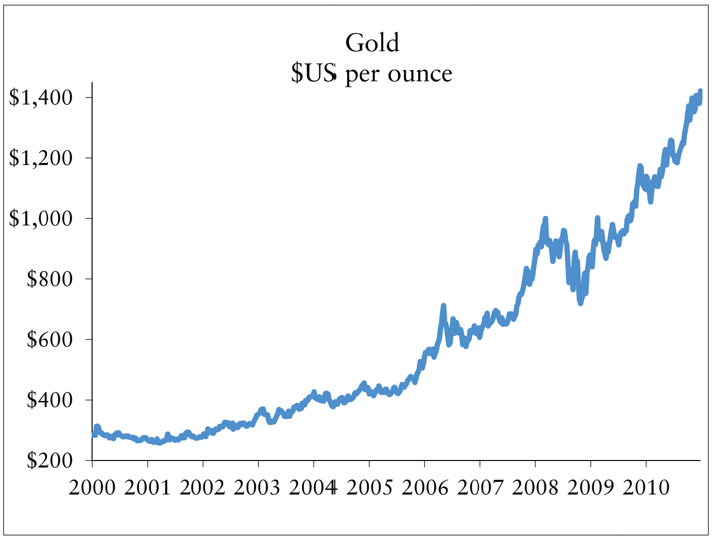
Macarthur Coal rejected three takeover expressions of interest in a row. The Board headed off all approaches justifying their position by labelling the price as too cheap.

BHP bid for Canadian Potash Corporation of Saskatchewan but the bid was blocked by the Canadian government. BHP and RIO also dropped their joint venture plans. Newcrest completed a takeover of Lihir Gold which saw the Newcrest share price rally immediately.

The Valemus IPO was withdrawn in July due to lack of interest at the vendor's price. Bilfinger Berger have now entered into a deal with Lend Lease to sell the construction company for $960 million.

Queensland Rail listed successfully in November. Retail shareholders paid $2.45 for a stock now trading at $2.74. The stock drew a fascinating range of views having been generally shunned by locals. The locals see the stock as expensive risk given the variables of weather, coal price and a high capital spend of $3 billion over two years. Overseas investors however, looked through two years of high capital expenditure, seeing a unique opportunity to buy a stock exposed to both resources and infrastructure. Quest did not participate, but more on this later.

Gold was up another 8% in US$ over the quarter and finished the year at $US1419 per ounce. Oil was up to over $90 per barrel by quarter end.



Source: Iress

The Australian dollar was firm against the $US over the quarter finishing higher at $US1.02.

In our September quarterly we warned of the rush of funds into commodities and commodity based indices. A figure of $270 billion is believed to represent the size of this global investment, fuelled by funds with a preference for direct commodity investment, rather than investing in companies that produce commodities. One way traffic such as this usually leads to a reversal at some stage. While such a reversal may be caused by a slow down in commodity-hungry China, it may be caused by something less predictable; an 'X' factor that jumps out of left field. The resource market will be critical to the market direction and Australia's economy once again in 2011.

PORTFOLIO ACTIVITY

WE REVIEWED THE DEFENSIVE POSITIONING OF THE PORTFOLIO AND DECIDED TO REDUCE THE CASH HOLDING. THIS DECISION WAS CONFIRMED BY SUBSEQUENT QUEST VISITS TO CHINA AND THE US.

The December quarter saw a number of new stocks added to our portfolio and the acceptance of a bid for Citadel Resources by Equinox Resources.

New industrial stocks added included Incitec Pivot, Campbell Brothers, ERM Power, Resmed and Orica.

Orica is a global leader in commercial explosives and blasting services, benefitting from growing global demand for mining volumes and deeper ore bodies. Australia is Orica's largest explosives business. Over the last few years it has sold and demerged businesses to focus on the remaining mining services businesses.

Incitec Pivot is an integrated fertiliser producer with an industrial chemicals presence. Its major operations are fertilisers on the Australian eastern seaboard and its global explosives operations, Dyno Nobel.

ERM Power listed in December and is a Queensland-based power retailer specialising in the provision of electricity to large corporate customers. Clients include the Queensland Government, McDonalds, Queensland Alumina and Myer. ERM has also lead managed more gas fired power developments than any other Australian company in the last five years. ERM retains an interest in two gas fired power stations at the time of float. This listing was tightly controlled by the underwriters resulting in a quality register and has traded up on thin volumes since the float.

It has been some time since a family company has floated in the Australian market after a few decades of development; we will watch this one closely and expect ERM to proceed through our 'seven stages' of small stock development over the coming years. ERM was floated at $1.75. Quest expects ERM to be a steady performer in the years ahead. The company is however not without risk due to the complexity of the long term power contracts required to underwrite shorter term customer contracts.

Campbell Brothers, another Queensland-based company, provides technical laboratory services to the resources industry. Campbell are a major global player in this industry, despite the lack of recognition that this stock has received. Services are vast but include commodity analysis and certification as well as environmental monitoring. The stock was purchased at below $35 and has raced up to $39 in a short time. Our price target lies beyond $40.

We did not participate in the Queensland National float as we saw the pricing as expensive and the risks considerable given the reliance on coal prices and weather. We were also put off by the mass commercialism of such a large float, preferring to see how the management team responds in 2011 after the market hype settles down.

Westfield Holdings split into Westfield Group and Westfield Retail during the quarter. The motivation for the split is to enhance the stock rating, particularly in the USA. As a result we owned two Westfield names at the end of the quarter; it is likely that we will dispense with the local holding at some point as we also own GPT. We anticipate holding the Westfield Group entity which owns offshore retail operations, until our price target is realised.

GPT was added to the portfolio during the quarter. The purchase resulted from a sale by Stockland of their holding in GPT which had been previously held as a strategic investment. Our investment decision was influenced by the knock down price of $2.75. The stock is now trading at $2.90. A recent management visit confirmed that the company is now more sensibly managed having dispensed with a number of crazy asset purchases from earlier years. GPT has gone back to being an asset owner that returns net proceeds to shareholders via distributions. As such the yield is good, debt is down and we expect acquisitions only in the event that it makes good sense to expand. The stock is still well below net asset backing of $3.45 and we expect this gap to close in time.

In November we received a takeover bid for our holding in Citadel Resources from Equinox Minerals. Quest held 5% of the company or 120 million shares at the time of the bid. Our longer standing investors paid 21 cents for the stock in 2008. It became apparent that Equinox was likely to achieve control and we accepted the equity and cash bid despite being disappointed with the price, that we felt, did not fully reflect the value of the company's exploration potential. Equinox now owns more than 90% of Citadel so will move to total control. Equinox is a much larger company with copper producing operations in Zambia. Equinox provides a greater depth of management experience and balance sheet capability than Citadel. Equinox has excellent leverage to the copper price which is currently our preferred metal. We intend to visit the Zambian operations in the New Year.

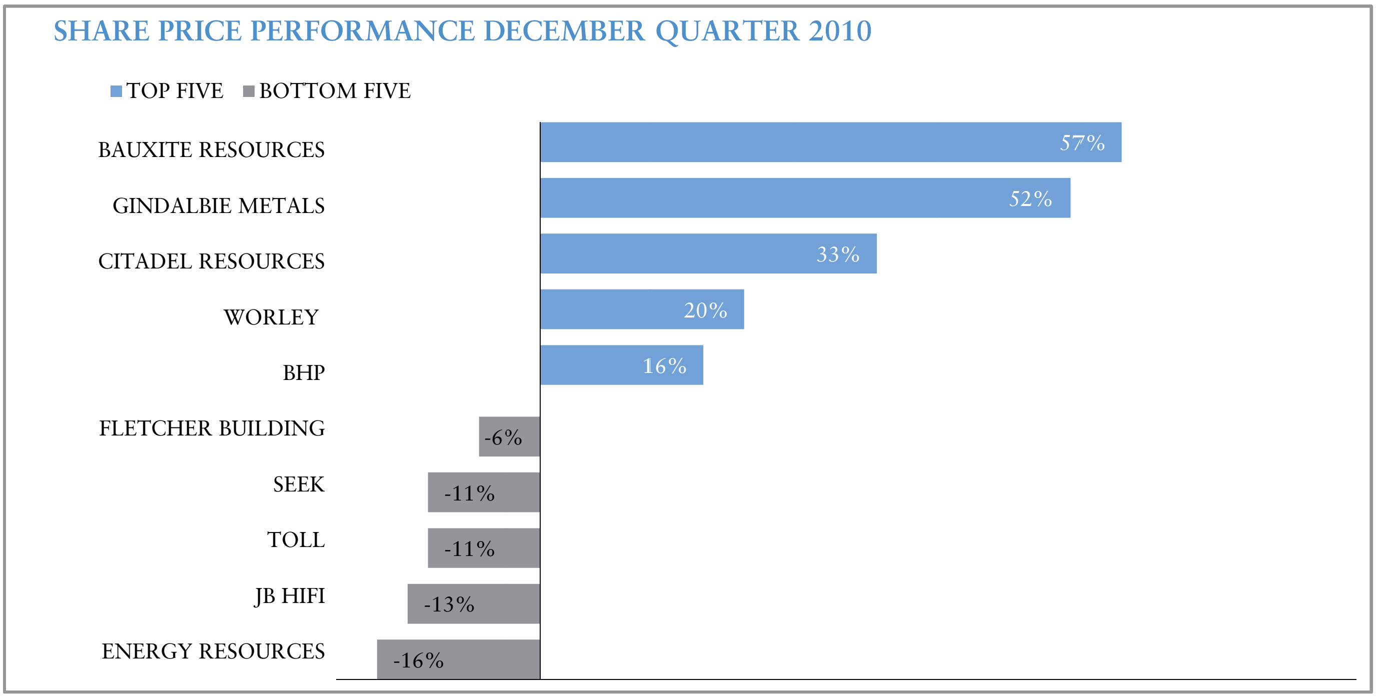
Resource stock exposure was lifted with the acquisition of Whitehaven Coal, Doray Minerals, Gindalbie Metals and Hillgrove Resources. Whitehaven is an emerging NSW-based coal producer with a number of mines near Narrabri, Gunnedah and Werris Creek. The management team are well known to us since our investment some years ago in Excel Coal. Excel was taken over by Peabody Coal and the same team have commenced a sale process of Whitehaven. While a sale is by no means certain, we like the potential for these assets and a proven team to deliver results once again for our investors.

Doray Minerals is a small Western Australian gold explorer with some very good drilling results from the Andy Well project, 45 kms from Meekatharra. Further results will be available in the March quarter. We purchased our stock via a placement that will fund further exploration in the coming months. In our opinion, it is likely that there will be further positive drilling results in 2011 and a JORC compliant maiden resource in the next quarter.

Gindalbie re-enters the portfolio after a couple of years absence and is an emerging mid-west iron ore producer with large Chinese customer/shareholder Ansteel. They are currently in the middle of construction at the massive Karara project.

Hillgrove Resources is developing the Kanmantoo copper prospect 55kms from Adelaide and has prospective copper/gold areas in Indonesia. The company has no need for additional power or transport infrastructure due to proximity with Adelaide. Hillgrove is within a year of transitioning to a copper producer in 2011.

During the period, Sonic Healthcare, Worley Parsons and JB HiFi were sold. Adelaide Brighton was bought and sold for a profitable trade. The portfolio's cash weight at the end of the quarter was approximately 3%.



PREDICTIONS

In a break with tradition, we have decided to make some predictions for the coming year rather than the usual segment on outlook. So here we go:

1. BHP will launch an off market buy back in the first quarter. In the last 18 months BHP have failed to takeover RIO, failed to execute a Pilbara joint venture with RIO, failed to takeover Potash of Saskatchewa and spent over $800 million on advisory fees with no benefit for shareholders. The company has had similar buy backs in 2004 and 2007. Combined, BHP bought back $5.7 billion or 6.9% of local issued shares. A simultaneous buy back of 'plc' stock will also occur. This buy back could reach $20 billion.

2. Labour shortages will become a real issue, not only in WA but also in Queensland. The coal seam gas industry in Queensland is still moving toward separate LNG projects by Origin, Santos and British Gas with total investment a staggering $60 billion, before Shell join in. The skilled manpower required appears to be beyond Australia's available supply, particularly with very large projects already underway with the NBN and in Western Australia at Gorgon and Pluto.

3. The race for resource security will continue with more off take contracts, strategic shareholdings and takeover activity likely. Possible contenders for takeover are Equinox Minerals, Atlas Iron, Extract Resources, Independence Gold and Whitehaven Coal.

4. Politically, the tenuous hold on power by the current federal government will make it obvious that the Gillard government will not run full term. The greens will hold the balance of supply from July, leaving the government in protracted and multifaceted negotiations on multiple issues. It only takes a by-election or the loss of support of one independent and the show is over.

5. After two years of serious lay offs, the US employment market actually starts recovering when cashed-up US corporates finally start committing to boosting output and hiring new workers. The US equity market extrapolates many more positive readings and rallies 15% in double quick time.

6. While there are always opportunities, the Australian market will struggle to attract offshore investor dollars while the local currency stays above $US1.00. A fall in the AUD may result from a number of sources including: easing demand pressure from China, realisation that predictions of a budget surplus in 2013 is unlikely, or a perception that local interest rates will not go higher.

7. Economic and geopolitical tensions continue to support the gold price. The need for ongoing enormous US government deficits to support economic activity together with serious geopolitical concerns, such as the pending development of a nuclear Iran and ongoing Korean tensions, support the upward trajectory of the gold price which has now been in place for more than a decade.

FEES

No performance fee was earned during the December quarter.

Clients should note that a high water mark has been established with respect to any performance fee. This means that no performance fee will be earned until the portfolio value exceeds the high water mark and the performance hurdle is met.

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