



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

APRIL 2018

## INVESTMENT PROFILE

The Quest Australian Equities Concentrated Portfolio is a Separately Managed Account (SMA), actively managed by Quest Asset Partners Pty Limited. Our objective is to outperform the S&P/ASX300 Accumulation Index. SMA's are professionally managed portfolios that allow the investor to retain beneficial ownership of underlying securities while maximising transactional visibility.

## KEY EVENTS - APRIL SUMMARY

The Quest portfolio lagged the market in April but still delivered a positive return. That return was however below the benchmark.

World markets were mixed with the Dow up a marginal 0.3% and the S&P500 up 0.2%. Europe bounced back after a weak first quarter; the FTSE rose 6.4%, France was up 6.8% and Germany was up 4.2%. Brazil fell 4% and Russia slid 7.4%.

March highlights included the US 10 year bond reaching 3% from 2% only 6 months ago, an event that has curtailed the bull market but is yet to end it. It is nearly two years since the 10 year bond hit the bottom at 1.36%. AMP management were roasted by the Royal Commission and lost both Chairman and CEO before sustaining a 19% fall. Three Directors resigned shortly after. Banking stocks were quite resilient with three of the big four falling less than 1% despite bad publicity while National Bank actually rose 1.6%. ANZ, National Bank and Westpac are currently cum dividend. Energy was the best performing sector up 11% with resources up 10%.

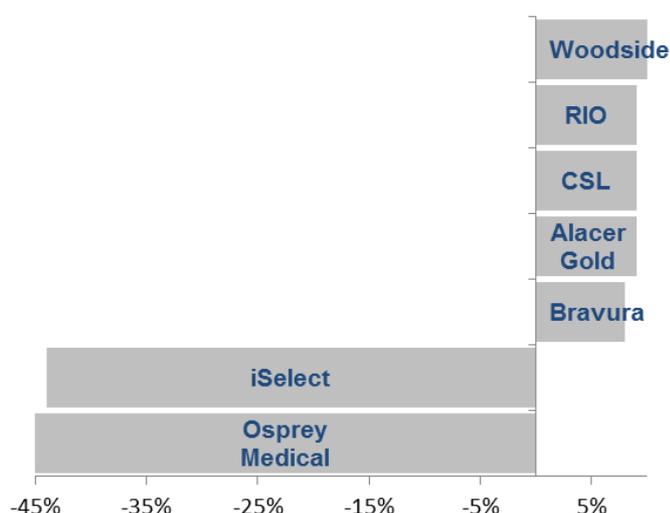
The Quest portfolio lagged the market despite a number of good performances. **Woodside** rose 10%, **RIO** 9%, **BHP** 9%, **CSL** 9%, **Alacer Gold** 9% and global software supplier **Bravura** up another 8%. **Sydney Airport** and **Netwealth** were up 6%. Quest lagged the market after falls in the share prices of **Osprey Medical** and **iSelect**. Quest benefitted in a relative sense by not owning the hapless **AMP Limited**.

Over 12 months the Quest portfolio has outperformed the market by 6.2% and has an annual average outperformance of the ASX 300 benchmark of 4.3%.

## KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	30 now, maximum 35
Quest AUM	\$864 million
Strategy AUM	\$75 million
Investment Horizon	3 – 5 years
Investment Strategy	Fundamental with a key focus on business quality and free cash flow
Derivatives/Shorting	Nil
Lonsec Rating	Reviewed and Rated by Lonsec

## DRIVERS OF PERFORMANCE



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30 April 2018	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	1.3%	1.3%	11.9%	9.7%	11.1%	9.1%	11.7%
ASX 300 Accumulation Index	3.8%	0.3%	5.7%	5.8%	7.5%	5.2%	7.4%
Value added	-2.5%	1.0%	6.2%	3.9%	3.6%	3.9%	4.3%

\*per annum



## PORTFOLIO ACTIVITY

While April was a positive month in terms of return, it was disappointing overall. Two of our holdings, **Osprey Medical** (OSP) and **iSelect** (ISU) both fell sharply. This was the first disappointment amongst our small cap holdings for some time.

iSelect announced that the new advertising campaign had fallen flat and did not deliver intended sales volumes. The stock tumbled 44% to a low of 44 cents before stabilising at 53 cents. Our target price has been adjusted lower but remains above current levels. The stock is trading below net tangible assets which we believe is overly harsh. We have reviewed our assumptions and continue to hold.

Osprey delivered quarterly results below expectations and we have sold this stock.

The balance of our portfolio performed well but was unable to negate the falls in the above stocks.

The month of April saw our team reduce a number of positions that have previously delivered excellent returns. **Bingo Industries** (BIN), **Bravura Solutions** (BVS) and **Evolution Mining** (EVN) have been trimmed to realign portfolio risk.

Our holding in **Livehire** (LVH) was sold after a stock target review.

During April, our **Westpac** (WBC) position was increased amidst punishing publicity which, in our view, led to an oversold situation. Westpac is now cum three dividends in thirteen months with an annual franked yield of 6.5%. Our team observed that, while the Royal Commission criticised a number of practices amongst the banks, the banks themselves had no real right of reply until the May reporting season. This is underway now. At the time of writing, this contrarian view of Westpac has worked well. We will pick up the dividend in mid-May.

The Quest best in April were miners **BHP** and **Rio Tinto** (RIO), recapitalised energy player **Woodside Petroleum** (WPL) and Turkish gold miner **Alacer Gold** (AQG). Alacer delivered a strong quarterly and is close to commissioning a new sulphur plant that underwrites the next twenty years of gold production. The stock appears to be building momentum after trading sideways for 5 years.

Cash has reduced from 6% from 4%.

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For further information regarding Lonsec's Ratings methodology, please refer to our website at: <http://www.lonsecresearch.com.au/research-solutions/our-ratings>

## PLATFORMS

The Quest Australian Equities Concentrated Portfolio is available on the following platforms:

	Web site	Retail	Sophisticated Investors
Mason Stevens	Link	✓	✓
JBWere Multi-Asset Platform	Link		✓
Macquarie	Link	✓	✓
HUB24	Link	✓	✓
Powerwrap	Link	✓	✓

## FACT OF THE MONTH

The month of May will see the 35<sup>th</sup> anniversary of the first Microsoft computer mouse, an ingenious tool that changed the way we work. Microsoft incorporated a mouse into their MS-DOS program in 1983. Apple appears to have made the term "mouse" a technical term as part of the original Macintosh in 1984.

The first mouse was developed by Douglas Engelbart way back in 1964 which had a wooden shell, a circuit board and two wheels. The ball mouse arrived in 1972 but the ball collected too much grime and was replaced by the optical mouse in 1980. The optical mouse was adopted early by Xerox and then spread globally as processing power increased and the cost of production fell.

## THE QUEST PROCESS

The Quest team invest to make an above average return; not to beat an index.

A Quest portfolio will include known names such as major banks and industrials but we also look to add value outside of the major stocks. The portfolio typically carries a number of mid and smaller stocks as market research in these sectors is often scant.

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