



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

APRIL 2016

## INVESTMENT PROFILE

The Quest Australian Equities Concentrated Portfolio is a Separately Managed Account (SMA), actively managed by Quest Asset Partners Pty Limited. The objective is to return 4% p.a. over the S&P/ASX300 Accumulation Index (pre fees). SMA's are professionally managed portfolios where the investor retains beneficial ownership of the underlying securities. This concentrated portfolio is suitable for investors seeking capital gains and income over the medium term via a professionally managed exposure to the Australian share market.

## KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	Maximum of 35
Quest AUM	\$964 million
Strategy AUM	\$52 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

## APRIL REVIEW

Following a strong March bounce, the equity rally continued in April as eased Chinese credit restrictions in late 2015 started to be seen in Chinese economic data and demand for cement and steel.

Iron Ore rose another 15%, and peaked at almost \$70/t, having been below \$40/t in late 2015. Oil rose 20.7%, reaching a five month high during April. This recovery in commodity prices saw the materials index rise 14% in April whilst the Industrials only rose 1.5%.

Our recent visit to China suggests the market for China driven commodities, particularly iron ore, could ease dramatically after euphoric futures trading in recent months.

The ASX was one of the strongest major markets globally for the month. The ASX 300 Accumulation rose 3.34% in April. Major mining stocks saw strong gains with **Fortescue** (FMG) up 33%, **BHP** +23% and **Santos** (STO) rising +19%. The Quest portfolio lagged the market due to

## PORTFOLIO RETURNS



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30th April 2016	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	1.8%	1.4%	-1.7%	8.1%	9.6%	7.9%	11.0%
ASX 300 Accumulation Index	3.3%	6.4%	-4.7%	5.0%	6.2%	4.4%	6.7%
Value added	-1.5%	-5.1%	3.0%	3.1%	3.4%	3.5%	4.3%

\*per annum



## PORTFOLIO ACTIVITY

In April our team visited a number of **Chinese banks, regulators and companies** in three major cities. We have concluded that the significant stimulus released in January has boosted the short term momentum but also raised the potential of a more volatile and precipitous future. There are similarities to the post GFC stimulus in 2009, but this time Chinese indebtedness is so much higher. There are numerous signs of a potential crisis. The Chinese passion for rampant speculation has shifted from equities to property and now to commodity futures. Debt is out of control. The need for further RMB devaluation is rising but the Central Government seemingly resists the challenge. Demographic shifts do not favour ongoing demand for our exported commodities.

We have been unwilling to chase the China driven mining stocks and this has impeded our performance this year. We remain concerned that the Chinese stimulus is unsustainable and eventually the housing demand normalises.

**Ansell (ANN), iSelect (ISU), Reliance Worldwide** (see below), **Origin Energy (ORG)** were the best contributors. **Surfstitch (SRF) and LendLease (LLC)** and a lack of resource names held back our portfolio returns. Surfstitch has performed poorly since significantly lowering full year guidance. After a healthy EBITDA of \$13.9m in the first half, the company forecast a full year result indicating a second half loss of similar magnitude. We have removed this stock from the portfolio.

During the month **Reliance Worldwide Corporation (RWC)** was purchased in an IPO. The plumbing manufacturer closed the first day of trading at \$2.95 after the offer was priced at \$2.50. RWC is one of the few we have been attracted to in the current IPO season. RWC is a designer, manufacturer and supplier of water flow and control products for the plumbing industry with 61% of sales being in the USA, 23% in Australia and the balance ROW including UK, Canada and New Zealand. RWC distributes through retailers and wholesalers such as Home Depot, Ferguson, Tradelink and Reece.

Attributes that brought us to this float include the long standing experienced management, the niche Push to

Connect (PTC) technology, the diversity of the business globally and a track record dating back to 1986.

Reliance rates as a “B” on our Q-Stocks quality scale and easily provides our minimum 15% upside to our Q-Value valuation target from the float price of \$2.50. We expect RWC to trade above \$3.00 in the short term.

Holdings in **Stockland (SGP), Suncorp (SUN), iSelect (ISU)** and **Magellan Financial (MFG)** were added to during the month. The remaining holding in **TPG Media (TPM)** was sold as the investment reached our target. **ANZ** was sold prior to their first half results.

The float of **Motorcycle Holdings (MTO)** delivered a quick return after floating at \$2 per share. Current price is \$2.70.

## SIGNIFICANT INVESTMENTS

Large	Commonwealth Bank (CBA)
	CSL (CSL)
	AGL Energy (AGL)
Mid Cap	Lend Lease (LLC)
	Ramsay Healthcare (RHC)
	Stockland (SGP)
Small Cap	iSelect (ISU)
	Link (LNK)
	Galileo Japan Trust (GJT)

## TOP ATTRIBUTORS

Ansell (ANN)  
iSelect (ISU)  
Reliance Worldwide (RWC)

## KEY DETRACTORS

Surfstitch (SRF)  
BHP (BHP)  
Lendlease (LLC)



## INVESTMENT APPROACH

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The Quest Asset Partners team use a three stage process to research opportunities that may not be readily available to investors.

We search for businesses that are mis-priced by the market. We are looking for unrecognised potential.

Our **Stage 1** qualitative business assessment is combined with our **Stage 2** integrated quantitative valuation process to find the best opportunities. Our portfolio is concentrated to a maximum of 35 of our best ideas.

**We invest to make a return; not to beat an index.**

A Quest portfolio will include known names such as major banks as well as mid-size and smaller companies. We look to add value outside of the major names. The portfolio typically carries a number of recently listed businesses as this is where rival analyst coverage is less thorough.

Our typical client has an interest in the Australian share market but lacks the time to maintain a portfolio. Our clients are unable to access the 10 new floats and other opportunities we have already seen in 2016.

Our client base includes people from all walks of life that have realised an occasional read of the financial press is unable to compete with the experience and contacts available to our four investment professionals.

Quest Asset partners are proud sponsors of the **Norths Pirates Junior Rugby Union Club**.

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<http://www.beyond.lonsec.com.au/intelligence/lonsec-ratings>

## INVESTMENT TEAM

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- Michael Evans
- Chris Cahill
- Troy Cairns
- Swapan Pandya

## PLATFORMS

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

	Web site	Retail	Sophisticated Investors
Mason Stevens	<a href="#">Link</a>	✓	✓
JBWere Multi-Asset Platform	<a href="#">Link</a>		✓
HUB24	<a href="#">Link</a>	✓	✓
Powerwrap	<a href="#">Link</a>	✓	✓

## BLOG

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To read "**Reliance Worldwide**" and other Quest Insights visit [www.questap.com.au/news/](http://www.questap.com.au/news/)

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