



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

APRIL 2017

## 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.

## KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	Maximum of 35
Quest AUM	\$718 million
Strategy AUM	\$62 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

## THE APRIL REVIEW

Quest is one of three finalists in Lonsec's Fund Manager of the Year Awards for the SMA Portfolio category to be held in May.

This is an important nomination for Quest and shows the increasing interest in Separately Managed Accounts as an alternative to unit trusts in the market place.

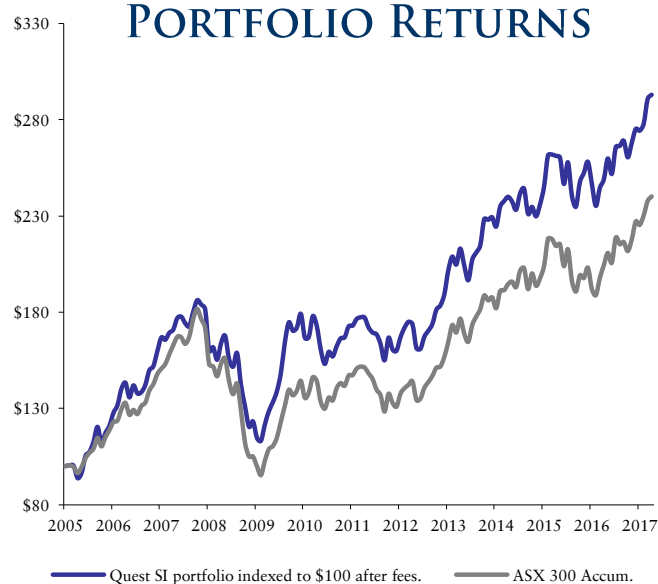
We chose an SMA format back in 2004 due to the visibility of the platform for clients and enhanced tax positioning given the distinct nature of each client.

In April, the Quest portfolio return was 1.1% for the month pre fees, just slightly ahead of the benchmark of 1.0%. The portfolio has a one year return of 20% pre fees.

The April highlights of the market included the global strength of world markets with the MSCI hitting a new high and most markets positive. The FTSE100 was however down due to BREXIT concerns.

Industrials, technology and healthcare were favoured sectors in Australia while the Telcos had another dismal month. **Telstra** fell 9% while **Vocus** fell 21% (neither owned by Quest). Iron ore flopped again, now down 30% this year.

## PORTFOLIO RETURNS



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30 April 2017	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	1.1%	7.2%	20.0%	9.4%	13.8%	7.6%	11.7%
ASX 300 Accumulation Index	1.0%	6.6%	17.5%	7.3%	10.8%	4.0%	7.6%
Value added	0.1%	0.6%	2.5%	2.1%	3.0%	3.6%	4.1%

\*per annum



## PORTFOLIO ACTIVITY

Our best performers in March were **Orocobre** (ORE), **Aristocrat Leisure** (ALL), **Osprey Medical** (OSP), **Evolution Mining** (EVN), **CSL Limited** (CSL) and **Henderson Group** (HGG). Each added more than 5% in April. Worst was **Blackham Resources** (BLK) after heavy rain caused gold production delays at Wiluna in WA.

**Henderson Group** is our largest relative over weight stock and appears to be recovering from a BREXIT slump. Rising another 7% in April, this is the third positive month for the global funds manager in a row. Currently HGG is subject to an agreed merger with Denver based fund manager Janus Capital which will finalise on 31<sup>st</sup> May. We continue to have a positive view on the merged entity and see further upside from here. See Quest blog 06 April 2017 located at <http://questap.com.au/henderson-to-merge-with-janus-capital/>.

**Aristocrat** had another good month and has now risen 28% in 3 months. While we are closer to our price target, ship share continues to be strong while some competitors appear to be struggling. Aristocrat is now beyond an initial five year plan that took the stock from a mid-range player to a leader thanks to excellent management, clever game development and a robust marketing plan. Aristocrat has a September year end and reports a half year result late in May. This report will also allow our team to update our qualitative assumptions and valuation target.

Quest has invested in **Bingo Industries** (BIN) which listed in early May. Formerly a family business, Bingo has developed a strong market position in the collection and recycling of general building waste in NSW. The company has invested in their recycling capability, their collection network and their systems. This provides an advantage over competitors in service, cost to serve and their ability to meet the sustainability targets of clients. Cash flows from these businesses are being re-invested into growing market share in the corporate and industrial waste segment, a new market recently entered. They are also looking to replicate the NSW model interstate. There are a number of potential catalysts over the next 12-18 months including acquisitions and contract wins.

**CSL** rose for the 5<sup>th</sup> month in a row. Quest has held CSL since 2005 when our entry price was a humble \$15.30. Twelve years and 24 dividends later the stock is now above \$135. The stars appear to be aligned in every aspect of the business at present which is unusual for what is a complex company. Our position was reduced into the latest strength.

Quest has built positions in **Brambles** (BXB) after a recent 25% tumble that brought the stock back into our valuation range. It has been years since Brambles has traded below our valuation levels.

**Insurance Australia** (IAG) was also added during April where we see improved revenue growth from higher premiums, cost out potential, expanded insurance margins and an ongoing buy back.

The portfolio holding in Santos was sold in April.

Our cash is still higher than the 4% average at 10%.

## KEY PORTFOLIO CHANGES

New Stocks	Bingo Industries, Brambles, IAG
Sold	Santos
Positions increased	Cooper Energy, Henderson
Positions reduced	Aristocrat, AGL Energy, CSL, Suncorp

## TOP ATTRIBUTORS

Henderson (HGG)  
Boral (BLD)  
Orocobre (ORE)

## KEY DETRACTORS

Viralytics (VLA)  
Alacer Gold (AQQ)  
Oneview Healthcare (ONE)



## INVESTMENT APPROACH

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The Quest Asset Partners team use a three stage process to research opportunities in the Australian 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. We visit a lot of businesses as part of the process.

Our portfolio is concentrated to a maximum of 35 of our best ideas with 30 stocks on average.

### 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 stocks. The portfolio typically carries a number of recently listed businesses as market knowledge is often less thorough.

Our typical client has an interest in the Australian share market but lacks the time to maintain a portfolio. Our clients are often unable to access the new floats and other opportunities that we see regularly.

Our client base includes people from all walks of life that have realised an occasional read of the financial press does not compete with the experience and contacts available to our four investment professionals.

### Disclaimer

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For further information regarding Lonsec's Ratings methodology, please refer to our website at: <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>		✓
Macquarie	<a href="#">Link</a>	✓	✓
HUB24	<a href="#">Link</a>	✓	✓
Powerwrap	<a href="#">Link</a>	✓	✓

## BLOG

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To read "Lonsec Awards 2017" "Henderson to merge with Janus Capital", "Team USA will outlast Team Trump", and other Quest Insights visit [www.questap.com.au/news/](http://www.questap.com.au/news/)

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