



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

AUGUST 2015

## 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 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	\$923 million
Strategy AUM	\$53 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

## AUGUST REVIEW

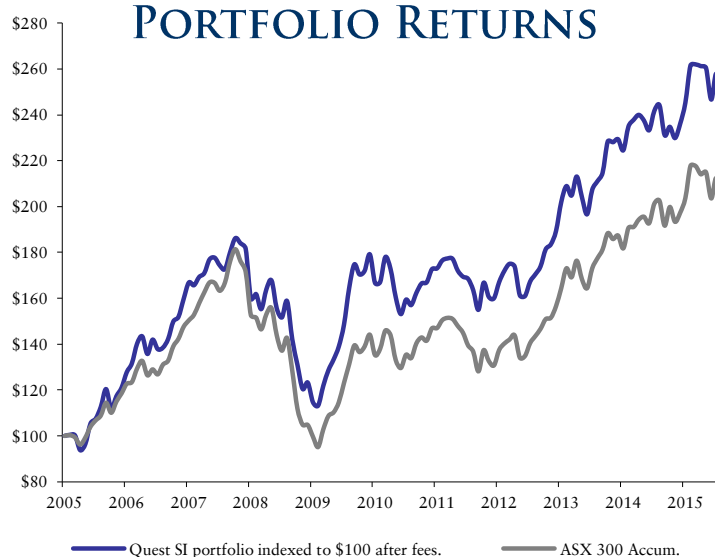
August was a tough month for the Australian market. The ASX 300 accumulation index tumbled 7.7%, the worst monthly fall since 2008. Quest performed relatively well once again in August.

Chinese economic concerns, the expectation for higher US interest rates and an uninspiring reporting season were the dominant issues.

Amongst the 27 stocks in the Quest portfolio that reported this season, 20 results were in line with our expectations, 6 were above and only 1 was below.

The six positive surprises were **Estia Heath** (EHE) (+8%), **Magellan Financial** (MFG) (+3%), **Villa World** (VLW) (+3%) and **Smartgroup** (SIQ) (+22%). **Woodside Petroleum** (WPL) reported well but eased 9% as oil fell while **Henderson Group** (HGG) fell 8% as markets corrected. **Ansell** (ANN) (-11%) disappointed however we have maintained our position.

## PORTFOLIO RETURNS



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31st August 2015	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-6.2%	-5.8%	1.7%	15.7%	11.5%	10.6%	11.3%
ASX 300 Accumulation Index	-7.7%	-8.8%	-3.2%	10.9%	7.9%	6.0%	6.7%
Value added	1.5%	3.1%	4.9%	4.7%	3.6%	4.6%	4.6%

\*per annum



## PORTFOLIO ACTIVITY

---

Quest was a buyer of stocks on the weaker days this month particularly 24<sup>th</sup> August when the market fell 4%.

**Seek** (SEK) was added to the portfolio after a 30% fall from February levels. We have owned this stock previously and see value here at \$12 which is 30% below the \$18 levels back in February. Seek rates well under our process in both quality and valuation screens.

Quest participated in the sell down of the **Origin Energy** (ORG) 53% holding in New Zealand listed **Contact Energy** (CEN.NZ) at a price of NZ\$4.65 per share. Contact has committed to listing in Australia now that a chunk is held by Australian investors. We saw this as an opportunistic trade which was closed out at a 10% gain.

During the month, Quest subscribed to the **Commonwealth Bank** (CBA) 1 for 23 rights issue at \$71.50 to raise \$5 billion of new capital.

Our holding in **Estia Health** (EHE) was significantly reduced in August with a view to exit. The stock has reached our valuation target. This is the third stock in the aged care sector that we have bought and sold in the last year. **Japara Healthcare** (JHC), **Regis Healthcare** (REG) and now Estia Health have delivered 30%, 30% and 17% gains. The aged care space is a complex business and we consider that the enthusiasm in the market for these stocks may have out-paced the valuation metrics. A blow out in valuations, particularly amongst newly listed stocks, is not unusual and we can see ourselves buying back one or all of these stocks in the months ahead.

Quest have subscribed to the float of **Vitaco** (VIT) due to list on the 16<sup>th</sup> September. Vitaco is a vitamin and sports nutrition company whose brands include Healtheries, Nutra-Life, Aussie Bodies and Musashi. Vitaco has solid brands in a growing category and is experiencing solid sales growth in China where clean and green products are highly sought.

The recent reporting season saw seven of our holdings rise in a torrid month, a good performance overall. Only 1 stock, **Ansell** (ANN), reported below our expectations however our view on the stock is unchanged.

## MARKET COMMENT

---

August was dominated by Chinese economic concern and the ongoing capital refinancing of the local banks. This time it was **ANZ** (ANZ) and **Commonwealth Bank** (CBA) coming to the market for \$2.5 billion and \$5 billion respectively. **National Bank** (NAB) raised equity earlier in the year. The refinancing of the banks, now totalling \$16 billion, has moved to an accelerated program, probably urged on by the Federal Government which has delivered a quicker recapitalisation program than was anticipated by the earlier indications from APRA. When the largest stock in Australia, Commonwealth Bank, raises billions via a rights issue, it inevitably places a drag on the market. This will not conclude till mid September. Rumours of a capital raising by Westpac have made sentiment worse. This burden was worsened by a poor local reporting season.

The devaluation of the Yuan will bring a smile to readers of Nassim Taleb's Black Swan released back in 2007. Taleb wrote about improbable events; the sudden appearance of the Black Swan and the reaction in markets to the unexpected. Ironically, the Chinese devaluations over a period of three days in August were not that surprising with hindsight. The unpegging of the Swiss Franc from the Euro in January 2015 was another example that was collectively missed. The Yuan is pegged to the US dollar, one of the few currencies in the world to be rising against everything. The Chinese government have not only had a history of targeted interventions but have stated that they intend to achieve their economic performance goals while moving toward developed market mechanisms. While it is years since the Chinese shifted the peg, there has never been any guarantee that this would not happen. We now know that the Yuan will move toward further flexibility and we are now reminded that the Chinese government will pull "big levers" when it suits them.

Poor polling figures for the Australian government and an upcoming bi-election in Western Australia have contributed to a lack of business confidence domestically. The earliest possible date for a Federal election is 6th August 2016 but it will probably be after the football finals in October. The election is not the issue; it is the potential for minor parties to render the government indecisive, again, for another 3 year term.



## CONTRIBUTION

In a weak month seven stocks provided a positive return including **Smartgroup** (SIQ), **Estia** (EHE), **Contact Energy** (CEN.NZ), **Amaysim** (AYS), **Magellan** (MFG), **AGL** (AGL), and **Villa World** (VLW).

Smartgroup was the most significant contributor, delivering a result significantly better than expected and pushing our valuation up over 10%. The company is the smallest of four listed salary packaging and fleet management companies.

Recently floated Estia Health reported solidly, demonstrating continued growth in demand for aged care facilities. Contact Energy was a trade already closed out for a handy gain.

Amaysim continued to rise post IPO in July. Their market share continues to grow, via attractive pricing, innovative marketing and sector leading customer service. As a Mobile Virtual Network Operator, their long term contract for mobile services provided by Optus provides the sustainability of competitiveness required.

Magellan was a good performer in August rising over 3% due to the fall in the Aussie dollar while most other fund managers eased.

Bank shares were very weak in August with a lower market, the ongoing **Commonwealth Bank** (CBA) rights issue and the **ANZ** (ANZ) share purchase plan pricing mechanism still over-hanging the market. This is in addition to the **National Bank** (NAB) and ANZ issues earlier this year. This correction has been severe for bank stocks with Commonwealth Bank down 24% since March. ANZ is also 28% below that peak.

## SIGNIFICANT INVESTMENTS

Large	Commonwealth Bank (CBA)
	Ramsay Health Care (RHC)
	AGL Energy (AGL)
Mid Cap	Healthscope (HSO)
	APA Group (APA)
	Oil Search (OSH)
Small Cap	iSelect (ISU)
	Surfstitch Group (SRF)
	Amaysim Aust. (AYS)

## TOP CONTRIBUTORS

Smartgroup (SIQ)  
Estia Health (EHE)  
Contact Energy (CEN.NZ)  
Amaysim (AYS)  
Magellan (MFG)  
AGL (AGL)  
Villa World (VLW)

## KEY DETRACTORS

Commonwealth Bank (CBA)  
ANZ (ANZ)  
Westpac (WBC)  
iSelect (ISU)  
CSL (CSL)



## INVESTMENT APPROACH

---

The Quest team use a three stage process to find opportunities that are not readily available to the average investor. 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 qualitative 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 some 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 analyst coverage is less intense.

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 all or some of the 50 new floats and other opportunities we have seen since 2014.

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.

## INVESTMENT TEAM

---

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

## CONTACT QUEST

---

Kathryn Ginns  
02 9409 2333

Suite 8.07, 6A Glen St  
Milsons Point NSW 2061

[quest@questap.com.au](mailto:quest@questap.com.au)  
[www.questap.com.au](http://www.questap.com.au)

## BLOG

---

The latest Quest Insight on our website is “**Surfstitch finds a niche.**”

To read more visit [www.questap.com.au/news/](http://www.questap.com.au/news/)

### Disclaimer

This report has been prepared by Quest Asset Partners Pty Limited, AFSL 279207 (wholesale), ABN 47 109 448 802. It should be regarded as general information only rather than advice. It has been prepared without taking into account any person's objectives, financial situation or needs. Whilst Quest has used its best endeavours to ensure the information within this document is accurate it cannot be relied upon in any way and recipients must make their own enquiries concerning the accuracy of the information within. Past performance is not a reliable indicator of future performance. Before making any financial investment decisions we recommend recipients obtain legal and taxation advice appropriate to their particular needs. Investment in a Quest Asset Partners Separately Managed Account can only be made on completion of all the required documentation.