



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

AUGUST 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 | 30 now, maximum of 35 |
| Quest AUM | \$768 million |
| Strategy AUM | \$63 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 AUGUST REVIEW

August was dominated by the annual financial reporting season with the market finishing marginally up 0.8%. The Quest portfolio returned an incremental 0.2%.

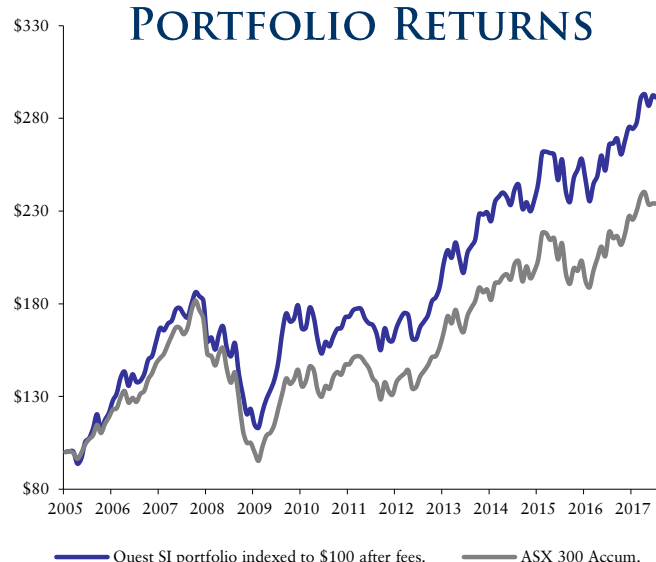
August is a crazy month for managers with hundreds of companies reporting in a compressed time frame. Many days see more than a dozen companies report on the same day. Despite being frenetic, it is a great opportunity to retest assumptions.

Amongst our 30 holdings, 28 reported in August. Expectations were exceeded for five companies. A further 13 were as expected. Disappointment was delivered by six companies while four were of no consequence being early stage businesses where commentary is more important than the numbers. See over for more stock detail.

The banks were weak in August while energy stocks, resources and consumer staples were strong. Overall, banks diluted the gains of these other sectors due to their dominance of our local indices.

Global markets were static with Dow Jones up 0.3%, NASDAQ up 1.3%, FTSE up 0.8%, Nikkei down 1.4%, iron ore up 7%, gold up 4% and the AUD steady at USD\$0.79.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

| To 31 August 2017 | 1 month | 3 months | 1 year | 3 years* | 5 years* | 10 years* | Since inception* |
|-----------------------------------|---------|----------|--------|----------|----------|-----------|------------------|
| Quest Aust. Equities Concentrated | 0.2% | 2.1% | 12.0% | 8.6% | 14.2% | 7.4% | 11.4% |
| ASX 300 Accumulation Index | 0.8% | 1.0% | 9.5% | 5.2% | 10.4% | 3.5% | 7.2% |
| Value added | -0.6% | 1.1% | 2.5% | 3.4% | 3.8% | 3.9% | 4.2% |

*per annum



PORTFOLIO ACTIVITY

At Quest we believe we have strong capability in mid and small stocks. We can add value in large stocks (BHP, CSL and RIO this year) but our experience is that the advantage of in depth analysis is greater with mid and small cap companies. This is because large companies receive more analysis than mids and smalls. As such, we are more interested in stocks outside the Top 20 than those within.

This is the rationale for the commencement of our Ex 20 portfolio and the new Super Concentrated 10 stock portfolio.

Once again we had some good returns from our smaller stocks in August. **Updater** (UPD) was up 47% and hit \$1.50 momentarily in the month, a new high from the listing at 20 cents less than two years ago. The company announced in August that market share in the USA has moved beyond 15% of monthly movers which equalled 234,000 relocations made in July.

Orocobre (ORE) added 20% after a period of flat trading since March. Lingering concerns about production delays were appeased by a solid quarterly and an improved outlook statement. Orocobre carries a large short position in the market which is now decreasing. The company is in a strong cash position, is repaying JV debt from operating cash flow and moving towards an expansion in 2018. Lithium demand provides the catalyst here as we believe the current price does not reflect the leverage from higher lithium pricing.

Viralytics (VLA) had a better month after a sell-off in July, lifting 17%. **Evolution Mining** (EVN) rose 10% on a good result and a higher gold price.

iSelect (ISU), **Healthscope** (HSO), **Oneview** (ONE), **IAG** (IAG) and **Vista Group** (VGL) were notably weak in August. iSelect fell 17% after hitting a new high before the annual result. The result was lower than expected and carried higher than expected costs. Healthscope delivered softer forward guidance than expected, Oneview reported as expected but there was no new contractual news. IAG sold off post result as increased claims and costs surprised the market and Vista eased after an index change was mooted in New Zealand.

The disparity between business confidence in the latest NAB survey and consumer confidence in the Westpac survey is worth a mention. Business confidence is the highest since 2013, buoyed by government infrastructure spend and financial services. Lack of wage growth and changing consumer patterns are making it tough for consumer confidence. This is reflected in our portfolio view with holdings in **Lend Lease** (LLC) (construction) and two banks. We have no retail stocks given our view on consumer spending and the threat of Amazon arriving in Australia.

During the month we sold our long term holding in Queensland house builder **Villaworld** (VLW) as our target price was achieved.

SIGNIFICANT INVESTMENTS

| | |
|-----------|-------------------------|
| Large | Commonwealth Bank (CBA) |
| | Westpac (WBC) |
| | BHP |
| Mid Cap | Janus Henderson (JHG) |
| | Lend Lease (LLC) |
| | Boral (BLD) |
| Small Cap | Bingo Industries (BIN) |
| | iSelect (ISU) |
| | Evolution Mining (EVN) |

TOP ATTRIBUTORS

Updater (UPD)
Orocobre (ORE)
Viralytics (VLA)

KEY DETRACTORS

Healthscope (HSP)
iSelect (ISU)
Oneview (ONE)



INVESTMENT APPROACH

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 in our travels.

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 but we look to add value outside of the major stocks. The portfolio typically carries a number of smaller businesses as market research is often scant.

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.

INVESTMENT TEAM

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

PLATFORMS

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

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

BLOG

To read “**Bingo cleans up on result**”, “**Summary of Fiscal 2017**”, “**Lonsec Awards 2017**”, “**Henderson to merge with Janus Capital**” and other Quest Insights visit www.questap.com.au/news/

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