



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

AUGUST 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 PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	32 now, maximum 35
Quest AUM	\$925 million
Strategy AUM	\$79 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

## KEY EVENTS – AUGUST SUMMARY

A small gain by the local market while annual and half yearly results dominated the agenda. This was a remarkable reporting season which saw a number of mystifying moves particularly in premium high multiple stocks. The most expensive premium stocks recorded further gains, many above 20%, despite the overall earnings forecasts for that premium group being lowered during the month. We expect this to correct.

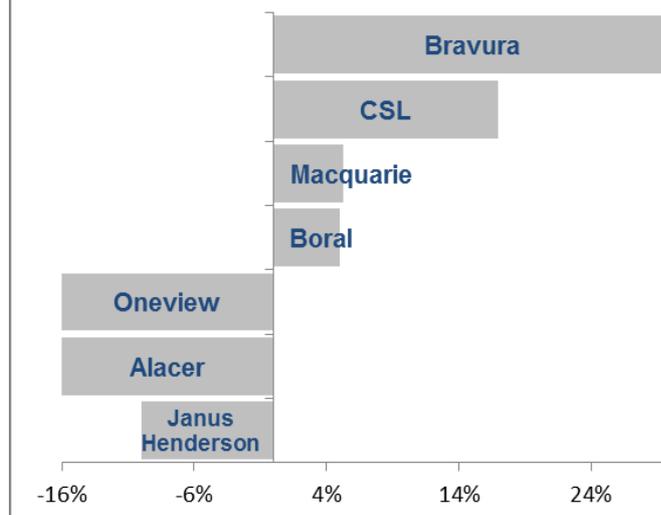
Industrials were led by the Telco and Healthcare sectors, with the former surging on the Vodaphone/TPG merger announcement. Healthcare was again led by CSL and Cochlear. CSL is now Australia's third largest stock behind CBA and BHP and ahead of Westpac and ANZ. Transurban won the play of the month by buying 51% of Sydney's WestConnex for \$9.3 billion and announcing a hefty \$4.8 billion equity raise.

Most global markets were firmer with the Dow Jones up 2.1%, S&P 500 up another 3%, NASDAQ up 5.7% and Japan up 1.3%. The prevailing global issue continues to be the escalating trade war which markets seem to have ignored.

Our portfolio lagged in August. Three of our stocks performed very well but generally our holdings, particularly the smaller stocks, were unresponsive during the reporting season leaving us with a return below benchmark.

Quest out performance is 4.1% over 1 year pre fees and maintains our since inception out performance at above 4% per annum ahead of the market since inception in 2005.

## DRIVERS OF PERFORMANCE



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 August 2018	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-0.2%	4.5%	19.6%	14.7%	12.7%	10.2%	12.0%
ASX 300 Accumulation Index	1.4%	6.0%	15.5%	11.5%	8.9%	6.7%	7.8%
Value added	-1.6%	-1.5%	4.1%	3.2%	3.8%	3.5%	4.2%

\*per annum



## PORTFOLIO ACTIVITY

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The Quest portfolio fell back slightly in August and underperformed the market in a month dominated by the annual reporting season. Reporting season saw some large share price moves but on this occasion few of our stocks made dramatic moves. **Bravura Solutions** rose 30% and is close to our target zone after a massive run. **CSL** again traded well up another 17% and is now the third largest company in Australia. **Macquarie Bank** rose 5.3% (and outperforming the major banks for a year now) while **Boral** rose 5.2% after a good result.

Healthcare technology stock **Oneview** fell 16% on thin volume but has jumped 47% during September. **Alacer Gold**, like most gold stocks, slipped back 16% after a July surge. Alacer Gold are commissioning a new \$700m sulphide ore plant this quarter, this is a crucial time for Alacer. **Janus Henderson** fell 10% after finalising the sole CEO position (previously dual CEO's post the Janus merger).

While most of our stocks met our expectations in reporting season, we did not have any feature performances this month in a market that does seem to be at a cross roads for direction.

**Galaxy Resources** has been added to our portfolio. Galaxy is capped at \$990 million with no debt and produces high margin spodumene for export to Asia from the Mt Cattlin mine in Western Australia. Galaxy also owns two lithium development projects, the Sal de Vida brine lithium deposit in northern Argentina and the James Bay hard rock project in Quebec. A recent sale of Sal de Vida northern tenements to Posco has delivered a further USD\$280 million in cash. Galaxy is also pursuing a sell down off the Sal de Vida main project which may deliver an offtake agreement.

Lithium stocks have had a shabby year so far after spectacular rises in 2016 and 2017. We see the drive to electric vehicles as having gathered pace and that demand for high grade lithium will continue. Galaxy has a solid cash position, a cash generating asset in WA and the potential sell down of Sal de Vida to come and is primed for some form of capital management before year end. The weakness in the stock in recent weeks has led to our initial position.

**Serko** was added to the portfolio in August. Serko's technology solution provides business travelers with the ability to manage their travel across every stage of the journey. Through its relationships with travel management companies Serko has achieved 70% market share in Australian and New Zealand and is now pushing into offshore markets. We rate Serko as a B grade under our Q stocks process and expect profitability to grow as the business achieves scale.

Portfolio positions were increased in **BHP**, **Tabcorp** and insurer **IAG**. Some profits were taken in **Commonwealth Bank**, **Westpac** and **Lendlease**. **Updater** was sold after the company proposed delisting the business in Australia. This proposal surprised us, is not in the interest of our investors and we have voted with our feet!

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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>

## QUEST EX-20 PORTFOLIO

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The Quest Ex-20 portfolio is open for investment for both sophisticated and retail investors. This portfolio is perfect for those that wish to increase exposure to mid and small stocks, or if you already own large stocks and are looking for exposure to some lesser known interesting stocks to augment returns.

The portfolio is currently running at 6.6% ahead of the benchmark over 1 year to July 2018 with a return of 25.2% pre fees. Ring Troy for details on 9409 2303.

## QUEST 10 STOCK PORTFOLIO

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Our new super concentrated portfolio had a return of 3.4% at end of June after initiating in March. This is a highly concentrated best ideas portfolio using the same Quest process. Ring Chris for details on 9409 2301.

## FACT OF THE MONTH

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The population of China is expected to peak in 2025 at 1.45 billion, only a little higher than current. China has 418 million millennials, 5 times the equivalent population in the USA. By 2025 most pass beyond child bearing age but they will continue to drive domestic consumption. A consuming base of this size lessens the chance of a US trade war having any long term effect on China.

## THE QUEST PROCESS

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The Quest team invest to make an above average return. It is not to beat an index. We research investments and invest based on our assessed valuation.

A Quest portfolio includes known names such as Woodside Petroleum and industrials such as Lendlease. We also look to add value outside of the major stocks, recent examples being Viralytics, Bravura and Bingo Industries. The portfolio typically carries a number of mid and smaller cap stocks where we believe our experience gives us an advantage.

## CONTACT QUEST

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