



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

DECEMBER 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.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	Maximum of 35
Quest AUM	\$778 million
Strategy AUM	\$57 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 DECEMBER REVIEW

A rampant month after a Trump victory which saw the S&P ASX 300 Accumulation rise 4.3% with the Quest portfolio up 2.7%. The Australian market has risen 9.5% since the Trump victory.

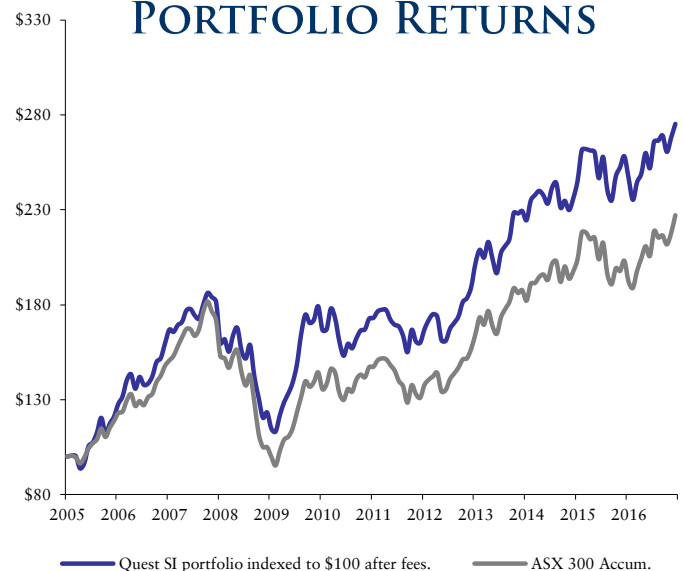
The market rose 11.8% over the full year while Quest delivered pre fees a return of 8.5%. This is only the 2nd time in 12 years that we have underperformed the market over a December year.

The Dow gained 3.3% in December and established another all-time high. Records were also reached for the S&P500 and the Nasdaq. Investors anticipated increased government spending and reduced regulation under a Trump administration.

The best performers locally were Utilities which reversed previous weakness and gained 8.7%, REIT's which defied the bond market gaining 6.8% and Energy and the Banks which lifted more than 5% each. In a classic Christmas rally, no sectors fell in December!

The 30 year bull run in US bonds finally appears to be over. A number of our high PE multiple stocks were sold during the year as decades of falling interest rates culminated in a low point for the US 10 year in July of 1.36%.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31st December 2016	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	2.7%	2.8%	8.5%	8.9%	14.2%	7.9%	11.4%
ASX 300 Accumulation Index	4.3%	4.9%	11.8%	6.6%	11.6%	4.4%	7.3%
Value added	-1.6%	-2.2%	-3.3%	2.3%	2.6%	3.5%	4.1%

*per annum



PORTFOLIO ACTIVITY

December was a positive month with the best of ours being **Origin Energy** (ORG) up another 11%, **Stockland** (SGP) rebounded 8.6%, **Suncorp** (SUN) chased the financials with an 8.1% gain and **Boral** (BOR) which gained 7.5% after a major acquisition.

During the month the Quest portfolio increased positions in **Boral** (BLD), **South 32** (S32), **Santos** (STO), **Alacer Gold** (AQG), **Orocobre** (ORE), **Evolution Mining** (EVN).

In November we participated in a large placement by **Boral** (BLD) to fund the acquisition of NYSE listed **Headwaters Inc.** During December, Quest participated in the retail shortfall book build and the institutional shortfall book build. Headwaters will double Boral's revenue in the USA while delivering \$100m in cost synergies.

In December Quest portfolios took profits on **Fortescue Metals** (FMG) which has risen strongly with firm iron ore prices allowing a dramatic debt reduction and an increased dividend.

South32 (S32) was purchased in a move away from iron ore as we do not see the same commodity gains achieved in 2016 happening again in 2017. Rather the high contracted commodity prices for South 32's more diversified portfolio are generating very strong cash flows that should see some capital management initiative in February. South 32 produces Aluminium, coal, manganese, nickel, silver, lead and zinc.

Santos (STO) raised \$1 billion from institutions in December in a placement designed to "strengthen the Balance Sheet" which is corporate speak for a need to reduce debt. The discounted raising drew us in as did the Boral raising. We held no STO prior to the deal. The company is also offering an SPP to long suffering shareholders in the New Year.

Our holdings in **Westpac** (WBC) and **Commonwealth Bank** (CBA) performed well in December with rises of 4.2% and 4.8% respectively. Commonwealth Bank is due to pay a dividend in March with the ex-date being February.

SIGNIFICANT INVESTMENTS

Large	Lendlease (LLC)
	Westpac (WBC)
	Suncorp (SUN)
Mid Cap	AGL (AGL)
	Boral (BLD)
	Henderson (HSO)
Small Cap	iSelect (ISU)
	Link Administration (LNK)
	Oneview Health (ONE)

TOP ATTRIBUTORS

AGL Energy (AGL)
Origin Energy (ORG)
Westpac Banking (WBC)

KEY DETRACTORS

Vista Group (VGL)
Updater (UPD)
Alacer Gold (AQG)



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. 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, many of which are discussed each month in this newsletter. 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.

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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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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 "**Origin Addresses the debt**", "**First mover advantage**", "**Small stocks deliver for Quest in reporting season**", "**Summary of Fiscal 2016**" and other Quest Insights visit www.questap.com.au/news/

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