



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

FEBRUARY 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 out perform 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	29 now, maximum 35
Quest AUM	\$860 million
Strategy AUM	\$74 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 - FEBRUARY SUMMARY

The Quest portfolio rose 2.2% in February. The 8 month return for the portfolio from June 30th 2017 to February is 12.8% pre fees.

The ASX 300 market rose by 0.3% on an accumulation basis in February, not a bad result after a global correction mid-month!

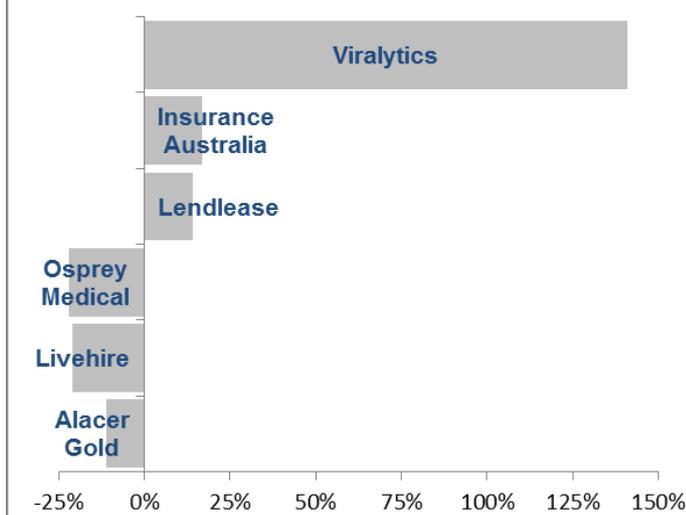
February highlights included the half yearly reporting season which saw more than 2000 companies release results over 4 frenetic weeks. This was a good season for the Quest portfolio with 25 of our 29 stocks reporting. We saw 11 results above expectation and 11 as expected. Highlights were **Viralytics** (see below), **Insurance Australia** up 17% and **Lend Lease** up 14%. Only 3 were below expectations and these were of little consequence overall.

This was a solid outcome in a month that saw some major disappointments among stocks *we do not own* i.e. **Super Retail** down 22%, **BWX** down 34%, **Dominos** down 18%, **Tabcorp** down 11% and **Vocus** down 18%.

During February, the world's fifth largest pharmaceutical company, **Merck** announced a scheme of arrangement to buy Quest owned **Viralytics**. The agreement is at \$1.75. Viralytics rose 141% from 63 cents to \$1.65 in February as a result.

Quest manages \$860 million across 3 portfolios; our Australian Equities Concentrated portfolio, the Ex 20 portfolio and our new Highly Concentrated 10 stock portfolio.

DRIVERS OF PERFORMANCE



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 28 February 2018	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	2.5%	6.8%	19.8%	9.9%	11.9%	9.4%	12.0%
ASX 300 Accumulation Index	0.3%	1.8%	10.3%	5.2%	7.9%	5.3%	7.5%
Value added	2.2%	5.0%	9.5%	4.7%	4.0%	4.1%	4.5%

*per annum



PORTFOLIO ACTIVITY

February was a good reporting season overall. Revenue growth was up 6% in the ASX200 with 7% earnings growth. About 38% of stocks beat consensus. There are signs of inflationary pressure on some input prices, slightly higher interest costs, early signs of labour shortage and higher tax rates as carried forward losses diminish. Miners generally reported higher costs than expected but enjoyed firm commodity prices.

The Quest best in February was **Viralytics** up 141% after the announcement of a scheme of arrangement to sell the company to US pharmaceutical giant **Merck & Co. Inc** at a whopping premium. Quest has owned Viralytics since January 2014 with an initial purchase price of 28 cents and an average entry for our investors of 40 cents. The bid is at \$1.75. A big win here with more than \$15 million added to our portfolios.

Lend Lease reported well and the stock has regained a lot of the ground lost back in October when the company announced some technical issues in the construction division. The development division has however picked up the shortfall and with a very solid development book in hand of \$56 billion. Lendlease announced a \$500 million buy back, a year earlier than we had anticipated.

Insurance Australia reported well also and seems to be in some sort of insurance sweet spot with potential for premium growth, lower claims experience and the potential sale of the Asian investments. IAG contrasts starkly with **QBE** that is still struggling with the disastrous acquisition strategy of last decade.

Amcors has been added to the portfolio after a price tumble reflecting increased costs in flexible packaging production, poor emerging market sales and weaker beverage demand. We anticipate Amcor can recover some of these costs and will make further acquisitions this year. We see Amcor as over-sold at these levels.

Small increases were made in our holdings in **Lendlease**, **Oilsearch** and **Commonwealth Bank**. Some sales were made in **Evolution Mining**. Our holding in Brambles has been sold post a review of the recent result which resulted in a reduction to our price target.

Cash is currently above average at 9%.

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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>

PLATFORMS

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

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

FACT OF THE MONTH

General Motors has sold 175,489 Cadillacs in China in 2017 compared to 156,440 in the USA. It is the first time more sales have been achieved in China than at home and has led to Cadillac announcing the expansion of Chinese retail outlets to 300 from 180 this year. Cadillac appeals to buyers as it is seen as less mainstream than Audi, Mercedes and BMW.

THE QUEST PROCESS

The Quest team invest to make an above average return; not to beat an index.

Our portfolio historically does not represent an index.

A Quest portfolio will include known names such as major banks and industrials but we look to add value outside of the major stocks. The portfolio typically carries a number of mid and smaller stocks as market research in these sectors is often scant. Details of our process are on the website.

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