



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

FEBRUARY 2019

## 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	31 now, maximum 35
Quest AUM	\$1,186 million
Strategy AUM	\$78 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

## FEBRUARY SUMMARY

Markets surged in February after the US Fed Reserve appeared to temper their view on interest rates. This shift was mooted in January and was confirmed by minutes of the FOMC meeting at the end of the month. In twelve months we have moved from potentially multiple rate rises and a growing economy to a flat US rate outlook.

The shift in the interest rate trajectory flipped sentiment in a stunning reversal of mood compared to late last year.

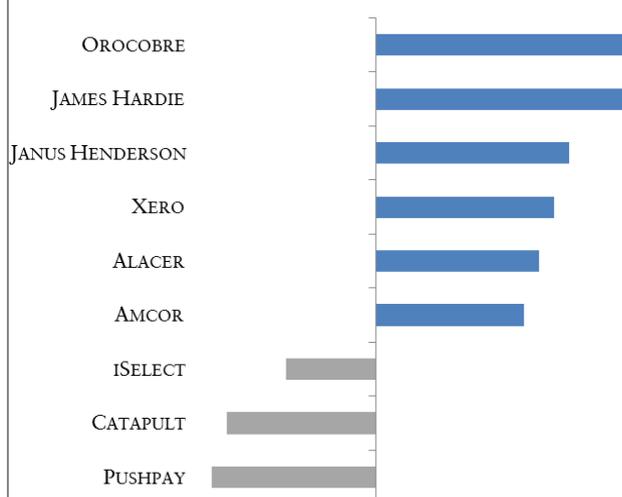
In Australia we enjoyed a double whammy as the Royal Commission report was released, unleashing a flurry of bank buying. This sector had been flogged by the market for months and the report contained no surprises. The January market rally of 3.8% was followed by another 6% in February.

The ASX300 6.0% lift led the Dow which rose only 3.6%. The MSCI rose 2.5% and the S&P500 added 3.3%. Shanghai saw a much needed rally rising 13.8% after a dismal 2018 which saw an annual fall of 25%.

The Quest portfolio added 6.5% in February, an excellent result given we own only 30 stocks in a surging index of 300 stocks.

We are pleased to announce that Quest Asset Partners have been named as a finalist in the Money Management Lonsec awards in the SMA class for the third year in a row.

## DRIVERS OF PERFORMANCE



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 28 February 2019	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	6.5%	8.7%	4.6%	14.7%	9.6%	13.7%	11.5%
ASX 300 Accumulation Index	6.0%	9.9%	6.8%	12.9%	7.2%	11.0%	7.5%
Value added	0.5%	-1.2%	-2.2%	1.8%	2.4%	2.7%	4.0%

\*per annum



## PORTFOLIO ACTIVITY

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February saw two new positions added to the portfolio in **Nine Entertainment** and **Bingo Industries** and the sale of our Vista Group holding.

Nine was added after its first result as a merged entity following the combination with Fairfax. The share price has weakened in recent months due to soft ad markets in the December quarter plus a challenging listings environment for Domain. We have built a position as we believe the combined entity is an improved business and the broader audience reach is potentially valuable. Domain is the crown jewel and there are opportunities to promote the brand further across the larger combined platform. We rate Nine as a “B” grade stock and see valuation upside as growth in its digital businesses offsets the decline in broadcast TV.

Waste recycler Bingo Industries has returned to the portfolio after an earnings downgrade saw the share price fall 50% in a day. We know the business well having initially invested at the \$1.80 IPO in May 17 and selling it for a profit at \$2.70 in May 18. We see the acquisition of Dial-a-Dump as being positive for Bingo as it removes a major risk of being short landfill capacity. While there are still integration risks and questions about the Bingo exposure to the residential building cycle, at our entry price of \$1.40 we saw these issues as being sufficiently factored in. The stock has since responded positively following the ACCC approval of the Dial-a-Dump acquisition and the announcement of a share buyback. It is not often that a stock is sold only to be bought back at half the price within 12 months. The key to our valuation is understanding the execution risks in the business thus understanding the realistic value of the stock. The market has struggled with this issue since listing which allows us to benefit from the market gyrations.

We added to our position in **Westpac** ahead of the release of the much anticipated final Royal Commission findings. We thought a relief rally was quite possible given the underperformance of bank shares leading into the report. This proved to be the case with Westpac jumping 7% on the first day of trading following the release. After months of analysis there was nothing unsurprising in the findings other than the adoption of all 74 recommendations by both political parties with only a scant read of the report! Expect a more selective approach to these recommendations post the electoral cycle.

We also added to our position in **CSL**.

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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>

In February we sold our long held position in cinema software provider **Vista Group**. We have held Vista since its IPO in August 2014 and it has delivered over 200% return in that time. Although the business continues to perform well the share price has exceeded our valuation so we have banked our profits.

We also trimmed positions in **BHP, IAG, Sonic Healthcare and Janus Henderson** into share price strength.

Cash at the end of the month was around 6% and currently sits around 8%. The strong start to the year has taken the market back towards the highs reached in August last year and valuations are again looking full in many areas of the market. We continue to hunt for investments that meet both our quality and valuation criteria.

## QUEST EX 20 PORTFOLIO

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The Ex 20 portfolio gained more than 7% in February with solid performances from **GTN Limited, James Hardie, Breville, Amcor, Cleanaway** and **Audinate Group**. This portfolio is an excellent addition for those seeking mid and small stocks to supplement existing holdings in larger companies.

## THE QUEST PROCESS

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The Quest team invest to make an above average return. We pay less heed to beating an index.

We research investments from the ground up and invest based on our assessed valuation. We seek minimum 15% upside. This valuation becomes our target price.

A Quest portfolio includes known names such as **Woodside Petroleum** and industrials such as **Amcor**. We also look to add value outside of the major stocks, recent examples being **Aurelia Metals, Viralytics, Bravura, Netwealth** 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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