

AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

FEBRUARY 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.

THE FEBRUARY REVIEW

Our Quest portfolio return was 1.3% for the month which lifts the annual return to above 20% for one year.

We did lag the benchmark in February due to weakness in our commodity stocks, namely Orocobre, South32 and RIO, in the last few days of the month.

The highlights of the month were the local reporting season where 22 of our 28 stocks owned reported either half yearly or annual results. Quest held stocks delivered 13 results in line with 6 above expectations and 3 below expectations.

Quest holdings in Lend Lease, Boral, iSelect, CSL, AGL Energy and Healthscope delivered better than our expectations. The price of shares in Westfield, Orocobre and Magellan Financial fell post result as expectations were not met.

The key to markets short term is the effect of the almost certain US Fed rate rise expected in March. This increase will test the Trump induced vortex of hope that has propelled markets since November. We are cautious at this point given that the over whelming positive sentiment toward Trump policy success pays little head to the practicality of policy execution.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	Maximum of 35
Quest AUM	\$689 million
Strategy AUM	\$59 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



Performance	BEFORE FEES AND TAX		(Past performance is no guarantee of future performance)					
To 28th February 2017		1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated		1.3%	4.1%	20.4%	8.1%	12.8%	7.4%	11.4%
ASX 300 Accumulation Index		2.2%	5.8%	22.0%	6.4%	10.4%	4.2%	7.3%
Value added		-0.9%	-1.7%	-1.6%	1.7%	2.4%	3.3%	4.1%
*per annum								



PORTFOLIO ACTIVITY

Our holdings in **iSelect** (ISU), **Lendlease Group** (LLC), **AGL Energy** (AGL) and **Aristocrat Leisure** (ALL) all travelled well in February with price lifts of 8% or more.

AGL Energy (AGL) appears in our top attributors over 1, 3, 6 and 12 months. The trigger for purchase was a new management team in May 2015 that reset thinking on capital spend and future positioning. AGL has also benefitted from tighter power supply markets on the eastern seaboard. While we have taken some profits, we still see AGL as well positioned in a very complex and volatile market. Energy security has become a daily topic of conversation. AGL has both scale and access to low cost power; a rare attribute in listed stocks. Quest bought AGL at \$16.50 two years ago, now trading at \$25.

Given the Trump market jump, we are cautious in that markets seem to think that the execution of policy in the USA is quick and easy. The last major tax changes took place under Regan in the 1980's and took years. This time, the Republicans have only 52 of 100 Senate seats. There won't be any US tax cuts until revenue is generated somewhere else and the US\$1 trillion BAT idea won't hatch with a wave of the hand. We are cautious on the excitement and cash is up at 9%, higher than our average of 4%.

The balance of our **Fortescue Metals** (FMG) holding was sold in February. This holding was bought last year at \$3.80 and has delivered an excellent gain. We see the metrics as having turned negative for Fortescue with the iron ore price likely to fall, strip ratios climbing slowly, an increase in mining cost per tonne and a more demanding capex profile suggesting the best of gains have been had. Quest does not own **BHP** which worked well this month as it fell 10% but we do own **RIO** which slipped 6%.

We added to the **South32** (S32) investment again post result, the well managed diversified miner spun out from BHP in 2015. South32 have a net cash position of over \$800 million and we expect a buy back soon. S32 is well run, we know the team and like the exposure to aluminium that will benefit from improving global economic activity.

We have also used weakness in **Henderson Group** (HGG) to add to the position. The merger with Janus Capital has held the stock back recently, with no benefit yet seen from the global rally in equity markets. The merger is expected to conclude within the next three months.

The Magellan Financial (MFG) holding was also sold having achieved our \$24 target. We took some sales well above that level. We think the next twelve months is harder for this group as it seems to be shaping into more of a marketing organisation than a funds management operation. FUM is now above \$40 billion and performance is not great on either 1 or 3 years. New clever niche products are on the way but performance has slipped. We prefer Henderson Group at this time.

Galileo Japan Trust (GJT) paid another 10 cent dividend in February with a few more cents due before financial year end once the company is sold. Galileo has been an excellent investment for Quest investors delivering nearly a 100% return in less than 3 years.

SIGNIFICANT INVESTMENTS

Large	Lendlease (LLC)			
	Westpac (WBC)			
	CSL (CSL)			
Mid Cap	Boral (BLD)			
	South 32 (S32)			
	Henderson Group (HGG)			
Small Cap	iSelect (ISU)			
	Villaworld (VLW)			
	Oneview Health (ONE)			

TOP ATTRIBUTORS

BHP (positive as not owned)

iSelect

AGL

Lendlease

Telstra (positive as not owned)

KEY DETRACTORS

Orocobre

South32

Viralytics

Oneview Healthcare



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.

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	<u>Link</u>	✓	✓
JBWere Multi- Asset Platform	<u>Link</u>		✓
Macquarie	<u>Link</u>	✓	✓
HUB24	<u>Link</u>	✓	✓
Powerwrap	<u>Link</u>	✓	✓

BLOG

To read "Team USA will outlast Team Trump", "Origin Addresses the debt", "First mover advantage" and other Quest Insights visit www.questap.com.au/news/

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