



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

JANUARY 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.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	Maximum of 35
Quest AUM	\$747 million
Strategy AUM	\$58 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 JANUARY REVIEW

The Quest portfolio was slightly positive for the month which was **85bp ahead** of the market which fell 0.8% in January.

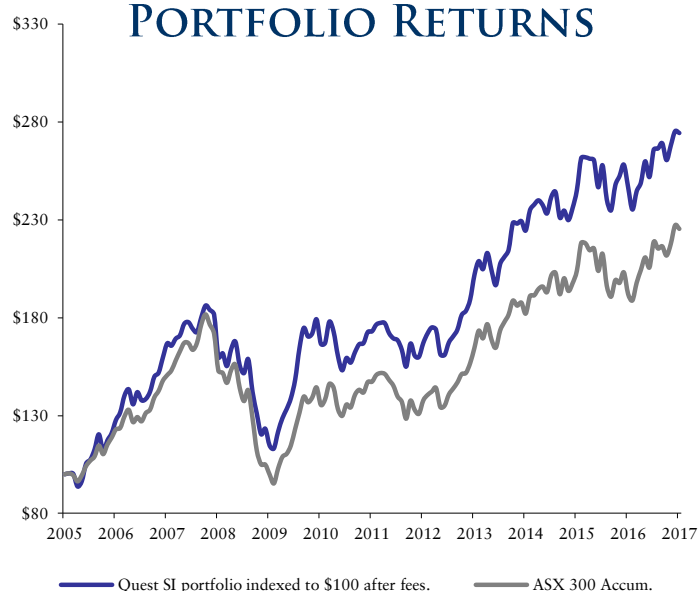
January delivered a quieter holiday market but a jolt of reality as Trump policy moved from theory to active. The Australian market eased less than a percent with Resources, Healthcare and Materials firm while Banks, REITS and Industrials fell.

The market was both subdued and also cautious given the burst of optimism in December post the US election. The new Trump administration is now in full flight and causing tremors thanks to a divisive combination of hurried executive orders, a combatant approach to media, simplistic rationale and an authoritative attitude to international diplomacy.

Despite that the global markets are still hoping for infrastructure spending, more growth, tax cuts, rising inflation and less regulation. Investors are hopeful while being a little nervous at the same time.

Calendar 2016 is only the second time in 12 years that Quest has lagged the market over a calendar year. Detail of our 2016 calendar year portfolio activity can be found on our web site www.questap.com.au.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31st January 2017	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	0.1%	5.8%	13.4%	9.6%	13.2%	7.2%	11.3%
ASX 300 Accumulation Index	-0.8%	6.4%	17.3%	7.4%	10.4%	4.1%	7.2%
Value added	0.9%	-0.7%	-3.9%	2.2%	2.8%	3.1%	4.2%

*per annum



PORTFOLIO ACTIVITY

January was a slightly positive month for Quest against a market that fell 0.8%. The best of our stocks were **Fortescue Metals** (FMG) up 13%, **CSL** up 12%, **Rio Tinto** (RIO) up 11%, **Origin Energy** (ORG) up another 7%, **Boral** (BLD) up 7% and homebuilder **Villaworld** (VLW) up 6%.

Henderson Group (HGG) had another poor month falling 10% as the falling GBP and Brexit uncertainty prevail. Henderson reports an annual result in February and the Janus Capital merger proposal to the market in April 2017 so the next weeks are pivotal for the company. Henderson has been a consistent winner in prior years for Quest but the Brexit position has delivered a few torrid months since July for the share price. We continue to have faith in the Henderson management team.

Both **iSelect** (ISU) and **Viralytics** (VLA) eased in January after a strong 2016.

During the month the Quest portfolio increased positions in **Boral** (BLD), **Evolution Mining** (EVN), **iSelect** (ISU), **South 32** (S32), **Santos** (STO), **Suncorp** (SUN) and **Westfield** (WFD).

There were no significant sales however **Healthscope** (HSP) was reduced and we took profits on some **Magellan Financial** (MFG) and **Westpac** (WBC) which hit our target momentarily.

In mid 2016 we swung our portfolio toward miners with emphasis on iron ore by adding **Fortescue** (FMG) and **RIO** to the portfolio. This was a good move; we have since built a position in **South 32** to diversify away from iron ore (where the price has nearly doubled). South 32's more diversified portfolio is generating very strong cash flows that may see increased dividends or a buy back in February. The Fortescue holding has been reduced as the price rises however we are still holding RIO and note the larger than expected dividend just announced in February. Investors should consider that dividend yield is becoming a feature of larger miners after dividend reductions over previous years. Last time Fortescue reported they quadrupled the dividend.

In November we participated in a large placement by **Boral** (BLD) to fund the acquisition of NYSE listed **Headwaters Inc.** Boral sits nicely as a beneficiary of the Trump administrations pending government spending program. Boral has moved quickly from the

issue price of \$4.80 in December to a current price of \$5.80, a big gain in only 6 weeks.

Avoiding disappointment is a key part of managing money. Quest did not own **Brambles** (BXB) as we were unable to value the stock anywhere near the prevailing price. After a 16% fall in January, Brambles is a bit closer to our assessed value.

SIGNIFICANT INVESTMENTS

Large	Lendlease (LLC)
	Westpac (WBC)
	CSL (CSL)
Mid Cap	AGL (AGL)
	Boral (BLD)
	South 32 (S32)
Small Cap	iSelect (ISU)
	Orocobre (ORE)
	Oneview Health (ONE)

TOP ATTRIBUTORS

CSL (CSL)
Boral (BOR)
Rio Tinto (RIO)
Brambles (BXB)(positive as not owned)

KEY DETRACTORS

BHP (BHP)
Henderson (HGG)
iSelect (ISU)
Viralytics (VLA)



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

- 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	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/

CONTACT QUEST

Ph 02 9409 2333

Suite 8.07, 6A Glen St, Milsons Point NSW 2061

quest@questap.com.au www.questap.com.au