



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

JULY 2015

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 ASX300 Accumulation Index (pre fees). SMA's are professionally managed portfolios where the investor retains beneficial ownership of the underlying securities. This concentrated portfolio is suitable for investors seeking capital gains and income over the medium term via a professionally managed exposure to the Australian share market.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	Maximum of 35
Quest AUM	\$986 million
Strategy AUM	\$56 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

MONTHLY PERFORMANCE

The Australian market reacted positively to the latest developments in Greece with a 4.3% gain. The Quest Australian Equities Concentrated Portfolio returned 4.6% for July. Over the longer term the portfolio has returned 9.6% and 18.9% pa over 1 and 3 year periods respectively. The Quest composite ranked 15th in the Morningstar Survey for the year to June 2015 of 92 long only Australian Equity managers.

MARKET SUMMARY

The Australian market finished up 4.3% in a month dominated by twin global economic issues: US rates and Greece. The US S&P500 was up 2% and the Nasdaq up 2.8%. Euro Stoxx surged 4% as Greece bought some time and the Nikkei was up 1.7% while the Shanghai market tumbled 14%.

Commodities continue to look weak. Oil and gold both fell 10% as the USD rallied with further talk of higher rates in the US. The Australian dollar fell heavily by 5.2% to 73c USD and slid relative to the Euro by 4% to 1.50.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31st July 2015	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	4.6%	0.5%	9.6%	18.9%	12.6%	11.9%	12.1%
ASX 300 Accumulation Index	4.3%	-0.8%	5.5%	14.8%	9.4%	7.1%	7.6%
Value added	0.3%	1.4%	4.1%	4.2%	3.2%	4.7%	4.5%

*per annum

MARKET SUMMARY

All sectors other than those resource related rose in July with Healthcare, Consumer Staples, Industrials and Consumer Discretionary adding more than 6% each. Particularly strong were **Qantas** (QAN), **Treasury Wine** (TWE), **CSL** (CSL), **Cochlear** (COH), **Echo** (EGP), **Wesfarmers** (WES) and **Woolworths** (WOW). Most resource related stocks were poor particularly **Bradken** (BKN) which fell 17%.

Asciano (AIO) rallied 22% after an indicative, non binding and conditional proposal from Brookfield Infrastructure. This proposal continues to progress and should see a formal bid. If the deal completes, Asciano will join Toll Holdings as the second transportation company to leave the market this year.

Socks and jocks manufacturer **Pacific Brands** (PBG) provided a few smiles for their patient shareholders with an unexpected upgrade in July. The stock popped 31%. PBG is still down over 80% since the GFC.

Duet (DUE) raised \$1.75 billion in a placement and entitlement issue to buy 100% of **Energy Developments** (ENE) under a Scheme Implementation Deed. Stock was issued at \$2.05 and the takeover will progress quickly as the major ENE shareholders hold about 80% of the stock and have indicated an intention to accept.

Quest do not own shares in **Asciano** (AIO), **Pacific Brands** (PBG) or **Energy Developments** (ENE) and did not participate in the **Duet** (DUE) placement.

In overseas markets, **Google** rose 16% on the 17th July to set a new record increase in capitalisation intra-day. The Google share price move added USD\$65 billion to the company's size or around the size of **ANZ Banking Group** (ANZ)! Days later **Apple** disclosed cash balances of USD\$270 billion which is enough to buy Sydney's CBD precinct 5 times over. The power and size of these companies, which have driven the US market to new highs, is becoming a concern to the extent that earnings may not be able to deliver to lofty market expectations.

Oil slumped another 20.7% to US\$47, iron ore fell 10% and the gold dipped 6.5% to US\$1095 per oz.

Domestically, inflation was below band for the quarter but underlying is within the desired **RBA** band of 2-3% on average over the cycle. The RBA kept the cash rate at 2% and we do not anticipate a change in the near term.

While the flow of new listings (IPO's) takes a step back over the August reporting season, the ASX website indicates 25 new floats are scheduled between now and October. Noticeably, resource related issues are few with a larger than usual number of fund manager **LIC's** (listed investment company) preparing to launch raising a targeted amount in excess of \$1 billion.

PORTFOLIO CHANGES

The only stock addition in the month was **Amaysim** (AYS), an IPO listed on 15th July. Amaysim has debuted strongly climbing from a listing price of \$1.80 to close at \$2.03. The company commenced operations in 2010. Amaysim is an online led Mobile Services Provider with 700,000 subscribers at May 2015, and currently has a 2% market share.

The holdings in **ANZ Banking Group** (ANZ), **Ansell** (ANN), **CBA** (CBA) and **Lend Lease** (LLC) were increased marginally.

The holding in **Orocobre** (ORE) was sold in July. We have persisted with this promising Lithium producer for more than two years however the recent and unexpected capital raising in June has caused us to rethink our assumptions as per our investment process, given the dilution effect of recent raisings. We have taken a small loss on this investment but will continue to monitor the Argentinian plant commissioning over the coming months.



CONTRIBUTION

iSelect (ISU) was a major contributor which rose 22% in July. Quest investors in total hold 5.5% of issued capital. iSelect has worked through a number of issues over the last two years including resolving the debt owed by **NIA** (health.com.au) in July. We have a positive view on internet price comparison sites and despite this rise, the stock still sits below our target. There is a possibility of capital management initiatives including dividends and buy backs this year while further acquisitions are less likely.

Westpac (WBC) managed an 8.4% rise in July after 3 poor months. **Commonwealth Bank** (CBA) also rose a humble 2.8%.

CSL (CSL) is the subject of a recent blog on our website at www.questap.com.au/news after breaching \$100 per share in August this year. The stock rose 14% in July, then surged again into August; a rise that was perhaps a little too steep!

Vista Group (VGI) and **Henderson Group** (HGG) delivered good numbers again, up 12% each. Both stocks have had a great year so far. **Smart Group** (SIQ) continued to rerate, closing up another 7%.

APA Group (APA), Australia's biggest owner and operator of pipelines, rose 10% in July together with most of the yielding utilities stocks in the month.

The Quest portfolio holdings in **BHP** (BHP) and **Orocobre** (ORE) were poorer performers during the month.

Our portfolio outperformed the benchmark index pre fees in July, returning 4.6% versus 4.3% for the ASX 300. Our mid and smaller stocks continued to do well in July.

SIGNIFICANT INVESTMENTS

Large	Commonwealth Bank (CBA)
	Westpac (WBC)
	CSL (CSL)
Mid Cap	Healthscope (HSO)
	APA Group (APA)
	Henderson Group (HGG)
Small Cap	iSelect (ISU)
	Estia Health (EHE)
	Surfstitch (SRF)

TOP CONTRIBUTORS

Westpac (WBC)
CSL (CSL)
iSelect (ISU)
APA Group (APA)
Commonwealth Bank (CBA)

KEY DETRACTORS

Orocobre (ORE)
BHP (BHP)
Comet Ridge (COI)



INVESTMENT APPROACH

The Quest team use a three stage process to find opportunities that are not readily available to the average investor. We search for businesses that are mis-priced by the market. We are looking for unrecognised potential.

Our Stage 1 qualitative business assessment is combined with our Stage 2 integrated qualitative valuation process to find the best opportunities. 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 well known names such as major banks as well as mid size and smaller companies. We look to add value outside of the major names. The portfolio typically carries a number of recently listed businesses as this is where analyst coverage is less intense.

Our typical client has an interest in the Australian share market but lacks the time to maintain a portfolio. Our clients cannot access all of the 40 new floats and other opportunities we have seen since 2014.

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

CONTACT QUEST

Kathryn Ginns
Phone (02) 9409 2333

Suite 8.07, 6A Glen St
Milsons Point NSW 2061

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

BLOG

Quest's latest Insights are **"Quest establishes a 10 year track record"** and **"CSL bursts through the \$100 barrier"**.

To read more visit www.questap.com.au/news/

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