



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

JULY 2016

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	\$1,351 million
Strategy AUM	\$54 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 JULY REVIEW

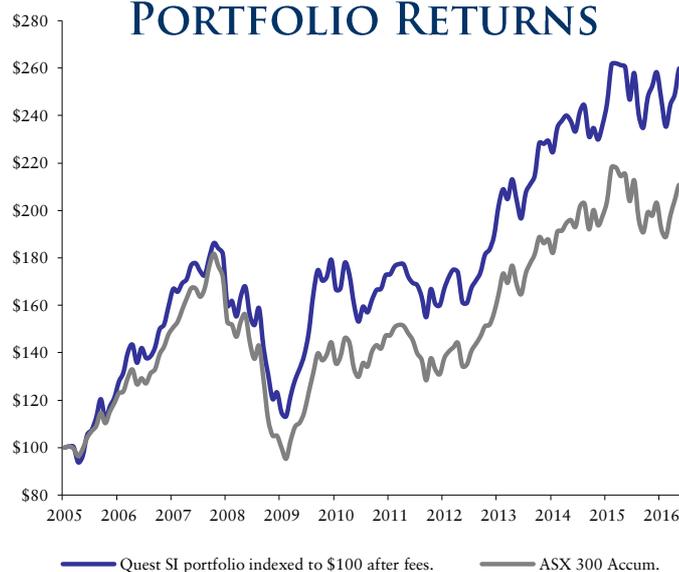
July delivered a rollicking **5.9%** return to investors with all sectors positive. Conditions were generally favourable for equities.

The US Federal Reserve again kept rates on hold while both the Bank of England and Japan postured that stimulus would be used if necessary. **Theresa May** quickly replaced David Cameron as UK Prime Minister while in Australia the incumbent government was returned with a slender majority. **Donald Trump** slipped in US polling. Generally, most developments were conducive to better markets.

The market remains volatile with sectors appearing to be taking it in turns to be popular. The macro continues to be complex with a lack of global growth and markets being fuelled by low rates and accommodating central bank interventions. Then there is BREXIT (what will it mean?) and the seemingly never ending US election process.

There is a jovial feel to markets at the moment with no shortage of optimism assisted by such low interest rates. We are concerned now that a level of hubris is developing with an apparent disconnect between higher share prices and lack of earnings growth.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31st July 2016	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	5.9%	7.5%	5.1%	11.3%	12.2%	9.1%	11.5%
ASX 300 Accumulation Index	6.4%	7.0%	2.9%	8.1%	9.4%	5.6%	7.2%
Value added	-0.5%	0.4%	2.2%	3.2%	2.8%	3.5%	4.3%

*per annum



PORTFOLIO ACTIVITY

During the month we bought **Fortescue** (FMG) around \$3.80. Fortescue is Australia’s third largest iron ore producer. Fortescue has dramatically lowered the cost per tonne of iron ore produced over 4 years while debt has fallen from US\$10 billion a few years ago to \$5 billion. At the same time the iron ore price has also firmed. We were looking for a rerating here which is underway with Fortescue trading at \$4.43 at the end of July.

Aristocrat Leisure (ALL) has been added to the portfolio. Aristocrat rates well under our Q Stocks process and is currently enjoying increased market share with many leading games at present. Our channel checks indicate that machine performance in the US is well above average and that the upcoming result will be solid. We have already seen some rerate in PE for the stock.

During the month we sold **ANZ Banking Group** (ANZ) and bought **Macquarie Group** (MQG). While major banks are a reliable source of franked yield we see returns from major banks being flat to down in coming years as the economy lacks growth, regulatory capital demands increase, competition intensifies and the cost of doing business increases. Our process suggests the more globally based Macquarie Bank, with a more diverse revenue base, has better upside. Quest also own **Suncorp** (SUN) but again the focus is on the cost opportunity within the insurance business, not the banking division.

Henderson Group (HGG) was our BREXIT casualty falling sharply in June before a 15% rally in July. The business drivers here are inflows and market performance but the big influence, in our view, is the Pound / AUD exchange rate. When it recovers Henderson will recover with it. We have a high level of confidence in this management team and continue to hold this stock, acknowledging that the Pound holds the key to attaining our target price.

Updater (UPD) is a US technology company listed in Australia that has developed a platform to help consumers move house by forwarding mail, update subscriptions, find utility providers and complete other moving related tasks in one place.

It is estimated that 18 million US households move each year. Through its real estate relationships, Updater knows when someone is moving weeks before they actually move. Businesses can potentially integrate with Updater and use it to communicate with movers offering assistance, deals or services. Quest participated in the IPO at \$0.20 in December 2015. The recent announcement of a partnership with US insurer Liberty Mutual has seen the price climb to over \$0.50.

Lithium producer **Orocobre** (ORE) had a poor July falling 13% but the stock has doubled this year and we continue to hold this position. In July our longest standing holding, **CSL** (CSL), moved through \$120 per share. The stock has performed very well this year and added another 5% in July.

SIGNIFICANT INVESTMENTS

Large	Commonwealth Bank (CBA)
	Stockland (SGP)
	CSL (CSL)
Mid Cap	Stockland (SGP)
	Lend Lease (LLC)
	Origin Energy (ORG)
Small Cap	Greencross (GXL)
	Vista Group (VGL)
	Reliance (RWC)

TOP ATTRIBUTORS

Updater (UPD)
Aristocrat (ALL)
Suncorp (SUN)

KEY DETRACTORS

Origin Energy (ORG)
ANZ (ANZ)
Viralytics (VLA)



INVESTMENT APPROACH

The Quest Asset Partners team use a three stage process to research opportunities that may not be readily available to investors. 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. 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. The portfolio typically carries a number of recently listed businesses as this is where market knowledge is 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 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.

Quest Asset partners are also proud sponsors of the **Norths Pirates Junior Rugby Union Club.**

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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 "**Summary of Fiscal 2016**", "**Lithium potential finally recognised by the market**", "**Quest adds Macquarie to Platform choice**" 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