



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

JULY 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.

JULY SUMMARY

The ASX 300 finally pushed through the all-time high on the second last day of July with the previous record of October 2007 receding into history. The technically minded will have noted that the Accumulation index high had already been broken in June (which adjusts for dividends paid). Regardless, the bull run is now more than 10 years old since the nadir post the GFC.

The market is all about interest rates as the US Fed lowered rates as expected for the first time in 11 years. Locally, the expectation is that the Australian Reserve Bank will also cut rates again, possibly twice in the next 12 months. The latest CPI figures show the 1.6% annualised inflation rate to be below the RBA target of 2-3% once again, a situation that has persisted for over 4 years.

Interest rates are now negative in some parts of the world. It is important to grasp the enormity of this new paradigm as investors are actually paying to hold government debt. Rates are negative in Germany, France, Belgium, Sweden, Slovakia, Italy and others. The discount rate applied to future earnings is falling over time encouraging asset prices to rise. The market has risen now for 7 months in a row this year.

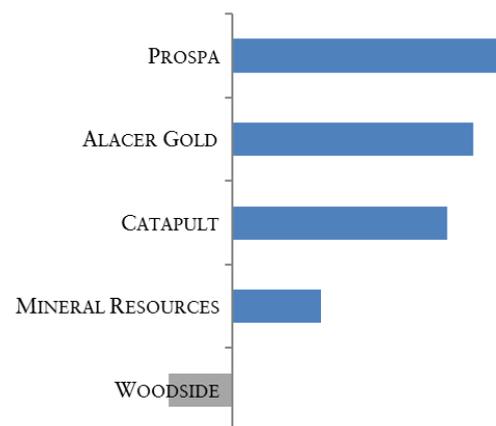
As rates fall the pressure to buy yield increases and it is obvious where this has led investors. The four major banks are up 16% pre dividends on average in 2019. The REIT's index has risen 21% this year. The search for growth has sent some tech stocks to very high levels; in some cases, stupid valuations.

As such we are increasingly concerned at the herd buying of many stocks that looks similar to the behaviour seen in August last year just prior to a major stock price correction.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	32 now, maximum 35
Quest AUM	\$1.2 billion
Strategy AUM	\$82 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

DRIVERS OF PERFORMANCE



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 July 2019	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	3.1%	8.1%	8.9%	13.6%	11.0%	11.7%	11.9%
ASX 300 Accumulation Index	3.0%	8.6%	13.3%	11.6%	8.6%	9.5%	8.1%
Value added	0.1%	-0.5%	-4.4%	2.0%	2.4%	2.2%	3.8%

*per annum



PORTFOLIO ACTIVITY

The RBA cut another 25 bp at the beginning of July following the June rate cut which was the first since August 2016. This lowers the cash rate to a record low of 1.0%.

While rates are the biggest driver of valuation, the persistent ramp up in global tensions needs to be considered. Sentiment has played such a big role in this bull market.

Unfortunately the Trump tactic of “poking the bear” has spread from China to Russia and now the Middle East resulting in investment sentiment being highly jittery. Hong Kong is not helping either. The chance of someone lashing out, other than Donald Trump, is a concern to us as investors. The continued pressure on the gold price, which is now well above US\$1,400, confirms a widespread concern about the world order.

In July we did not add a new stock to the portfolio as nothing was found to satisfy our parameters. This has happened before and ironically these times are often followed by a correction in the market. A prolonged period of “nothing to buy” usually means the market is too high. The current climate, in our view, is very similar to August of last year, which was the start of a correction that lasted for four months.

Our best attribution performers were **Prospa**, **Mineral Resources**, **Alacer Gold**, **CSL** and **Worley Parsons**. Quest had no disappointments other than in a relative sense where our nil position in **Wesfarmers** and **Woolworths** worked against us. Both stocks were firm in July.

Our holding in **Pushpay Holdings** was sold in July. Recent results, while solid, have led to a lower valuation under our methodology. The stock has been held for two years and has delivered a solid 130% return.

We have also reduced our successful investment in **REA Group** as the price closed on the \$100 level. REA has performed very well in this tech driven market.

Quest continued to build our position in **Investec Australia Property Fund (IAP)** which listed in early June. Investec own fringe office and industrial sites mainly in Sydney and Melbourne. The business has no residential or retail assets.

Our holding in small business lender **Prospa (PGL)** was increased after a June IPO. Prospa is lending to the SME sector as an alternative to the major banks.

Our **cash** is again above average at over 7%.

FACT OF THE MONTH

The recent Household income and Labour Dynamics Survey (HILDA) released in July contains some interesting social statistics for the nation. The median (as opposed to the average) household income post GFC between 2009 and 2017 actually fell after rising prior to the GFC.

The percentage of 18 to 29 year olds living at home lifted from 47% for males and 37% for females in 2001 to 56% for males and 54% for females in 2017.

HILDA is a longitudinal survey covering 17,000 Australians conducted by the Department of Social services since 2001.

THE QUEST PROCESS

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 **CSL** and industrials such as **Ampcor**. We also look to add value outside of the major stocks, recent examples being **Prospa**, **Catapult**, **Bravura** and **Bingo Industries**. The portfolio typically carries a number of mid and smaller cap stocks where we believe our experience gives us an advantage.

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