



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

JUNE 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	\$1,224 million
Strategy AUM	\$51 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 JUNE REVIEW

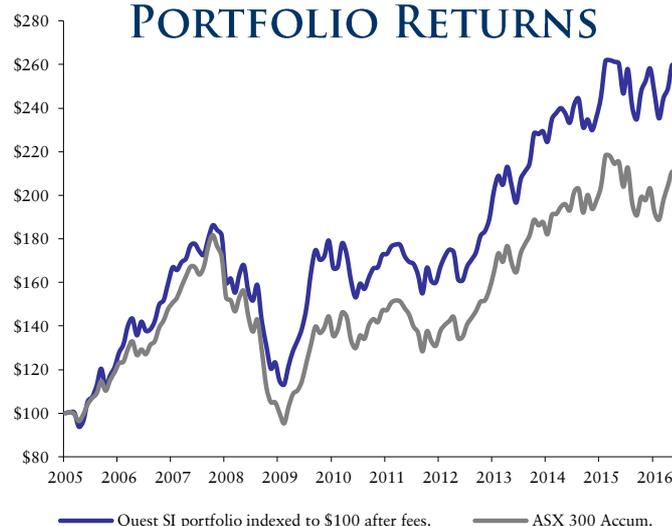
The positive market run of the last three months was broken in June when the BREXIT vote wrong footed asset managers. **Quest delivered a negative 3.1% return compared to the index which lost only 2.4% over the month.**

We did not anticipate a BREXIT "Leave" decision.

The Quest portfolio has only a few stocks with European exposure being **Henderson Group, Magellan Financial Macquarie Bank** and **Lend Lease**. Henderson slumped 31% which was the main contributor to our under performance. **APA Group, Viralytics and Stockland** were the best attributors.

The BREXIT result unleashed an initial panic which was quickly replaced by a barrage of discussion on the potential outcomes and a stabilisation in the market. The delivery of an outcome that was both unexpected and poorly understood via a democratic process has exposed the short comings of western democracies and the growing gulf between people and the political establishment.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30th June 2016	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-3.1%	3.3%	3.8%	11.2%	10.9%	8.2%	11.0%
ASX 300 Accumulation Index	-2.4%	4.0%	0.9%	7.7%	7.2%	4.8%	6.7%
Value added	-0.7%	-0.7%	2.9%	3.5%	3.7%	3.4%	4.3%

*per annum



PORTFOLIO ACTIVITY

The BREXIT result led to our best performers in May being quite poor late in June. The unexpected referendum result reversed market momentum with perceived defensive safer stocks being sought. The only consistent ingredient has been volatility and the ongoing search for yield. The **Utilities** and **REIT** sectors were the only positive performers in June while golds were strong. **Financials** took most of the impact falling 6%.

Henderson Group (HGG) was our BREXIT casualty in June falling 31%. We have not lost faith in this business but our valuation has fallen given the extreme uncertainty in Europe. The price fall is, in our view, excessive. While there is a question over market returns and fund flows, the big driver is actually the value of the Pound (GBP) which suffered an all-time record fall on 25th July. In our view the market is now close to the point of maximum negativity. Henderson was due to restart their stock buy-back this month after repaying all debt in May.

The Quest portfolio carries a large position in **Stockland** (SGP) which was our best attributor in June due to an 8% price increase and the relatively high weight in our portfolio. While we were always confident in this position, the stock has exceeded expectations having gained 21% over the year. Stockland still yields over 5% while delivering approximately 5.5% eps growth into 2017.

Viralytics (VLA) rose another 12% in June and is now up 50% in the quarter. The company continues trials of CAVATAK, a cancer immunotherapy based on a proprietary formulation of the common cold virus for both isolated and combination usage. Quest holds 7.5% of Viralytics.

APA Holdings (APA) has been in the portfolio for some time but has lagged other utilities after a series of stoushes with the ACCC over pricing regulation. This issue has faded in recent weeks after an aggressive defence of the market structure by the company. APA is Australia’s largest pipeline owner and operator. The stock is near record highs (like most utilities) now after lifting 5% in June.

Holdings in **Alacer Gold** (AQG), **Oneview** (ONE), **Greencross** (GXL), **Origin Energy** (ORG) and

Henderson Group (HGG) were increased during the month. New holdings in **Sydney Airports** (SYD) and **Macquarie Bank** (MQG) were initiated.

The BREXIT “Leave” option is now taken as given however the Prime Minister has resigned and likely successor Boris Johnson has declined to nominate. While it is unlikely, it cannot be ruled out that this referendum is **not adopted** by the Parliament. As such, we see ongoing volatility for the balance of this year.

SIGNIFICANT INVESTMENTS

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

TOP ATTRIBUTORS

Stockland (SGP)
AGL (AGL)
iSelect (ISU)

KEY DETRACTORS

Henderson (HGG)
Greencross (GXL)
Magellan (MFG)



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 rival analyst coverage 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 have already seen in recent years.

Our client base includes people from all walks of life that have realised an occasional read of the financial press is unable to 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

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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	✓	✓

* Wholesale version of SMA available

BLOG

To read "**Lithium potential finally recognised by the market**", "**Quest adds Macquarie to Platform choice**", "**Reliance Worldwide**" and other Quest Insights visit www.questap.com.au/news/

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