



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

JUNE 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	\$768 million
Strategy AUM	\$61 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 Quest portfolio delivered a **1.9% return in June**, comfortably ahead of the market return of 0.2%.

The Quest portfolio finished **4.8% ahead** of the market for the financial year pre fees with a 1 year return of 18.6%.

The highlights of the month were a late move up in global bond yields at the end of June, the strength of the Aussie dollar which peaked at US\$77 from a low of US\$73.7 and a solid 14% move upwards in iron ore to US\$65/t.

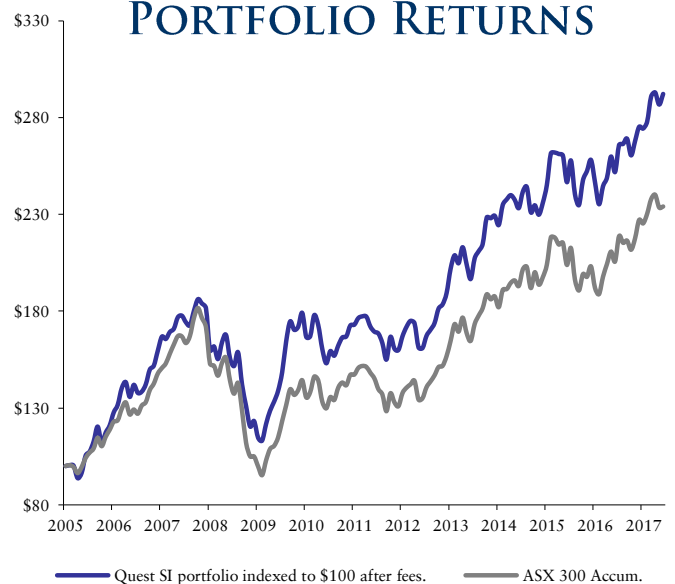
The Dow Jones was up 1.6% while the S&P was up 0.5% with both reaching new highs. The Nasdaq was down 0.9% and the FTSE100 fell 2.7%.

The best sector was Healthcare up 6.1% while Energy was the worst on weak oil prices, falling 7%.

Quest annualised return since inception is 11.6% which is 4.4% ahead of the market per annum since inception in 2005.

In the last six months, the Quest team have attended 294 company meetings on behalf of clients.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30 June 2017	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	1.9%	1.4%	18.6%	10.3%	15.6%	7.2%	11.6%
ASX 300 Accumulation Index	0.2%	-1.6%	13.8%	6.6%	11.6%	3.4%	7.2%
Value added	1.7%	3.0%	4.8%	3.7%	4.0%	3.8%	4.4%

*per annum



PORTFOLIO ACTIVITY

Our best performers in June were small stocks again; **Oneview Healthcare** (ONE) rose 34% reversing the May falls, **Updater** (UPD) added another 26% and **Osprey Medical** (OSP) which rose 16%.

Viralytics (VLA) fell 9% after a sell down by a major holder, **Orocobre** (ORE) eased 5% after adverse weather at the lithium mine site in Argentina and **Westfield Corporation** (WFD) slipped 5% as the REIT index fell 7%.

Quest has avoided incident prone **QBE** and relative performance was enhanced by not owning this stock. QBE announced adverse claims experience and fell 10% in June. QBE has under-performed the market now since 2008!

Our recent purchase in April of **Insurance Australia** (IAG) paid off in June as the company announced increased reserve releases in the upcoming annual result due to better than expected claims experience and a lower than expected inflation effect. IAG rose 5%.

The feature capital markets deal in June was a 4 for 11 entitlement issue in **Link Administration** (LNK) raising \$883m. Link will buy Capita Asset Services in the UK for \$1.5 billion who specialise in asset administration and management services. The deal was well received with Link closing up more than 6% post the deal. This proved to be a late bonus in June for our investors as we have held Link since float back in October 2015. The rally in Link gave us an opportunity to take some profit post the deal.

Our portfolio currently owns **BHP**, **RIO** and **South 32**, an unusual situation that reflects our positive view on the miners in a fully priced market. BHP was added recently after a period of under-performance. The arrival of shareholder activists **Elliot Management Corp** has, in our view, increased the likelihood of a strategic change in relation to the troubled capex heavy shale oil investments in the USA.

RIO and South 32 are generating solid cash flow with declining capex profiles and in June benefitted from further rises in commodity prices. South 32 has already launched an on market buy back.

Quest also own three gold stocks; **Alacer Gold**, **Evolution Mining** and **Blackham Resources**. We see these positions as a hedge against a sudden change of

direction in our market that cannot be ruled out given the complexities of North Korea, the Trump Presidency and the Brexit situation. There are always “X” factors and history tells us that planning for an “X” factor is easier than picking the nature of the surprise.

Overall, resources occupy a higher than usual 17% of our portfolio.

The largest relative over-weight portfolio position continues to be **Janus Henderson** (JHG). Henderson Group finalised a merger with Janus Capital in May. The stock now trades on the NYSE (rather than London) and on the ASX (as before) and occupies 6% of the portfolio.

During the month we made small additions to holdings in **Brambles** (BXB), **Viralytics** (VLA) and **BHP**.

We continue to hold no retail, energy or telco stocks while our cash is still above average at 7.8%.

KEY PORTFOLIO CHANGES

New Stocks	none
Sold	none
Positions increased	Link, Brambles, Viralytics, BHP
Positions reduced	Link

TOP ATTRIBUTORS

Janus Henderson (JHG)
Updater (UPD)
Oneview Healthcare (ONE)

KEY DETRACTORS

Viralytics (VLA)
iSelect (ISU)
Brambles (BXB)



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 in our travels.

Our portfolio is concentrated to a maximum of 35 of our best ideas with 30 stocks on average.

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 stocks. The portfolio typically carries a number of recently listed businesses as market knowledge is often scant.

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.

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 “**Lonsec Awards 2017**” “**Henderson to merge with Janus Capital**” and other Quest Insights visit www.questap.com.au/news/

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