



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

MARCH 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.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	31 now, maximum 35
Quest AUM	\$1,178 million
Strategy AUM	\$77 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

MARCH SUMMARY

The Australian market shuffled to a small gain of 0.18% in March after a 3.8% gain in January and a further 5.2% in February.

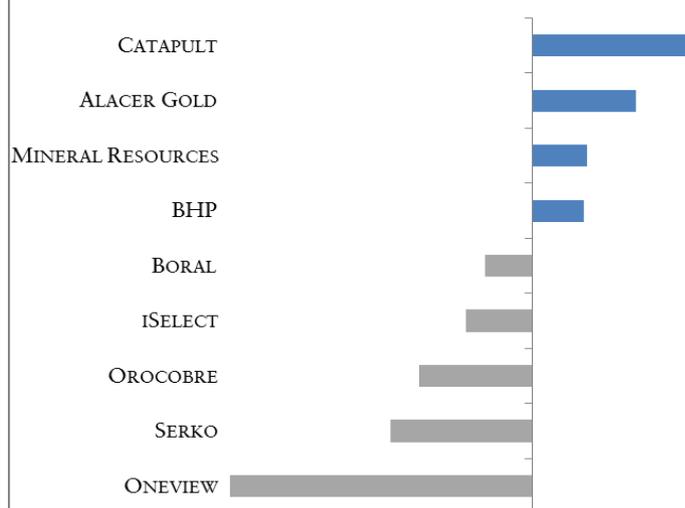
Once again, a shift in investor appetite saw a focus on defensives with yield which saw the REIT sector (property trusts) top the performance list with a 5.1% gain. Health stocks, also seen as defensive rose 3.4% while iron ore miners led the market after a series of events resulted in disruptions to iron ore supply. Fortescue Metals was the big mover in the ASX300 for March, up 17%, while RIO rose 8% (including a special dividend) and BHP only managed 3%.

In a reversal of last month, energy stocks as a sector fell 4.7% while Financials fell 3% after the excitement of The Royal Commission. Whilst the ASX300 rose only 0.7%, the Dow was flat. The MSCI rose 1.3% and the S&P500 added 1.8%. Shanghai rose again up 5.5% and has now risen 35% in 2019 after a dismal 25% fall during calendar 2018. China is the best performing market this year.

The main issues over the next few months are interest rates both local and global and the repercussions of a change in Federal Government. There continue to be conflicting signals from bond markets which are rallying suggesting a lack of growth while the equities markets are rallying as if the economic outlook is robust!

Quest Asset Partners have been named as a finalist in the Money Management Lonsec awards in the SMA class for the third year in a row.

DRIVERS OF PERFORMANCE



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 March 2019	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-0.8%	9.4%	6.3%	12.8%	9.2%	12.8%	11.3%
ASX 300 Accumulation Index	0.7%	10.9%	11.7%	11.4%	7.4%	10.3%	7.5%
Value added	-1.5%	-1.5%	-5.4%	1.4%	1.8%	2.5%	3.8%

*per annum



PORTFOLIO ACTIVITY

A successful portfolio in March would have held plenty of iron ore producers and the non-retail exposed REIT's; a very odd combination but that is how it played out. Quest own BHP and Mineral Resources (MIN) but no longer own Fortescue which was the big mover in the ASX300 in the month. We own no REIT's in our portfolio. As a result we did not keep pace with the benchmark in March which rose 0.7%.

There were no new positions established in March which says something about the lack of value in the market after an 11% move in only 3 months.

We did however add to existing positions in industrials. Aristocrat Leisure was initially bought in December after a slump in the stock price. There was another dip in March which saw us bolster the position. Aristocrat delivers double digit earnings growth but has been volatile recently as the market has mixed views on investments in social gaming. The strategy of buying the dips has worked well here as the stock approaches \$26 at month end.

We also added further to waste recycler Bingo Industries after the stock took a massive tumble. Quest had previously sold Bingo near last years' highs so the stock plunge was an opportunity to reset. While acquisition risk exists, the price correction was so severe that we have re-established a holding in a stock we know well.

Mineral Resources has had a volatile year with the iron ore pricing pushing the stock up and macro lithium news usually working in the other direction. Taking a three to five year view, we look beyond all this noise and are happy to buy on the days when MIN seems friendless. We have visited the Wodgina lithium project site in Western Australia and have been monitoring the development of the various hydroxide conversion plants in Western Australia. The Mineral Resources Wodgina Project is due to commence production in 2019. Mineral Resources have sold a half share of the project for a hefty US\$1.15 billion.

The Quest December 2018 Quarterly listed 23 Labor policies which will form the basis of their election campaign. Since then, there have been further initiatives including a policy on a transition to electric vehicles and a "living wage". Given the likelihood of a change in Government we anticipate that, with

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only weeks till the election, markets may become listless in the next few weeks. We assume a Labor government is likely and that there are few positives amongst the various policies for listed companies.

We trimmed positions in CBA and Macquarie Bank. We have sold Galaxy at a loss after the further sell down of South American assets did not eventuate. We have also reduced exposure to energy with the sale of our position in Origin Energy.

Cash at the end of the month is well above average at 12% as we are finding it difficult to uncover value in this market. The strong start to the year has now taken the market back to within 6% of the highs set back in September 2007.

FACT OF THE MONTH

Industry analysis indicates that post the Royal Commission the pigeons have been scattered in the financial adviser industry. Between December and February 2019, there were 2,541 new advisers and 907 who ceased. This compares to 337 new advisers and 792 who ceased in the prior year. The rush was to beat the introduction of new licensing rules in January.

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 **Woodside Petroleum** and industrials such as **Amcors**. We also look to add value outside of the major stocks, recent examples being **Aurelia Metals, Viralytics, Bravura, Netwealth** 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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