



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

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 EVENTS – MAY SUMMARY

World markets appear to be in a drawn out search for direction. The Dow was up 2.1% but down 1% for the calendar year. The S&P500 was up 2.8% but up only 1% for the calendar year. Europe bounced back after a weak first quarter; the FTSE rose 2.2% while Shanghai was flat.

There were many May highlights. Locally, **CSL** became the fourth largest stock in Australia ahead of **ANZ** and **National Bank** and closed at \$186. AMP management were roasted by the Royal Commission and lost both Chairman and CEO. AMP is down 25% this year to \$3.90, the lowest since 2010. Telstra fell 12% in May to \$2.80.

The continuing decline of **AMP** and **Telstra** is a reminder of why investors need professional managers. Thousands of investors continue to hold these stocks due to some sense of loyalty that remains unearned. The ownership of a stock that maintains hope as a strategy usually leads to disappointment.

The US 10 year bond reached 3% from 2% only 6 months ago. It is now almost two years since the 10 year yield hit a low at 1.36%.

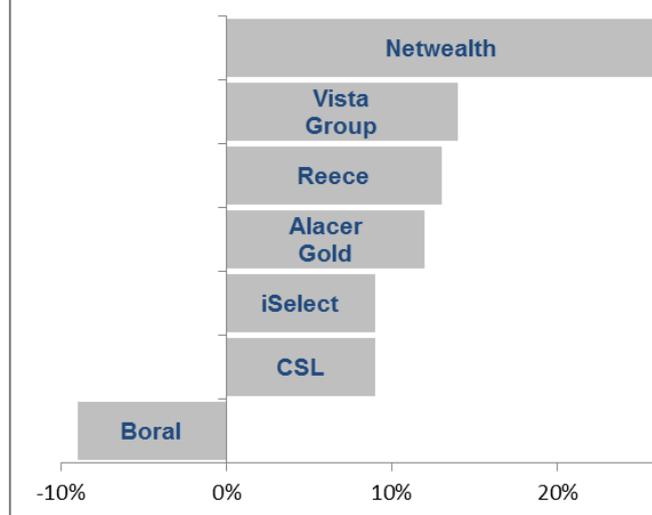
There continues to be many reasons for investors to worry about global markets but that has been the case for the last three years. The imposition of US tariffs continues to periodically spook markets with Chinese military expansion in the South China Sea creating further uncertainty. Interest rates in the US are rising and inflation is apparent in US labour markets. Balancing this is the global thirst for growth and yielding assets against a backdrop of global growth and relatively cheap money.

MAY 2018

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	28 now, maximum 35
Quest AUM	\$884 million
Strategy AUM	\$76 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 May 2018	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	2.8%	1.6%	16.8%	10.7%	12.5%	9.1%	11.9%
ASX 300 Accumulation Index	1.2%	1.1%	10.0%	6.1%	8.8%	5.1%	7.5%
Value added	1.6%	0.5%	6.8%	4.6%	3.7%	4.0%	4.4%

*per annum



PORTFOLIO ACTIVITY

The Quest portfolio exceeded market returns in May. **Netwealth Group** has had a spectacular six months since debut in November and has now surpassed our lofty target. A growth business independent of the banks and a scarcity of scrip (with only 38% of the stock tradeable) has created a tight register. Netwealth has burst through \$9 after floating at \$3.70 last November, a 240% gain. The float of 2017!

Vista Group rose 14%, **Reece** 13%, **Alacer Gold** 12%, and **iSelect** and **CSL** both added 9% in May. **Boral** was the only holding that disappointed falling 9%. **iSelect** recovered after a poor April and appears likely to be the subject of some corporate action. A competitor has built a 19% holding since the downgrade. Quest gained relative performance by not owning **AMP** and **Telstra**.

There were a few portfolio changes in May. The team continued to reduce positions in stocks that have delivered big gains, some of which seem to be surging on a new wave of money searching for growth stocks regardless of the price.

As a result we reduced positions in **Bingo Industries**, **Lend Lease**, **Pushpay**, **Bravura Solutions** and **Netwealth**.

Portfolio additions included **Westpac** prior to the dividend ex date, **CBA**, **Ancor** and **Woodside**. Our team is rotating away from smaller stocks at this time.

The Financial Services Royal Commission rolls on and has highlighted numerous deficiencies. There will be a new layer of compliance, improved practices and a weeding out of individual scoundrels as well as some financial penalties. We do not however see a threat to dividend yields on banks which are now between 5.7% and 7.3% fully franked. Capital requirements as measured by CET1 are already at 2020 targets suggesting that some banks could commence Capital Management programs should further funds be raised from asset sales. **ANZ** already has a buy-back. **CBA** are looking to sell Colonial while **NAB** may sell MLC. More excess capital means more buy backs from the banks plus the dividends. The prolonged underperformance of banks may be at an end. Cash is currently 3%.

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QUEST EX-20 PORTFOLIO

The Quest Ex-20 portfolio is now receiving flows from sophisticated investors. The portfolio is currently running at 7.3% ahead of the benchmark over 1 year with a return of 20.5% pre fees. Best performers this year have been Updater, Pushpay, Bingo and Bravura.

FACT OF THE MONTH

The Economist reports that active managers owned an average of 120 stocks in portfolios in 2007 but only 60 on average in 2017.

A good sign and expect this to continue! Quest currently carries only 28 stocks in the HNW portfolio with a 35 maximum.

The best way to fight back against passive managers is to beat the index post fees and it seems that fair dinkum managers have been lifting concentration for a while.

THE QUEST PROCESS

The Quest team invest to make an above average return; not to beat an index.

A Quest portfolio includes known names such as Commonwealth Bank and industrials such as Lendlease. We also look to add value outside of the major stocks. 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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