



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

NOVEMBER 2015

## 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. This concentrated portfolio is suitable for investors seeking capital gains and income over the medium term via a professionally managed exposure to the Australian share market.

## KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	Maximum of 35
Quest AUM	\$1,011 million
Strategy AUM	\$49 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

## NOVEMBER REVIEW

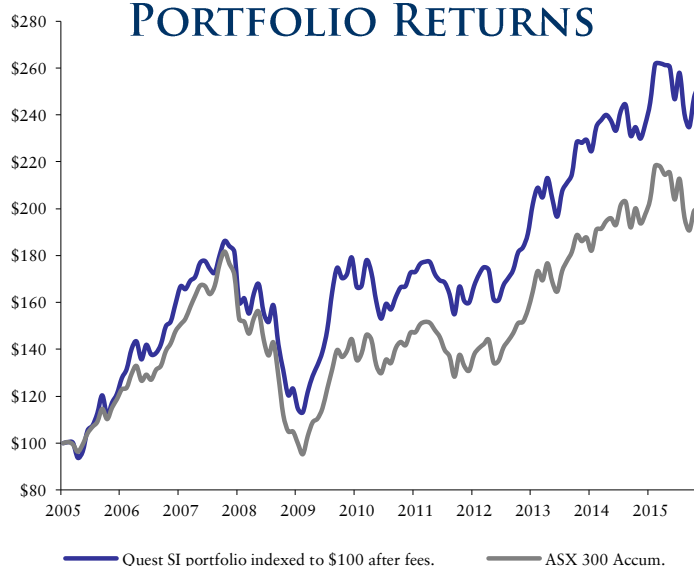
The Quest portfolio returned **1.9%** in November relative to the **0.7%** fall in the ASX300 Accumulation Index.

**The portfolio is now 10.6% ahead of the S&P/ASX300 Accumulation Index over 12 months pre fees. Our 1 year absolute return is 12.7% pre fees.**

The portfolio performance is attributable a number of solid gains from our mid and small cap stocks, a lack of resource exposure and no holdings in wilting leaders such as Telstra and Woolworths.

During the year we have done well in mid and small cap names including **Surfstitch (SRF)**, **Smartgroup (SIQ)**, **Viralytics (VLA)**, **Vista Group (VGI)**, **Magellan Financial (MFG)**, **Henderson Group (HGG)**, **TPM Telecom (TPG)**, **Amaysim (AYS)**, **Vitaco (VIT)**, **CSL (CSL)**, **Galileo Japan Trust (GJT)** and **Ramsay Healthcare (RHC)**.

## PORTFOLIO RETURNS



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30th November 2015	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	1.9%	5.0%	12.7%	14.3%	11.1%	10.4%	11.5%
ASX 300 Accumulation Index	-0.7%	0.7%	2.1%	9.2%	6.9%	5.6%	6.7%
Value added	2.6%	4.2%	10.6%	5.1%	4.2%	4.9%	4.8%

\*per annum



## PORTFOLIO ACTIVITY

The best performer for Quest in November on an attribution basis was **Magellan Financial Group** (MFG) which popped 16% for the month. Magellan continues to enjoy strong flows and performance with the prospect of performance fees being above market expectations. The weaker Australian dollar provides another tail wind. Funds under management are now over \$40 billion.

**Viralitics** (VLA) had another good month lifting 18% after entering into a clinical trial agreement with Merck & Co. Inc. The trial will evaluate the efficacy of an immunotherapy combination for treatment of advanced stage non-cell lung cancer or metastatic bladder cancer.

**IDP Education** (IEL) floated on 26<sup>th</sup> November at \$2.65. Quest participated in the float. The company provides international student placement services and high-stakes English language testing services. The company has been operating for 46 years having started life as an aid body funded by the Australian Government. It was previously 50% owned by **Seek** (SEK).

Seek have sold their stake in IEL with the remaining 50% still held by Education Australia. The company will continue to grow on the back of ongoing growth in the number of people looking to study, work and live in English speaking countries. The stock debuted at \$3.40 delivering a 28% return on day 1.

Online action sports retailer **Surfstitch** (SRF) rose by 12% in November. Surfstitch is our best performing stock having tripled since purchase in 2014. The company made two more acquisitions being Garage Entertainment and Surf Hardware International. Garage is a Sydney based digital distributor of action films with a library of over 3,000 titles. Surfstitch's aim is to capture the global action sports audience. Subscription video is an important part of that process as the Surfstitch demographic spends 1.2 hours on online TV each day. Video provides an opportunity to leverage advertising and marketing partnerships with suppliers.

Surfstitch also purchased Surf Hardware International (SHI) for \$23m. SHI is a global designer, marketer and distributor of innovative water board sports products and accessories such as fins and plugs.

Quest participated in the Surfstitch raising of \$50 million in a placement in November at \$2.00. Our valuation remains above the current share price. Surfstitch is likely to be included in the ASX300 index next year.

**iSelect** (ISU) received a non-binding buy-out proposal from US private equity firm Providence Equity Partners in October. The proposal did not, however, provide a bid price. The stock continues to ease with the uncertainty.

Our holding in **Smartgroup** (SIQ) has been sold as our target price has been met. Floated in July 2015 at \$1.60, this salary packaging business has been one of our best investments this year. We have sold above \$3.20 for a gain of 100% plus dividends since listing.

## SIGNIFICANT INVESTMENTS

Large	Commonwealth Bank (CBA)
	CSL (CSL)
	AGL Energy (AGL)
Mid Cap	APA Group (APA)
	Lend Lease (LLC)
	Ramsay Healthcare (RHC)
Small Cap	Surfstitch Group (SRF)
	Link (LNK)
	Amaysim Aust. (AYS)

## TOP CONTRIBUTORS

Magellan Financial (MFG)  
Surfstitch (SRF)  
Henderson Group (HGG)

## KEY DETRACTORS

Comet Ridge (COI)  
Greencross (GXL)  
iSelect (ISU)



## INVESTMENT APPROACH

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The Quest Asset Partners team use a three stage process to research opportunities that may not be readily available to investors.

We search for businesses that are mis-priced by the 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. 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 some 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 analyst coverage is less intense.

Our typical client has an interest in the Australian share market but lacks the time to maintain a portfolio. Our clients are unable to access the 50 new floats and other opportunities we have seen recently.

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.

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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>

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## BLOG

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The latest Quest Insight on our website is "**Lonsec upgrades Quest Rating**".

To read more visit [www.questap.com.au/news/](http://www.questap.com.au/news/)