



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

NOVEMBER 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.

## THE NOVEMBER REVIEW

A strong month for investors with the Quest portfolio up 2.9%, slightly ahead of the index. The Quest annual return is 8.4%.

November was a surprising month after a sustained Trump rally took investors by surprise. Previously considered an economic disaster waiting to happen, the markets back flipped and chased stocks perceived to benefit from the new administration.

The Dow surged 5.4% which included a new all-time high. Records were reached for the Dow, the S&P500 and the Nasdaq as investors anticipated increased government spending and reduced regulation under Trump. The prospect of higher rates and increased inflation, a theme since August, dominated the trade with banks, energy and resources stocks surging while health care and telcos eased.

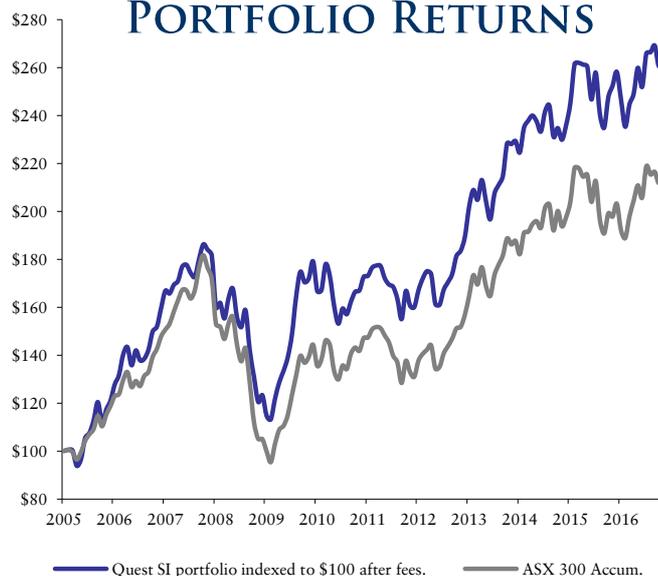
Ironically the Trump victory has created a perception that inflation is inevitable driven by government spending. Central banks around the world have spent years trying to stimulate growth; Trump has convinced investors in only a matter of hours, at least for now, that growth and inflation are back. This suggests the Trump rally could be transient.

The 30% shift in **US 10 year bond** yields in November from 1.8% to 2.4% confirms in our view the end of the bond bull market.

## KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	Maximum of 35
Quest AUM	\$1,289 million
Strategy AUM	\$55 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

## PORTFOLIO RETURNS



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30th November 2016	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	2.9%	1.1%	8.4%	8.1%	13.4%	8.1%	11.2%
ASX 300 Accumulation Index	2.8%	1.1%	10.1%	5.4%	10.4%	4.3%	6.9%
Value added	0.1%	0.0%	-1.7%	2.8%	3.1%	3.8%	4.3%

\*per annum



## PORTFOLIO ACTIVITY

November was a strong month with the best of ours being **Orocobre** (ORE) up 30%, **Origin Energy** (ORG) up 10%, **AGL Energy** (AGL) up 10%, **iSelect** up 8% and **Fortescue Metals** up 7%. **Vocus** (VOC) fell 24% after reporting lower than consensus earnings while **Alacer Gold** (AQG) eased 6%.

In November we participated in a placement by **Boral** (BLD) after the company announced the USD\$2.6 billion acquisition of **Headwaters Inc.** Headwaters is listed on the NYSE and will be funded by a \$480m placement, a 1 for 2.2 \$1,580m rights issue and \$1,100m debt. This is a big bite for Boral; Headwaters will double Boral's revenue in the USA while promising \$100m in cost synergies.

Many existing shareholders were not happy with the size or price of this deal, particularly the heavily discounted non underwritten placement at \$4.80 and the very short rights trading period being only weeks before Christmas. Prior to the deal, Boral was trading at \$5.73. As Quest was not an existing shareholder, the deal was an opportunity rather than a burden; we chose to participate in the placement and have increased the holding since. We do expect some indigestion in Boral for the next few weeks.

**Orocobre** had a big November with the stock up 39% as the ramp up of the Argentinian Olaroz mine continued. The company announced the sale of an exploration area close to existing operations for USD\$37M in scrip to Advantage Lithium of Canada. This is a bonus as our valuation carried no value for the area in question. Meanwhile SQM 3<sup>rd</sup> quarter earnings reported strong lithium prices of above USD\$11,000 per tonne suggesting the December quarter could deliver strong sales revenue for ORE. We expect the stock to ease after this move in December.

During the month the Quest portfolio increased positions in **Oneview Healthcare** (ONE), **Westpac Bank** (WBC) cum dividend, **Alacer Gold** (AQG), **Orocobre** (ORE), **Commonwealth Bank** (CBA) and **Vocus** (VOC).

**Stockland** (SGP) IS back in the portfolio already after a sudden slump in REITs that took the stock from above \$4.60 to below \$4.10 in a few weeks. Stockland is cum distribution and only 5% above NTA at our buy level of \$4.11.

During November we sold our **Macquarie Bank** (MQG) holding at our target price and reduced **Fortescue Metals** (FMG) after a strong price move.

On a recent marketing trip we received many questions about our **Westpac** and **Commonwealth** bank holdings. Consensus is negative on banks but while growth may be lower than prior years, banks are not expensive relative to other parts of the market. Yields are relatively high and fully franked. We note that Commonwealth Bank rose 7% in November while Westpac was 6%.

Gold stocks were poor in November as the lustre fades for the metal. Quest own only **Alacer Gold** (AQG) in this space but there were big corrections in gold stocks with **Saracen** (SAR) down 16%, **Newcrest Mining** (NCM) down 14% and **Evolution** (EVN) down 13%.

## SIGNIFICANT INVESTMENTS

Large	Lendlease (LLC)
	Westpac (WBC)
	Suncorp (SUN)
Mid Cap	AGL (AGL)
	Fortescue Metals (FMG)
	Healthscope (HSO)
Small Cap	iSelect (ISU)
	Link Administration (LNK)
	Oneview Health (ONE)

## TOP ATTRIBUTORS

AGL Energy (AGL)  
Origin Energy (ORG)  
Westpac Banking (WBC)

## KEY DETRACTORS

Vocus (VOC)  
Updater (UPD)  
Alacer Gold (AQG)



## 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 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. 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, many of which are discussed each month in this newsletter. The portfolio typically carries a number of recently listed businesses as market knowledge is often less thorough for new businesses.

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.

Quest Asset Partners have sponsored the **Norths Pirates Junior Rugby Union Club since 2013.**

### Disclaimer

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## INVESTMENT TEAM

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- Michael Evans
- Chris Cahill
- Troy Cairns
- Swapan Pandya

## PLATFORMS

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The Quest Australian Equities Concentrated Portfolio is currently available on the following platforms:

	Web site	Retail	Sophisticated Investors
Mason Stevens	<a href="#">Link</a>	✓	✓
JBWere Multi-Asset Platform	<a href="#">Link</a>		✓
Macquarie	<a href="#">Link</a>	✓	✓
HUB24	<a href="#">Link</a>	✓	✓
Powerwrap	<a href="#">Link</a>	✓	✓

## BLOG

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To read "**First mover advantage**", "**Small stocks deliver for Quest in reporting season**", "**Summary of Fiscal 2016**" and other Quest Insights visit [www.questap.com.au/news/](http://www.questap.com.au/news/)

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