



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

OCTOBER 2018

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 | \$866 million |
| Strategy AUM | \$74 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 |

OCTOBER SUMMARY

Our September observation that “markets were finding it hard to move ahead” proved to be an understatement as global markets finally corrected in October.

The Dow Jones gave up 5%, the S&P 500 lost 7%, the NASDAQ dropped 9.2% and the global MSCI fell 7.6%. Japan was down 9.1% while China slid another 11%. The size of the falls in US tech leaders summed up the enormity of corrections in October, with Amazon falling 20%, Netflix 19%, Alphabet (Google) 10% while Facebook fell 8% and Microsoft 7%. These are some of the names that have delivered this bull market. Tesla defied the trend, rising 27%.

In times of crisis, cash moves to the REIT's and Utility stocks for yield. These sectors also fell but by a lot less than the broader market.

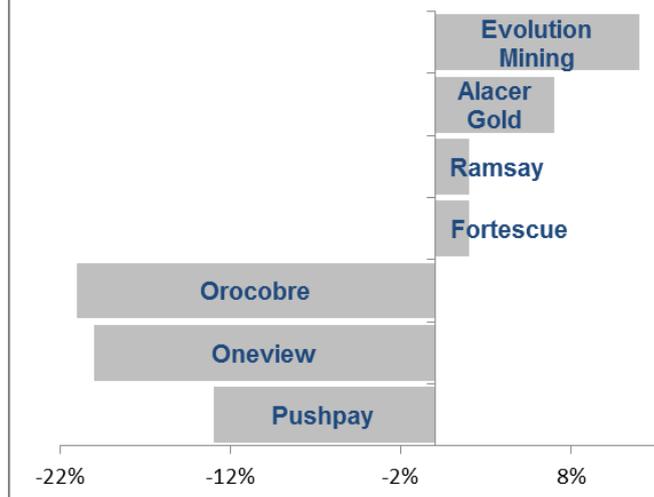
Gold finally gained some support rising 1.6% to US \$1,216 while iron ore climbed 8.6% to US\$75.50.

Our portfolio matched the market in the month which was disappointing. Historically we do better in shabby conditions but in this case our exposure to US building stocks Boral and James Hardie negated gains in gold through Evolution Mining and our higher position in cash.

Cash reduced from 7% to less than 2% as we invested into the weaker market.

Quest out performance is 5.1% over one year pre fees and maintains our since inception out performance at above 4% per annum ahead of the market since inception in 2005.

DRIVERS OF PERFORMANCE



| PERFORMANCE | BEFORE FEES AND TAX | | (PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE) | | | | |
|-----------------------------------|---------------------|----------|----------------------------------------------------------|----------|----------|-----------|------------------|
| | 1 month | 3 months | 1 year | 3 years* | 5 years* | 10 years* | Since inception* |
| To 31 October 2018 | | | | | | | |
| Quest Aust. Equities Concentrated | -6.3% | -7.4% | 8.0% | 10.8% | 9.3% | 11.4% | 11.3% |
| ASX 300 Accumulation Index | -6.2% | -6.0% | 2.9% | 8.2% | 6.0% | 8.5% | 7.1% |
| Value added | -0.1% | -1.4% | 5.1% | 2.6% | 3.3% | 2.9% | 4.2% |

*per annum



PORTFOLIO ACTIVITY

Quest added one new position in October with one exit. **Fortescue Metals** was added while **Evolution Mining** was sold. We also built some existing holdings as the market fell.

This market volatility delivered an opportunity to build a holding in **Fortescue Metals** which has been falling for nearly two years from a \$6.50 high. Given the strength in iron ore pricing this year, we can see upside to our valuation now that the price has fallen below \$4. Quest has successfully held Fortescue shares twice previously.

Evolution was sold for the second time this year having reached target again. The current volatility in our market presents trading opportunities particularly in resources stocks when pricing dips more than 10% below our valuation.

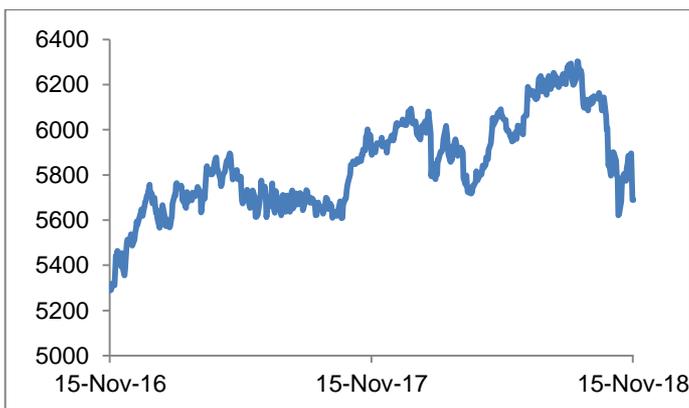
Portfolio positions were increased in **CSL**, **Reece Limited**, **Mineral Resources** and **Woodside Petroleum**. Our holding in **Janus Henderson** was reduced.

October was a tough month for local growth stocks particularly a group of ultra-premium stocks that we have tagged as being very susceptible to a severe market correction.

Some of these got belted in October including **Afterpay** down 30%, **Wisetech** down 27%, **Kogan** down a life changing 50%, **Altium** down 20% while **REA Group** and **Seek** each fell 15%. We do not own any of these however we do own **CSL** (high multiple growth stock) which fell 6% in the month.

Cash is lower and remains above average at 2.3%.

The ASX300 correction takes us back to late 2016 levels.



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After a bull run of nearly ten years we are not surprised by the current correction. Our view is that a 15% correction (8.5% in this quarter so far) would be good for the market and reset pricing in favour of stock pickers like ourselves.

QUEST 10 STOCK PORTFOLIO

Our new super concentrated portfolio had a return of 4.5% at end of October after initiation in March. This is a highly concentrated best ideas portfolio using the same Quest process. Model return since inception in 2017 is 75%.

QUEST EX-20 PORTFOLIO

The Quest Ex-20 portfolio is currently running at 4.9% ahead of the benchmark over 1 year to October 2018 with a return of 7.1% post fees.

FACT OF THE MONTH

Australian implant company Cochlear is approaching the 23rd year as a listed company and is now 36 years old. The remarkable device was devised by Professor Graham Clark in 1977 using a blade of grass and a shell. Cochlear sold over 35,000 devices in 2018 and has now sold over 500,000 devices in total. Remarkably, it is believed only 5% of those who could benefit globally have been treated.

THE QUEST PROCESS

The Quest team invest to make an above average return. It is not to beat an index. We research investments and invest based on our assessed valuation.

A Quest portfolio includes known names such as Oil Search and industrials such as James Hardie. We also look to add value outside of the major stocks, recent examples being Aurelia, 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.

CONTACT QUEST

Phone Michael on 02-9409 2300, Chris on 9409 2301 and Troy on 9409 2303.

Suite 8.07, 6A Glen St, Milsons Point NSW 2061
quest@questap.com.au www.questap.com.au