



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

OCTOBER 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. The SMA structure allows the investor to retain beneficial ownership of securities via a custodian while maximising transactional visibility. A unit trust is unable to provide this level of visibility.

OCTOBER SUMMARY

The ASX 300 accumulation index slipped slightly by 0.4% in October with the gain over the calendar year still a very generous 23%. Quest had a strong return in October of +1.2%.

The ASX300 has risen every month this calendar year except August and October. Global markets continue to move higher but the local market has lagged in recent months. The pressure on local Banks has made it harder for the market to move forward. The results delivered by the banks in early November reinforces that it is heavy going for this sector.

A lack of global growth has also dampened resource demand. BHP and RIO both eased back in October. A resolution of trade discussions would assist.

October saw some cracks appear in the super premium growth category. **Wisetech** fell 24% in October while **Afterpay** lost 19% and **Costa** another 17%. Quest do not own these stocks. There is more to come if these momentum based growth stocks fail to deliver to their lofty expectations.

The AUD/USD held steady at 69 cents. Gold rose slightly to US\$1,515. Iron Ore slipped 5% and oil was flat at US\$54.

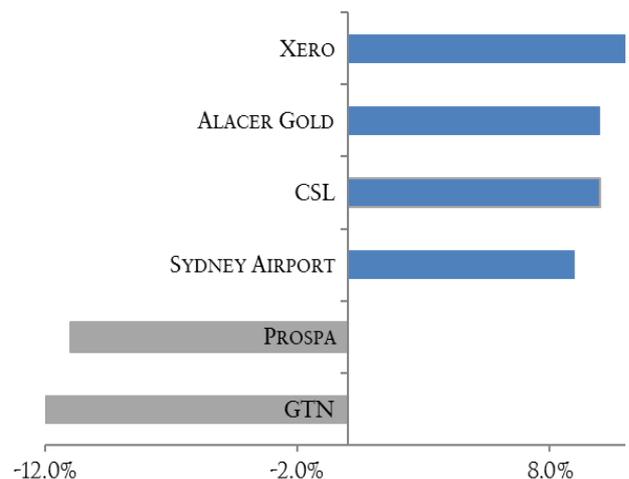
Our holdings in small stocks are now stirring after a flat period. We also have two pre IPO holdings in **Lendi** and **Carbon Revolution**.

Carbon Revolution will list in early December. The Melbourne based manufacturer of carbon wheels for high performance cars is expected to list with a very strong valuation gain.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	32 now, maximum 35
Quest AUM	\$1.2 billion
Strategy AUM	\$81 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 October 2019	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	1.2%	0.7%	18.5%	14.4%	11.8%	10.3%	11.7%
ASX 300 Accumulation Index	-0.4%	-0.8%	19.5%	12.6%	8.6%	8.2%	7.9%
Value added	1.6%	1.5%	-1.0%	1.8%	3.2%	2.1%	3.8%

*per annum



PORTFOLIO ACTIVITY

Our best absolute performers were **Xero** up 11%, **Alacer Gold** up 10%, **CSL** up 10% and **Sydney Airport** up 9%. **GTN** and **Prospra** were weaker each falling 11%. The portfolio has outperformed the index comfortably in October.

Xero had a good month in anticipation of a solid result due in November. Xero provides an online accounting platform to small and medium businesses with operations in Australia, New Zealand, the UK and North America. Xero is a high margin business so subscriber growth is important. Xero has gained more than 70% this calendar year.

Alacer Gold is a gold producer in northern Turkey that has more than doubled over the last 12 months. The mine location scared off most investors with the share price trading below \$3 for most of our ownership period which has now stretched to 7 years! We have a high regard for the management team and have visited the remote Copler mine site. The successful sulphide ore plant commissioning late last year has attracted plenty of investor attention with a new recent high of \$7.00 achieved in late October. The Copler expansion was completed on time and below budget; a rare achievement!

CSL reached a new high in October closing the month out at \$256. CSL is now the second largest company in Australia behind Commonwealth Bank. Quest have owned the company since our inception in 2005 and it has been an outstanding wealth creator. Our earliest investors have an entry price below \$20 plus 15 years of dividends.

The Quest team did not add any new stocks to the portfolio in October but we did sell our **Westpac** holding. While we would normally wait for the dividend in November, we see the limitations to growth continuing to build into 2020 as margins contract with a narrowing interest spread and rising operating costs. Westpac has since delivered a disappointing result in early November as we feared. Westpac also raised additional capital at a discount to bolster the balance sheet and cut the dividend. We are happy to be out of this position.

We have positions in bank disrupters in preference to owning Westpac. We retain a CBA holding. Quest have held a position in pre IPO lender **Lendi** since 2017 as well as a holding in the recently listed **Prospra**. Prospra is an online lender to small business. We expect Lendi will list in 2020.

Disclaimer

This report has been prepared by Quest Asset Partners Pty Limited, AFSL 279207 (wholesale), ABN 47 109 448 802. It should be regarded as general information only rather than advice. It has been prepared without taking into account any person's objectives, financial situation or needs. Whilst Quest has used its best endeavours to ensure the information within this document is accurate it cannot be relied upon in any way and recipients must make their own enquiries concerning the accuracy of the information within. Past performance is not a reliable indicator of future performance. All performance figures are based on the JBWere Multi-Asset platform seed portfolio. Performance can vary by platform and client due to mandate restrictions and other constraints. Before making any financial investment decisions we recommend recipients obtain legal and taxation advice appropriate to their particular needs. Investment in a Quest Asset Partners Separately Managed Account can only be made on completion of all the required documentation. As Quest hold a wholesale AFS licence, this report should not be passed on to any retail client.

The Lonsec Rating (assigned August 2019) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Quest Asset Partners Pty Limited product(s), and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria.

For further information regarding Lonsec's Ratings methodology, please refer to our website at: <http://www.lonsecresearch.com.au/research-solutions/our-ratings>

The last weeks of the year are always an interesting time in the market. December in particular, is usually a good month for investors. It seems buyers stay active and sellers go on holidays. While we are unable to explain this phenomenon, we tend towards lower cash at this time of year. The ASX300 has risen in December in 13 of the last 19 years back to 2000 with 2 of those down months being negligible.

Cash at the end of October was approximately 3.5%.

FACT OF THE MONTH

Melbourne Cup winner Vow and Declare was one of the youngest ever winners of the Cup. Vow turned 4 only weeks before the race after Cross Counter became the youngest winner last year at only 3.6 years. The year before, 2017, Rekindling won the Cup at 3.63 years. There is a trend towards younger horses with lighter weights. While Shipton was the first 3 year old to win a Cup way back in 1941, there have now been 4 youngsters since 2000! The average age of a winner this century is 5.2 years.

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 **CSL** and **RIO** and **James Hardie**. We also look to add value outside of the major stocks, recent examples being **Prospra**, **Alacer Gold**, **Catapult**, **Opticomm**, **Carbon Revolution** and pre IPO bank disrupter **Lendi**. The portfolio typically carries a number of mid and smaller cap stocks where we believe our experience in this field gives us an advantage.

CONTACT QUEST

Michael 02-9409 2300
Chris 02-9409 2301
Troy 02-9409 2303
Swapan 02-9409 2302
Suite 8.07, 6A Glen St, Milsons Point NSW 2061
quest@questap.com.au www.questap.com.au