



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

OCTOBER 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	\$947 million
Strategy AUM	\$47 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 REVIEW

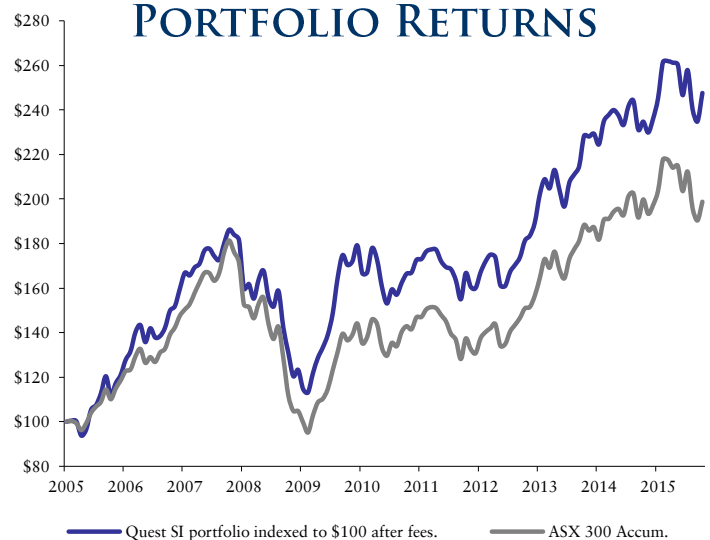
October saw a 4.4% recovery for the Australian market after the 10.3% correction during August and September. Global markets were stronger with the Dow Jones up 4.4%, Japan rose 9.7%, Hong Kong 8.4% and the FTSE 4.9%.

Quest performance was again better than benchmark and the 1 year performances now **8.8%* ahead of the S&P/ASX300 Accumulation Index pre fees**. Quest continues to be placed in the top quartile of managers. The share prices of **Surfstitch (SRF)** and **Smartgroup (SIQ)** have both risen by 150% in the last year while **Viralytics (VLA)**, **Vista Group (VGI)**, **Magellan Financial (MFG)** and **Henderson Group (HGG)** have all risen more than 60%.

The Quest portfolio out-performed the benchmark in October due to good performances by **Magellan Financial** (up 18%), **Amaysim (AYS)** (up 17%), **Smartgroup** (up 16%), **Vitaco (VIT)** (up 12%) and **Henderson Group** (up 11%).

*Preliminary unaudited return

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31st October 2015	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	5.4%	-3.7%	8.3%	13.8%	10.5%	10.5%	11.2%
ASX 300 Accumulation Index	4.4%	-6.4%	-0.5%	9.6%	6.8%	6.1%	6.6%
Value added	1.0%	2.7%	8.8%	4.2%	3.7%	4.4%	4.6%

*per annum



PORTFOLIO ACTIVITY

Quest participated in the float of **Link Administration Holdings** (LNK) during the month. We received a good allocation however we tripled the exposure on listing. The float price was \$6.37 however Link opened at \$7.10, a great debut.

Link has three divisions, all providing IT based services for investment administration and management. The largest division provides superannuation platform administration for a number of Australia's largest super funds. Link has a 30% share of this market and is ten times the scale of the next largest admin services provider. Link also provides shareholder management services to listed companies via the Orient Capital operations in nine countries and registry management in 7 countries.

Lend Lease (LLC) was lifted into a significant over-weight position at around \$12.50 after falling nearly 30% since February. Lend Lease rates highly on our filters and valuation process. The company will emerge in 2016 from a period of major capital expenditure. We believe the current theme that developers run the risk of mass default on apartment settlements is grossly overstated and that an above average level of defaults (historically only 3% for Lend Lease) is already priced in. Lend Lease is once again a major over-weight in the portfolio.

Stockland (SGP) was added to the portfolio in October. We rank this management team highly having owned the stock twice before. Our purchase level of about \$3.80 is 20% below the peak in February and again the weakness is associated with pessimism regarding land and housing settlement default risk. Our purchase price of \$3.80 is close to NTA and delivers a 6.5% running yield. Stockland also gives our investors upside to retail centre development and the retirement sector.

During the month, **iSelect** (ISU) received a non-binding buy-out proposal from US private equity firm Providence Equity Partners. The proposal did not provide any price indication to the market. Providence are conducting due diligence at the time of writing.

Quest participated in the **Westpac** (WBC) rights issue by taking up the 1 for 23 entitlement at \$25.50. We took

shares in the float of **Baby Bunting** (BBN) and sold post listing for a gain.

Woodside Petroleum (WPL) was sold during the month. Our earnings assumptions have weakened with both the weaker oil price and the uncertainty surrounding future growth options. We were not expecting the puzzling bid for Oil Search.

Smart Group (SIQ) was reduced as the target price has been met. Floated in July 2015 at \$1.60, this salary packaging business attracted our attention for the experience of management, negative working capital and strong cash flow. Smart Group has now attracted the attention of a broader market. We have reduced at prices 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)
	iSelect (ISU)
	Amaysim Aust. (AYS)

TOP CONTRIBUTORS

Magellan Financial (MFG)
Amaysim (AYS)
Henderson Group (HGG)

KEY DETRACTORS

Comet Ridge (COI)
Villaworld (VLW)
Greencross (GXL)



INVESTMENT APPROACH

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.

Disclaimer

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The latest Quest Insights on our website are "**iSelect received conditional proposal**" and "**Quest returns well ahead of the market**".

To read more visit www.questap.com.au/news/