



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

SEPTEMBER 2017

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.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	29 now, maximum 35
Quest AUM	\$777 million
Strategy AUM	\$65 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

THE SEPTEMBER REVIEW

The Quest portfolio returned 0.7% in September compared to the ASX300 accumulation index return of a meagre 0.04% on an index accumulation basis.

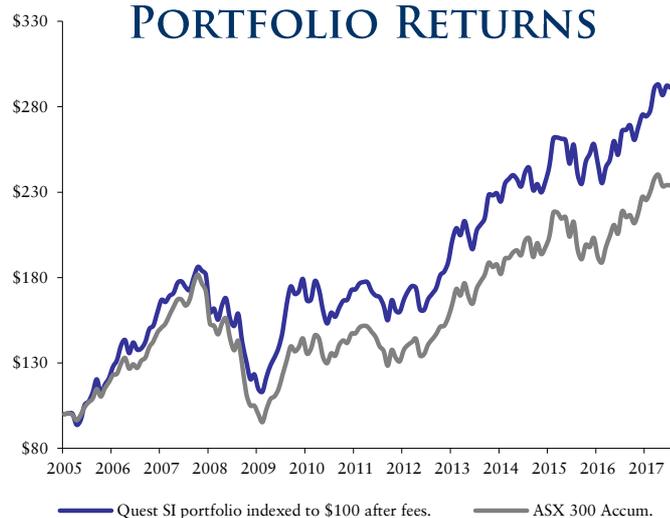
The portfolio 12 month return is 11.6%. Quest pre fees performance continues to be ahead of benchmark for all time periods since inception.

The Australian market continued to move sideways with general weakness in banks and industrials being offset by strength in resource and energy stocks. The ASX 300 has flat-lined since May and has not been able to replicate the new record highs established in the US, European and some Asian markets.

During September the AUD appears to have peaked at 80 cents to the USD and is now closer to 78 cents. This is good news for the local market given the number of industrials and resource stocks that earn in US dollars. The US economy does seem to be improving despite the erratic political situation. US interest rates are expected to rise before year end and August inflation figures, while still low, were the highest on a monthly basis for five years.

The German market surged 6.4% in September post the election which helped the Euro Stoxx index lift 4.4%. The FTSE eased 0.8%. In the US, the Dow Jones rose 2% while the NASDAQ rose 1% with both hitting new all-time highs.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30 September 2017	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	0.7%	0.8%	11.6%	10.8%	13.9%	7.1%	11.4%
ASX 300 Accumulation Index	0.0%	0.8%	9.0%	7.1%	9.9%	2.9%	7.2%
Value added	0.6%	0.0%	2.6%	3.7%	4.0%	4.1%	4.2%

*per annum



PORTFOLIO ACTIVITY

The Quest best in September were **Lend Lease** (LLC), **Orocobre** (ORE), **South 32** (S32), **Pushpay** (PPH), **Bingo Industries** (BIN) and **Boral** (BLD).

Poor performers included **Oneview** (ONE) and **Viralytics** (VLA).

Lend Lease (LLC) has been, in our view, one of the cheapest large capitalisation stock in the market for some time. Lend Lease screens as a high “B” grade stock in our process, just below “A” level. Over the last three years the stock has consistently traded more than 20% below our valuation. This discount has started to close as the visibility of future earnings has improved and the long duration of urban regeneration projects are understood. Lend Lease still troubles analysts due to the “one off” profit sources such as the sell down in Barangaroo Sydney and sale of commercial buildings. That is however a normal product of the business and with a forward order book of \$35 billion over 13 projects in eight cities, we think the rerating of Lend Lease will continue.

Orocobre (ORE) added another 16% after rising 20% in August. While we have considered this stock to be cheap for some time, the sudden surge seems to be caused by short covering by naysayers after the endorsement of electric vehicles by the Chinese government, new offtake agreements for emerging Australian producers and the announcement by Volkswagen that all 300 models in their six vehicle brands would see electric versions by 2030. Analyst coverage of lithium stocks is still scant, particularly in Australia, where analysis seemed to obsess with the potential for over-supply of lithium carbonate in the market rather the possibility of a shortage as large consumers attempt to secure long term supply.

Pushpay (PPH) is an online and mobile donation service that allows churches in the USA to better manage donations. Americans spend a stunning \$130 billion per annum on religious donations but over 85% of this is still done with cash or cheque. Participating churches typically see increased donation flow with an automated process. The company has invested in product development and sales teams and there are no competitors with equivalent scale. Revenue is growing at 100% per year and the company is expected to breakeven in 2018. PPH was initially purchased at \$1.43 in July and now trades at \$2.35.

During the month our recently acquired Telstra position was sold at a loss when the result failed to meet our expectations. We did however collect the 15 cent fully franked dividend. We also sold **Cooper Energy** (COE) after the company failed to secure the debt funding required.

During September we added software provider **Bravura Solutions** (BVS) to the portfolio after a sell down from private equity. **Oilsearch** (OSH) returned to the portfolio after the PNG Government sold their holding. Cash sits at 6.5%.

SIGNIFICANT INVESTMENTS

Large	Commonwealth Bank (CBA)
	Westpac (WBC)
	James Hardie (JHX)
Mid Cap	Janus Henderson (JHG)
	Lend Lease (LLC)
	Boral (BLD)
Small Cap	Bingo Industries (BIN)
	iSelect (ISU)
	Vista Group (VGL)

TOP ATTRIBUTORS

Lend Lease (LLC)
Orocobre (ORE)
South 32 (S32)

KEY DETRACTORS

Oneview (ONE)
Viralytics (VLA)
Evolution Mining (EVN)



INVESTMENT APPROACH

The Quest Asset Partners team use a three stage process to research opportunities in the Australian 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. We visit a lot of businesses in our travels.

Our portfolio is concentrated to a maximum of 35 of our best ideas with 30 stocks on average.

We invest to make a return not to beat an index.

A Quest portfolio will include known names such as major banks but we look to add value outside of the major stocks. The portfolio typically carries a number of smaller businesses as market research is often scant.

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.

INVESTMENT TEAM

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

PLATFORMS

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

	Web site	Retail	Sophisticated Investors
Mason Stevens	Link	✓	✓
JBWere Multi-Asset Platform	Link		✓
Macquarie	Link	✓	✓
HUB24	Link	✓	✓
Powerwrap	Link	✓	✓

BLOG

To read “**Bingo cleans up on result**”, “**Summary of Fiscal 2017**”, “**Lonsec Awards 2017**”, “**Henderson to merge with Janus Capital**” and other Quest Insights visit www.questap.com.au/news/

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