



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

SEPTEMBER 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 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	\$894 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

SEPTEMBER REVIEW

September was a volatile month for the Australian market with daily moves of over 1% occurring 13 times over the month, 7 down and 6 up. The ASX 300 accumulation index eased 2.8%. Quest performance was better than benchmark in September and continues to be placed in the top quartile of managers over 1 year.

Following an uninspiring reporting season in August, the dominant issues were again Chinese economic weakness, the timing of interest rate rises in the USA and then concern about the viability of global metals player Glencore.

The Quest portfolio out-performed the benchmark due to good performances by **Comet Ridge** (up a startling 106%), **Vitaco** (up 29%) and **TPG Telecom** (up 15%). **Ansell** (down 15%) and **Surfstitch** (down 10%) however, did not perform well. Quest does not own shares in either **Santos** or **Origin Energy** which fell more than 20%.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30th September 2015	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-2.3%	-4.5%	4.7%	13.9%	10.2%	9.6%	10.9%
ASX 300 Accumulation Index	-2.9%	-6.5%	-0.7%	9.1%	6.3%	5.2%	6.4%
Value added	0.5%	2.0%	5.3%	4.8%	3.9%	4.4%	4.5%

*per annum

PORTFOLIO ACTIVITY

Vitaco (VIT) listed on 16th September at an IPO price of \$2.10. Floated by JP Morgan, Vitaco settled post listing date around \$2.50 before moving up to \$2.72 at month end. We rate Vitaco as a B grade in our Q Stocks process.

Vitaco is an Australian and New Zealand based vitamin and sports nutrition company. Its brands include Healtheries (the number one vitamin brand in NZ), Nutra-Life, Aussie Bodies and Musashi. Vitaco has a good portfolio of brands in a growing category. The company also has a track record in developing and marketing new product categories such as low-carb protein bars and milk biscuits.

It manufactures most of its products in house which provides a cost, control and flexibility advantage over peers who outsource manufacture.

The Vitaco Australian and New Zealand business has solid growth prospects due to continued industry tailwinds, expansion into new distribution channels and further cost out through insourcing. However, it is the international growth opportunity (particularly in China) that the market has really embraced. Increased awareness around food safety in China has made 'clean and green' Australian and New Zealand made products highly sought after. Meanwhile, the opening up of free trade zones and e-commerce platforms such as Tmall and JD.com (similar to EBay) has made the Chinese market more accessible for Western brands.

The challenge for Vitaco will be to continue to develop its brand awareness in China to capitalise on this strong demand. Sales of Asian products have grown from immaterial levels in FY14 to a current annual run rate of ~\$20M. This is still less than 10% of Vitaco's total sales but notably this has been achieved purely through souvenir buyers and exporters. The opening up of the direct to market online channels could see a significant step up in growth.

Our long standing position in Queensland gas explorer **Comet Ridge** (COI) soared with a 106% rise from a lowly 4 cents. The stock had fallen too far.

The volatility in September saw Quest adding to positions on weaker days. There were plenty of weak days with falls of over 1% on 7 occasions.

Positions that were increased included **AGL Energy** (AGL), **Henderson Group** (HGG), **Lend Lease** (LLC), **Ramsay Healthcare** (RHC), **Seek** (SEK), **Surfstitch** (SRF), **TPG Telecom** (TPM) and **Vista Group** (VGI).

The balance of our holding in **Estia Health** (EHE) was sold in early September having reached our target and became the third aged care player to be sold at a profit this year. **Japara Healthcare** (JHC), **Regis Healthcare** (REG) and now Estia Health have been solid contributors this year however target prices have been met. We currently hold no aged care stocks.

SIGNIFICANT INVESTMENTS

Large	Commonwealth Bank (CBA)
	Ramsay Health Care (RHC)
	AGL Energy (AGL)

Mid Cap	APA Group (APA)
	Oil Search (OSH)
	Healthscope (HSO)

Small Cap	Surfstitch Group (SRF)
	iSelect (ISU)
	Amaysim Aust. (AYS)

TOP CONTRIBUTORS

TPG Telecom (TPM)
Comet Ridge (COI)
Vitaco (VIT)
Oil Search (OSH)
Origin Energy (ORG)
Smartgroup (SIQ)

KEY DETRACTORS

Ansell (ANN)
Surfstitch (SRF)
Lend Lease (LLC)
Vista Group (VGI)



INVESTMENT APPROACH

The Quest team use a three stage process to find opportunities that are not readily available to the average investor. 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 qualitative 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 all or some of the 50 new floats and other opportunities we have seen since 2014.

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.

INVESTMENT TEAM

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The latest Quest Insight on our website is “**Opportunistic Woodside slapped with a wet fish**” and a recent article on Quest by the Australian Financial Review.

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

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