



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

SEPTEMBER 2016

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 | Maximum of 35 |
| Quest AUM | \$1,349 million |
| Strategy AUM | \$55 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 added 1% in September, ahead of the index at 0.5%. The NASDAQ and the FTSE hit record highs in the month despite the seemingly imminent increases in US interest rates, while the Dow Jones was flat.

The local market was dominated by the resources sector which added another 5.3%. REIT's, Utilities and Telcos continued to lag the market with 4% falls.

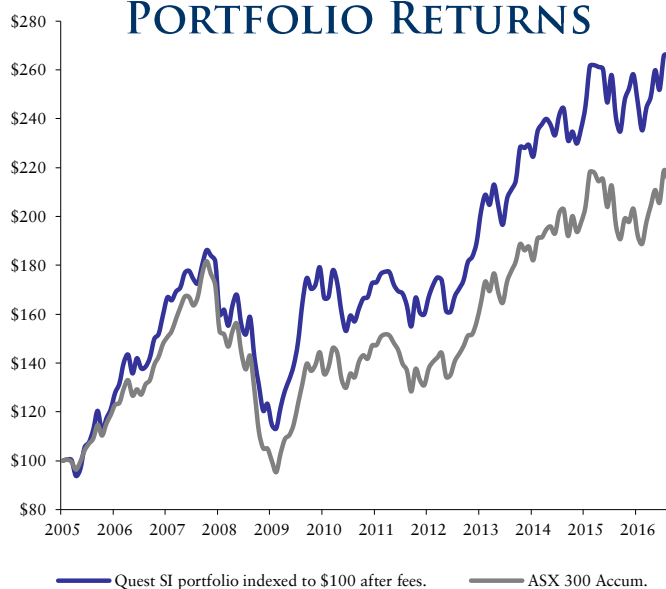
Our portfolio is currently running at 3% ahead of the index on a 12 month basis with a pre fees return of **16.4%**.

We see the US Federal Reserve raising rates this year as a given. We think it is just a matter of time and have reduced our holdings in interest sensitive stocks while increasing our resources exposure.

Macro issues will continue to dominate our market for the coming week; the US election, BREXIT repercussions (which seem generally negative) and of course, US interest rates and the Chinese economy.

We note that corporate activity is back on; JBH HiFi bought The Good Guys while investors are being briefed on upcoming IPO's Bravura, Charter Hall Long WALE, Autosports, Alinta, Elanor Retail and Ingham.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

| To 30th September 2016 | 1 month | 3 months | 1 year | 3 years* | 5 years* | 10 years* | Since inception* |
|-----------------------------------|---------|----------|--------|----------|----------|-----------|------------------|
| Quest Aust. Equities Concentrated | 1.0% | 7.2% | 16.5% | 10.5% | 14.4% | 8.9% | 11.4% |
| ASX 300 Accumulation Index | 0.5% | 5.2% | 13.5% | 6.0% | 11.0% | 5.0% | 7.0% |
| Value added | 0.5% | 2.0% | 3.0% | 4.4% | 3.4% | 3.9% | 4.4% |

*per annum



PORTFOLIO ACTIVITY

Our small stocks continued to do well in September with **Updater** (UPD) up another 30%, **iSelect** (ISU) up 28%, **Amaysim** (AYS) up 12% and **Osprey Medical** (OSP) up 10%.

Our holdings in fund managers **Henderson Group** (HGG) and **Magellan Financial** (MFG) were disappointing down 7% and 9% respectively.

Updater is a US based technology company that assists consumers to move house via an online platform. Market share in the USA has moved above 5% and the company chose to raise a further \$30m at 50 cents per share in September. We did not participate given our entry price is only 20 cents. We expect further partnering with larger companies who relish the ability to respond to a client move prior to the event rather than after. The July Liberty Mutual typifies such a relationship that we may see again in future.

iSelect (ISU) continues to rise as buyers outnumber sellers. We wrote about this stock last month but with gains of over 50% this year it seems that the market has recognised the potential of this business after a sluggish start as a listed company back in 2013. iSelect is also well advanced into a stock buy-back.

Quest added **Rio Tinto** (RIO) to the portfolio as persistently higher iron ore prices and improving coal prices suggest earnings upgrades are likely this calendar year. The stock has climbed since purchase below \$49 in September. We also added **Wesfarmers** (WES) in response to both firmer coal prices and the demise of Masters.

We have achieved our price target in **Amaysim** (AYS) after the stock firmed post result and sold the stock. **Stockland** (SGP) has also been reduced as we move away from bond proxy stocks. **APA Group** (APA) was sold earlier in the quarter.

Since the sale of our holding in TPG Telecoms (TPM), the Telco sector has corrected sharply downward. With the sector suddenly cheaper, we have added **Vocus Communications** (VOC) to the portfolio.

Vocus is gaining market share in both consumer and corporate broadband. Recent acquisitions have transformed it into the fourth pillar in Australian telco and it is beginning to capitalise on its extensive infrastructure assets. The recent selloff has provided

the opportunity to acquire shares at a discount to our valuation.

During the month we added to positions in favoured stocks including **Oneview** (ONE), **Aristocrat Leisure** (ALL), **Alacer Gold** (AQG) and **Link Administration** (LNK).

Galileo Japan Trust (GJT) will delist early October and we will receive another distribution and a cash payout approximating NTA. Quest investors will have almost doubled their money from Galileo Japan including distributions since October 2013. This also reduces our REIT exposure in the total portfolio prior to what we believe is the end of the bull cycle in US interest rates.

SIGNIFICANT INVESTMENTS

| | |
|-----------|-------------------------|
| Large | Commonwealth Bank (CBA) |
| | Westpac (WBC) |
| | CSL (CSL) |
| Mid Cap | AGL (AGL) |
| | Suncorp (SUN) |
| | Ramsay Healthcare (RHC) |
| Small Cap | iSelect (ISU) |
| | Vista Group (VGL) |
| | Oneview Health (ONE) |

TOP ATTRIBUTORS

iSelect (ISU)
Updater Inc. (UPD)
Osprey Medical (OSP)

KEY DETRACTORS

Henderson Group (HGG)
Magellan financial (MFG)
Suncorp (SUN)



INVESTMENT APPROACH

The Quest Asset Partners team use a three stage process to research opportunities that may not be readily available to investors. 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. 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 known names such as major banks as well as mid-size and smaller companies. We look to add value outside of the major names, many of which are discussed each month in this newsletter. The portfolio typically carries a number of recently listed businesses as market knowledge is often less thorough for new businesses.

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.

Quest Asset Partners have sponsored the **Norths Pirates Junior Rugby Union Club since 2013.**

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INVESTMENT TEAM

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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 "**Small stocks deliver for Quest in reporting season**", "**Summary of Fiscal 2016**", "**Quest adds Macquarie to Platform choice**" and other Quest Insights visit www.questap.com.au/news/

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