



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

SEPTEMBER 2018

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. SMA's are professionally managed portfolios that allow the investor to retain beneficial ownership of underlying securities while maximising transactional visibility.

SEPTEMBER SUMMARY

The Australian market is finding it difficult to move ahead after a series of monthly rises from April through to August. A number of factors are in play, the main one being that the local market is well priced in most sectors after a 9.5 year bull run. The ability of markets to push ahead despite a complex series of challenges has been impressive. Brexit, trade wars, the erratic Trump administration, the emergence of inflation, rising US interest rates, a soaring US dollar and pressure on emerging economies appears to be finally taking a toll.

Most global markets were firmer with the Dow Jones up 1.9%, S&P 500 up another 0.4% with an intra month all-time high in mid-September, NASDAQ down 0.8% and Japan up 5.4%. Oil was up 6.5% while gold slipped a few dollars to US \$1,196.

Our approach at Quest is that we are selective in our investments and looking closely at the placement and sell down opportunities that are occurring. Our cash balance continues to be above the historic levels. Recent opportunities have included the Reece (REH) placement to fund the US Morsco acquisition, the Pinnacle Investment Management (PNI) placement to fund further acquisitions, a fund raising by Serko (SKO) and the sell down in GTN Limited (GTN) by private equity investor GTCR.

Our portfolio returned -1.0% pre fees in September slightly better than the benchmark.

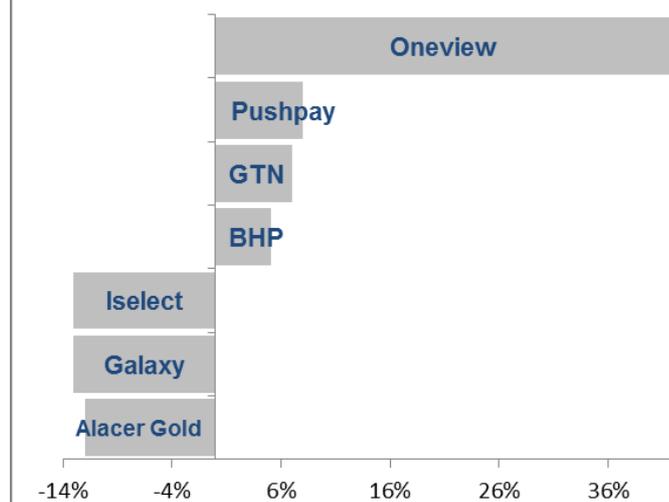
Quest out performance is 3.6% over 1 year pre fees and maintains our since inception out performance at above 4% per annum ahead of the market since inception in 2005.

Stocks mentioned in this report include **Mineral Resources, GTN, Bravura Solutions, Aurelia Metals, Pinnacle Investments** and **Vista Group**.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	31 now, maximum 35
Quest AUM	\$919 million
Strategy AUM	\$79 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 30 September 2018	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-1.0%	-0.3%	17.6%	15.2%	12.1%	11.3%	11.9%
ASX 300 Accumulation Index	-1.2%	1.5%	14.0%	12.2%	8.2%	7.7%	7.6%
Value added	0.2%	-1.8%	3.6%	3.0%	3.9%	3.6%	4.3%

*per annum



PORTFOLIO ACTIVITY

September was a transitional month for the market as the exuberance for growth stocks in August fell under question and the macro sentiment declined. The reality is that the market is fully priced and over bought in many places, fuelled by nearly a decade of cheap liquidity. The Quest team have noted this issue many times in recent monthlies and have sold a number of successful investments over the last few months. Our cash balances continue to be above average.

Valuations, particularly in premium stocks, continue to be questioned as we move into October which is looking like a down month, even at this early stage. We will continue to buy selectively where we see a better than 15% margin.

Mineral Resources (MIN) was added to the portfolio as the share price pulled back in September as did other lithium exposed companies. The MIN core business is iron ore crushing where they are industry leaders and have progressively moved into other mining services. Most crushing work is for major mining companies; this business provides predictable revenues. In recent years, MIN has developed a substantial lithium business through its Wodgina and Mt. Marion projects in Western Australia. The company is investing in further processing infrastructure at Wodgina to move downstream to capture additional margin. Management has a deserved reputation for entrepreneurial investing and have proven to be good allocators of capital. Our valuation provides for at least our minimum 15% upside from this business.

GTN was purchased in a sell down by private equity investor GTCR who owned 40% of the company since the float in 2016. Quest have covered this stock since then but waited two years before investing your funds. Ironically the entry price was almost the same. GTN has a unique model of selling national reach to radio advertisers in 15 second slots, piggybacking on its traffic reporting capabilities. They have a strong market presence in Australia supported by long term contracts with radio stations.

Minor portfolio positions were increased in **Amtcor**, **CSL**, **Evolution Mining** and **Reece Limited**. Our position in **Bravura Solutions** has been sold. **Pinnacle Investments** and **Aurelia Resources** were also sold having delivered 28% and 24% and returns respectively in only 3 months. Both hit our targets quicker than expected.

Cash remains above average at 5.7%.

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QUEST EX-20 PORTFOLIO

The Quest Ex-20 portfolio is open for investment for both sophisticated and retail investors. This portfolio is perfect for those that wish to increase exposure to mid and small stocks, or if you already own large stocks and are looking for exposure to some lesser known interesting stocks to augment returns.

The portfolio is currently running at 3.2% ahead of the benchmark over 1 year to August 2018 with a return of 20.8% post fees. Ring Troy for details on 9409 2303.

QUEST 10 STOCK PORTFOLIO

Our new super concentrated portfolio had a return of 6.5% at end of September after initiating in March. This is a highly concentrated best ideas portfolio using the same Quest process. Model return since inception is 83.4%. Ring Chris for details on 9409 2301.

FACT OF THE MONTH

The Transurban acquisition of 51% of WestConnex may prove to be the best timed deal of the year. In a win for the NSW Government, the TCL led consortium paid \$9.3 billion funded by a \$4.8 billion equity raising only days before the US 10 year bond surged above 3%. WestConnex is due for completion way out in 2028 and doubles TCL's kilometre exposure in Sydney to nearly 800 kilometres. TCL estimates 40% of Sydney's population will live within 5 kilometres of the asset by 2031.

THE QUEST PROCESS

The Quest team invest to make an above average return. It is not to beat an index. We research investments and invest based on our assessed valuation.

A Quest portfolio includes known names such as Oilsearch and industrials such as James Hardie. We also look to add value outside of the major stocks, recent examples being Aurelia, Viralytics, Bravura, Netwealth and Bingo Industries. The portfolio typically carries a number of mid and smaller cap stocks where we believe our experience gives us an advantage.

CONTACT QUEST

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