QUEST

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QUARTERLY REPORT
SEPTEMBER 2010

John Citizen Family Superfund

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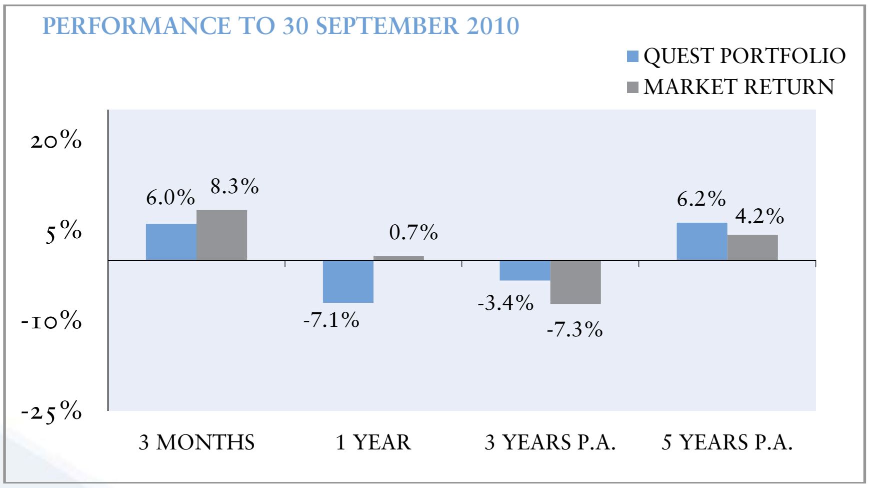
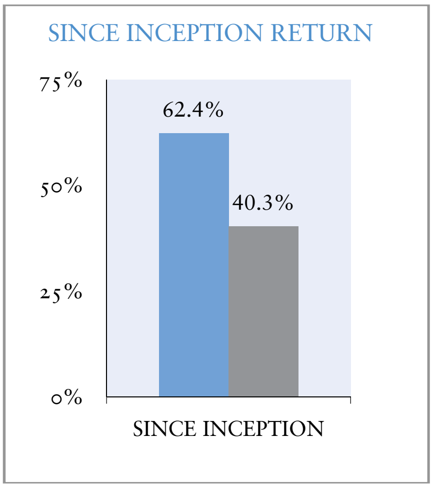
Mr John Citizen	123 ABC Street Sydney NSW 2000
Account Name: John Citizen Family Superfund	

PORTFOLIO MOVEMENT – 30-SEP-10	
PREVIOUS MARKET VALUE 30-JUN-10	
CONTRIBUTIONS DURING QUARTER	
PORTFOLIO MOVEMENT*	
MARKET VALUE 30-SEP-10	

YOUR PORTFOLIO PERFORMANCE FOR THE QUARTER*	
MARKET RETURN (S&P / ASX 300 ACCUMULATION INDEX)	8.29%

*Includes fees for the quarter





** The portfolio returns quoted above represent the return achieved if invested in the Quest portfolio since inception (February 2005). Individual returns will differ for investors that made an initial investment after this inception date or where additional investments or redemptions have been made. Quest returns are net of fees. Past performance is not a reliable indicator of future performance.

MARKET SUMMARY

MARKETS RALLIED STRONGLY AFTER A POOR JUNE QUARTER WITH SOLID GAINS IN MOST REGIONS. REPORTING SEASON RESULTS WERE GENERALLY IN LINE OR ABOVE EXPECTATIONS, HOWEVER MANAGEMENT WERE GENERALY RELUCTANT TO COMMIT THEMSELVES ON THE OUTLOOK.

The Australian share market put in a big performance in the September quarter rising 8.3% on an accumulation basis compared to 10.7% on the US S&P 500 and 12.8% on the London FTSE. Whilst strong numbers, these returns followed heavy losses recorded in the June quarter.

Investors in the US have recorded excellent gains on Australian shares as the A$ continues to climb. At the time of writing the A$/US$ was trading at 0.984 with parity only cents away. US investors in Australian equities have recorded a 15% total gain in US$ terms over the quarter thanks to currency appreciation.

The Federal Election in August has left us with neither party having a majority and uncertainty in terms of carbon policy, taxation of mining companies and commitment to infrastructure spending. In the US, stimulus measures continue with money being printed and treasury repurchases driving funds into the system. The US market now seems addicted to stimulus and pays little regard to the poor overall economic position.

The best performers in the September quarter were industrials including Incitec Pivot, Qantas, Wesfarmers, Leighton, Toll and Transurban while the banks also made good gains. Stocks with US earnings generally lagged as the currency translation places a drag on reported earnings.

Amongst resources, Fortescue and RIO impressed as iron ore prices recovered and Chinese growth, while a little slower, remains robust at about 9%. Newcrest ran 15% as gold continued upwards and the bid for Lihir Gold finally reached completion.

The big corporate deal of the quarter was BHP's $40 billion bid for Potash Corporation of Saskatchewan, Canada. Potash Corporation is the world's largest producer of potash and a major producer of nitrogen and phosphate which are used in the production of fertiliser. While the bid has resulted in the BHP share price marking time over the quarter, the latest indications are that the Canadian government will not veto this bid. An increase in the bid looks likely to be needed to win shareholders over.

Locally, there were a number of corporate transactions:

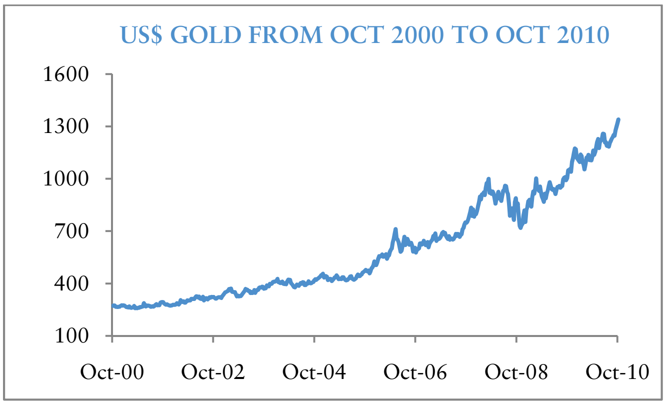
Canadian agriculture company Agrium bid $1.50 cash per share for AWB. AWB is an agribusiness company that attracted a lot of press some years ago when it was revealed the company paid kick backs to the Iraqi government.

Centennial Coal has been bid for by Thailand's Banpu company. This deal has achieved over 90% acceptance and sees another major supplier of coal to our power stations move to foreign control.

Intoll, formerly Macquarie Infrastructure Group, has also been bid for by the Canadians. Intoll has toll road interests in Canada and Australia including 30% of the Sydney Westlink M7.

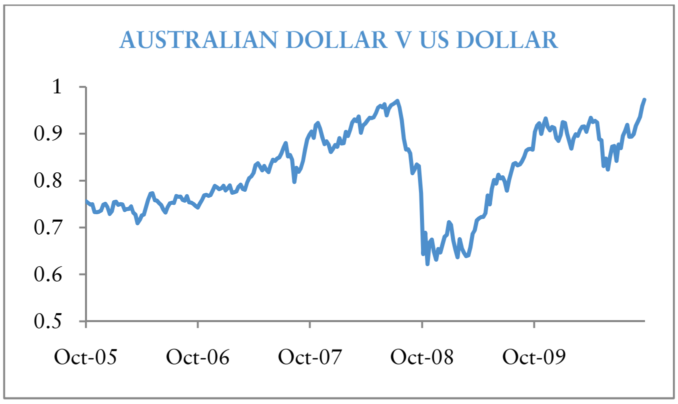
The Valemus IPO was withdrawn in July due to lack of interest at the vendor's price. With the recovery in the market since, Queensland Rail is now lined up to float. Marketing has begun in earnest in what will be one of Australia's largest IPOs, with almost all of the country's big brokers recruited to the syndicate to sell the story.

Gold was up 6% in US$ over the quarter and broke through US$1300 per ounce late September. Oil was stable and finished the quarter at just above US$80 per barrel.



Gold continues to rise as concerns over the state of the world's largest economy, the US, continue. Gold ratchets up as the US dollar falls. The US 2010 budget deficit has grown to US$1.47 trillion at the end of September; investors are simultaneously buying shares for an improving economic scenario and gold in case things deteriorate. That number again is US$1,470,000,000,000.

The Australian dollar rose 15% against the US$ over the quarter, the second highest quarterly move for 40 years after the June quarter of last year. The dollar is sought by investors for exposure to the strength in commodity prices which in turn are rising as the US$ weakens. Australia also provides a higher interest rate regime.



While another round of rate hikes has not yet occurred, Australian rates are much higher than those in the USA. Reserve Bank statements suggest that rates are likely to rise at least once in calendar 2010. Some brokers are predicting as many as four rate rises in succession this year and into the new year.

Finally, copper prices rose 24% over the quarter while zinc gained 25%. While some of this is restocking post the financial crisis, speculative buying of commodities is now rife.

It is now estimated that US$270 billion is invested in commodities and commodity based indices. A preference for direct investment in a commodity, ahead of the risks inherent in a specific company that produces that commodity, has now become common place.

While the arrival of the commodity investor has contributed to some spectacular gains in prices, we are yet to see what happens in the event of a sudden reversal in flows away from commodity investing.

PORTFOLIO ACTIVITY

THE QUEST PORTFOLIO HAS BEEN SET IN A DEFENSIVE MODE IN ORDER TO PRESERVE THE CAPITAL BASE AT A TIME WHERE WE SEE STRUCTURAL IMBALANCES IN MANY ECONOMIES.

During the previous June quarter, we sold a number of resource positions that had hit our price targets. In September we continued to raise cash and de-risked the portfolio by selling some US dollar earning stocks such as Sims Metal. This defensive posture meant that the portfolio did not keep pace with the rising market, particularly in September.

During September our cash position reached 19%; a significant high for our portfolio. At September end the cash sat at 15%.

In hindsight we have been too conservative, however our concerns with the ongoing printing of money and escalating debt in the US, together with austerity campaigns in some European countries, including the UK, make it difficult to see where the growth that is being priced into some stock prices will come from.

Our team is aware that our recent performance has been disappointing, particularly after five years of solid numbers.

As you will be aware, Quest runs a concentrated portfolio rather than an index based portfolio. We look to generate absolute returns from stocks we think are mispriced and that provide the prospect of at least 15% upside. In comparing Quest to the index, the performance of the basket of 300 index stocks is contrasted with that of the 25 to 30 stocks owed by Quest.

It is the nature of a concentrated portfolio that it can be difficult for Quest to match a rapidly rising index when we don’t own 275 stocks in that index. Interestingly the Intech survey revealed that in August only 12 of 68 managers beat the index.

In the September quarter, a number of our bigger positions travelled very well. Citadel Resources rose a whopping 49%, Transurban 17%, Newcrest 13%, Toll 17% and Oil Search 6%.

During the quarter, significant trades included the taking of profits in Henderson Group and Super Cheap Auto. Positions in Oil Search, Seek and Fletcher Building were reduced with profits taken.

QBE and Sims Metal were sold at a loss to reduce exposure to US earnings. ANZ Bank was also sold.

Transurban was added to the portfolio in June and July at a range of prices averaging around $4.50. The stock has performed well running through $5 in recent weeks. Transurban owns toll roads in Sydney and Melbourne and in the US. Assets include Melbourne Citylink, M2, M5 and 50% of the M7 motorway in Sydney.

While we have been watching Transurban for some time, the collapse of a takeover bid at $5.57 and an unexpected capital raising to buy the Lane Cove Tunnel, gave us a chance to pounce.

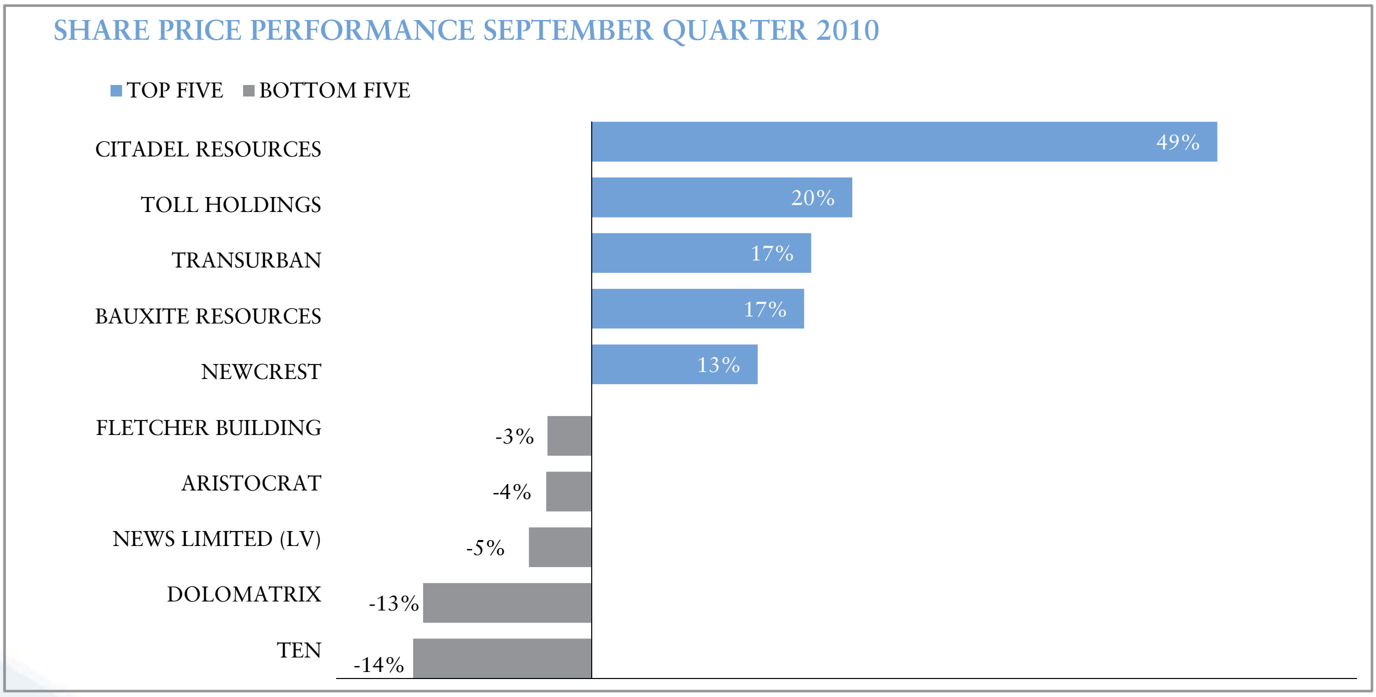
We like toll roads for many reasons. Toll roads have pricing power. They carry an escalating number of cars year on year and while capital intensive, are generally a predictable business. In this case, the quality of management has improved with a cost cutting exercise reducing overheads over the last two years. Transurban is now of significant size in our portfolio. The stock also offers an attractive yield which we see as expanding in the years ahead.

During the quarter, Macarthur Coal unexpectedly raised money to acquire more resource in the Bowen Basin in Queensland. The issue was at $11.50, the current price is now $12.80. We supported the issue which added to our existing position.

Holdings in Westpac and BHP were increased at lower levels during some weaker days in September. Westfield Holdings has been added as a trading position to the portfolio.

We regard the current market as strong but skittish. We are under the impression that a lot of fast money has entered the market based on the effects of massive government stimulus. With these positives likely to prove unsustainable many are ready to bolt for the door at a moment's notice on bad news. As such, we expect the market to remain volatile.

The chart below outlines the five best and worst performers over the quarter.



OUTLOOK

WE HAVE POSITIONED OUR PORTFOLIO TO PROVIDE UPSIDE TO THE STRONG AUSTRALIAN ECONOMY, PARTICULARLY THE MINING SECTOR, WHILE RETAINING SOME STOCKS THAT ARE LEVERAGED TO THE US ECONOMY IN THE EVENT OF A RECOVERY. CASH IS AT A HIGHER LEVEL THAN USUAL.

The arguments for a bullish case are currently as plentiful as for the bearish scenario. Bulls will argue that capital is cheap, plentiful and is looking for a home. The developed economies are lacking in growth while developing economies now make up 53% of world GDP. Recently, The International Monetary Fund predicted that BRIC (Brazil, Russia, India, China) economies will deliver 60% of the world's GDP growth in the next four years.

Investment capital is heading away from developed and relatively unexciting economies toward emerging vibrant economies. Australia, with stable government, remarkable GFC performance, a strong economy and an abundance of resources is on the short list of investible countries.

The bears agree with the above but fear the long term effects of abundantly cheap cash. They argue that debt is out of control and can only be controlled with serious austerity measures to curb the excesses in the US and Europe. With the US consumer struggling with high debt, job insecurity and falling house prices they are unable to consume at the same levels of the past.

American manufacturing cannot compete with Chinese imports and infrastructure is old and requiring replenishment. US unemployment is now 10%. This bearish argument is that markets may well grind ahead but the day of reckoning is out there and must eventually be faced head on. Bears believe we are moving out of a consumption phase into a preservation phase but the stock market is oblivious.

In the longer-term, a significantly weaker US dollar will increase the competitiveness of US produced goods and may, in time, allow the US to increase export income and begin to address its fiscal imbalances.

The current situation therefore provides a challenge. Given the risks, our stance has been to seek to preserve clients' capital base and to be more conservative, rather than chase returns. We are conscious that to take this bear stance may disappoint clients should we fail to deliver an excess return in a rising market.

The portfolio is currently 38% invested in resource and resource related companies (a lot but not enough in September!) where we see value above current prices. We also hold domestic industrials companies that should benefit from the robust local economy along with a small number of positions in cheaper but not necessarily popular US exposed stocks.

Our large position in Newcrest has delivered; hedging the risk inherent in US exposed stocks while sharing in the excitement of a gold run. We believe Oil Search can do a lot more. Citadel Resources has finally broken out of a trading range and is now attracting a lot of attention from retail investors. Transurban is still well below our target despite recent strength.

Our team have not found any new stocks to add in the last few weeks. Historically this has proven ominous; it was our reluctance to chase the "fashionable at any price" that brought our portfolio through the GFC in such good shape.

The lack of new sensible ideas has led to a higher cash balance than normal. Ideally, a pull back in the market will provide an opportunity to add some new investments to the portfolio.

In October, Quest relocated upstairs to a larger office in the same building. Please note the new address is suite 807 6A Glen Street Milsons Point.

Phone and email addresses are unchanged.

FEES

No performance fee was earned during the September quarter.

Clients should note that a high water mark has been established with respect to any performance fee. This means that no performance fee will be earned until the portfolio value exceeds the high water mark and the performance hurdle is met.

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