QUEST

QUARTERLY REPORT
JUNE 2009

John Citizen

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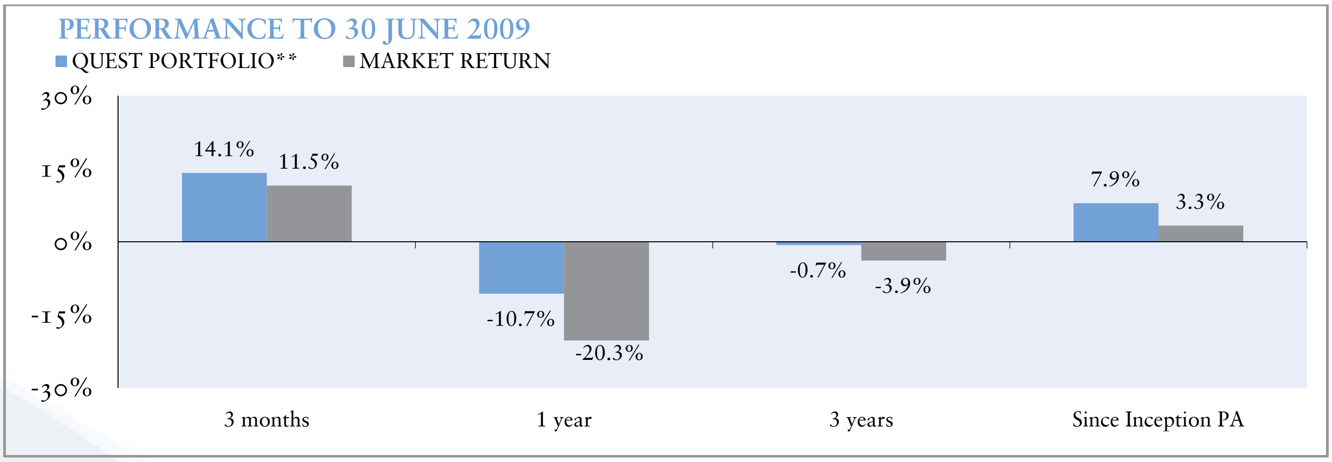
Mr John Citizen	123 ABC Street Sydney NSW 2000
Re account: John Citizen	

PORTFOLIO MOVEMENT – JUNE QUARTER 2009	
PREVIOUS MARKET VALUE 31 MARCH 2009	
CONTRIBUTIONS DURING QUARTER	
PORTFOLIO MOVEMENT*	
MARKET VALUE 30 JUNE 2009	

QUEST PORTFOLIO PERFORMANCE FOR THE QUARTER	
MARKET RETURN (S&P / ASX 300 ACCUMULATION INDEX)	

*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

THE AUSTRALIAN MARKET MADE GAINS IN EACH OF THE THREE MONTHS TO FINISH 11.5% HIGHER AT 30TH JUNE. THE QUEST PORTFOLIO ROSE CIRCA 14% POST FEES. THE MARKET HAS NOW RISEN 27% FROM THE TROUGH IN EARLY MARCH 2009 BUT REMAINS 38% BELOW THE PEAK OF NOVEMBER 2007.

The Australian market rattled home with the best June quarter since 2001 but it was not enough to stop 2009 being the worst fiscal performance year for 28 years. The recovery reflects an end to the panic that led to stocks being dumped last quarter as the global economy stabilises. Unprecedented government initiatives and refinancing of balance sheets have resuscitated local markets after an extraordinary chapter in stock market history.

In Australia, a whopping $88 billion of new equity has been raised which is the third highest issuance globally after the USA and UK. This amount is similar to the 9% of capitalisation raised during previous cycles but is much higher in dollar terms. The good news here is that while a major earnings dilution has occurred, the local market was able to respond more quickly than overseas markets to a critical situation which says a lot for the robustness of the financial system in Australia.

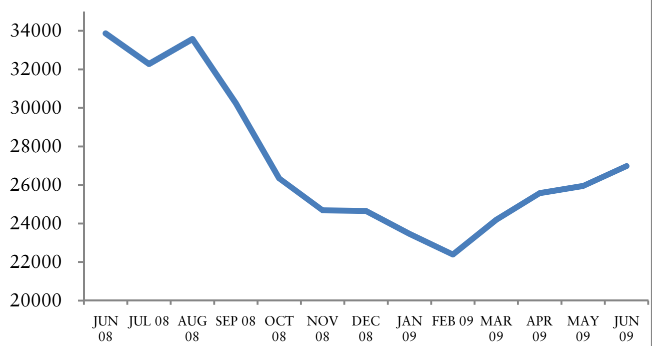
Australia has had few financial bail outs compared to the USA where the government has now assisted 52 banks in the past year. The four major Australian banks are rated "A A" by Standard & Poors; a status only shared by a total of eight banks globally.

The Australian dollar rose dramatically over the quarter from US $0.68 to US $0.80. The oil price popped from US $40 to US $69 and the US 10 year bond shot up from 2.6% to 3.9% before finishing at 3.5%. Gold was steady at US $927.

During the quarter the market rode a burst of optimism that lasted until mid June before sobering economic data cooled down an overly excitable audience. Buoyed by government stimulus and an uptick in almost every economic chart available, the market ran an amazing 30% before consolidating. While we expected a recovery from the depths, it was stronger than anticipated especially in the resources sector which surprisingly boomed amidst the back drop of a global slow down.

While the market awaits earnings reporting season in August, we expect 2009 earnings to fall 18% from the 2008 fiscal year. Our focus is on 2010 and more importantly 2011 and beyond, where we see a return to improved earnings off a now lower base and the completion of a clean out cycle that will expunge excessive debt and bloated valuations from the financial landscape.

ASX 300 ACCUMULATION INDEX



PORTFOLIO ACTIVITY

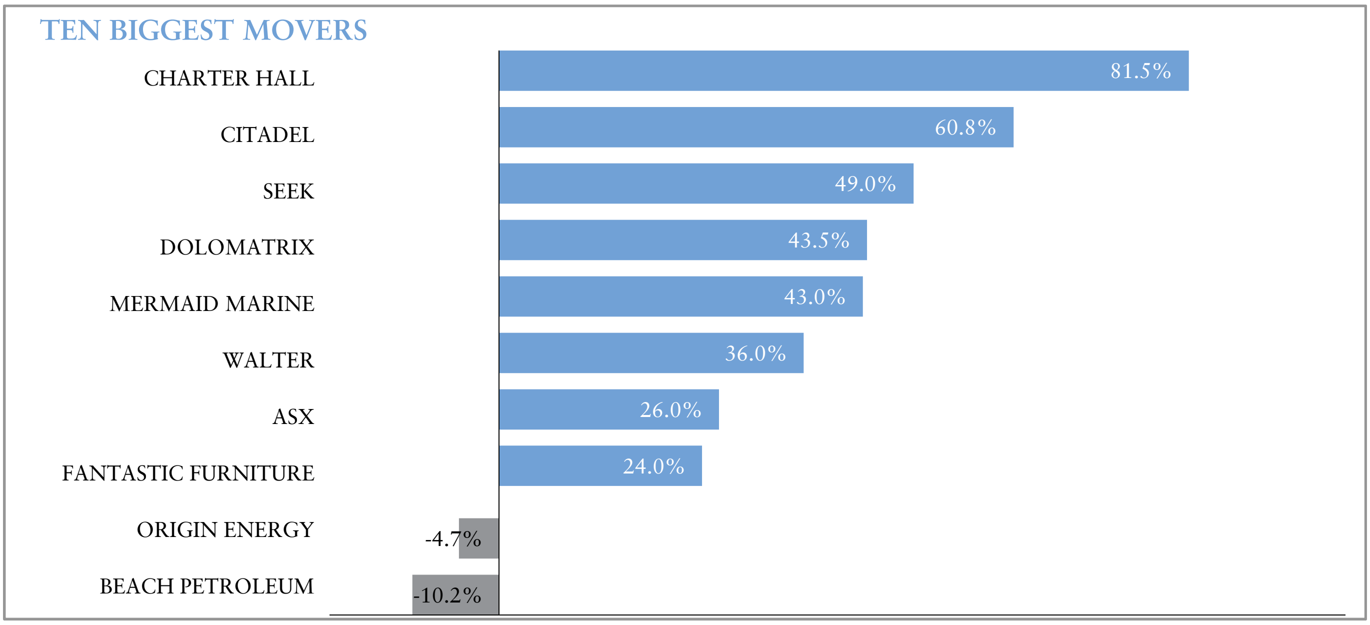
THE WEIGHT IN SMALL CAPS HAS BEEN INCREASED. DURING THE TROUGH LAST FEBRUARY AND MARCH, MANY SMALL STOCKS WERE PRICED FOR DESTRUCTION. WE HAVE LIFTED THE SMALL COMPONENT FROM 14% TO 24% OF THE PORTFOLIO. IN SEVERE BEAR MARKETS SMALL CAPS ARE OFTEN DUMPED BY INVESTORS AS FEAR PROVOKES IRRATIONAL SELLING.

A number of existing positions were increased including Australian Stock Exchange, CSL, IOOF, One Steel, SAI Global and Sonic Healthcare. New stocks in the portfolio include Dexus Property, Oz Minerals and Wesfarmers. Stocks that hit target prices and were sold included AMP, JB Hi-Fi and Santos.

The portfolio continues to hold a large weight in healthcare stocks CSL, Sonic Healthcare and Primary Healthcare. Healthcare as a sector did not perform that well for much of the quarter as the market chased cyclical plays such as resource stocks and stocks that were leveraged to a stronger economic cycle. We do not expect these stocks to perform every month but they continue to offer excellent management, a high level of sustainability and earnings growth. CSL provide vaccines and blood products that will be in demand regardless of the day to day concerns of the stock market. The same applies to the pathology services of Sonic and the medical centre business within Primary.

Origin Energy is one of our larger positions that did not perform this quarter. We maintain our view on this stock and will hold the position until the market recognises the value of Origin. The company is a key player in the development of Queensland coal seam gas fields and has a joint venture development agreement with Texas based Conoco-Philips. The Gladstone port and associated gas field projects should export the first gas in 2014.

Our portfolio would have done better with more resource exposure. We reduced this last year amidst a global slow down incorrectly assuming this to be one of the most vulnerable sectors. We made two trips to China this year which confirmed our concerns that the market had adopted an overly positive view of the Chinese outlook. The major concern lies in the ability of the huge Chinese government spending package to replace the export levels that existed before the financial crisis. We are not convinced that the front loaded Chinese bank lending programs are maintainable and doubt that mandated mass lending necessarily leads to rational investing. A lot of this lending has finished up in property and share market speculation. We also have concerns that commodity funds and traders are distorting commodity prices and sending overly bullish signals back to share markets. While our view did not prevail for the last few months, doubts over the wisdom of relying so heavily on China delivering salvation to investors is now taking hold. In the last two weeks the resource stocks, led by RIO, have started to fall.



Quest added five small caps during the quarter being Fantastic Furniture, Hastie Group, Neptune Marine, SAI Global and Silex Systems. During the March quarter we added Mermaid Marine which has performed very well. All these small companies were purchased at bottom of the cycle prices and carry valuations under our methodology of at least 15% higher than entry price.

The chart above provides our best and worst absolute percentage moves during the quarter.

It was the performance of some small stocks that gave us stronger results for the quarter than delivered by the benchmark, despite our lack of resource stock exposure.

Our early investors will remember we have considerable small cap experience, however pricing for the past two years has not been compelling. In 2006 our small weighting rose to over 40% and it is likely to rise further this year. Smaller stocks are easier to analyse, are generally cheaper than large stocks and more interesting to visit. They provide tremendous insight into business conditions and often attract passionate and creative management. It is easier to focus on the variables, both positive and negative, in smaller stocks. Small stocks usually grow both organically and by acquisition. Fantastic Furniture (FAN) for example, holds a niche position in affordable furniture which fits nicely with the current government first home owners' scheme. Every house needs a sofa and a few accessories and FAN is well placed with over 100 stores nationally. This position is small but may grow if pricing allows.

Mermaid Marine provides marine support and port facilities to offshore gas developments in Western Australia. The stock has risen 50% since acquisition and provides exposure to the $50 billion Gorgon project by Chevron and other gas developments such as Woodside's Pluto field. Gorgon is Australia's largest ever infrastructure project.

Silex was listed in 1998 and is a research and development company with proprietary laser based isotope separation technology with applications in uranium and silicon enrichment. The company signed a licence agreement in 2006 with General Electric that carries a lucrative royalty should the technology be commercialised. Silex is now well advanced in this development program, however any new science carries both high rewards with a corresponding level of risk. The company is also developing solar technologies having recently purchased a Sydney facility. We see good upside for clever technologies in this area.

SAI Global has been in our portfolio twice before and has a habit of range trading from $2.40 towards $3.00, however, the top end of this range is still short of our valuation. The stock is a global player in risk and compliance and is one of a few stocks that are less affected by recession. Compliance and regulation is here to stay and growth seems assured. The stock trades at a discount to global peers which may attract corporate interest.

Hastie is a provider of engineering, mechanical and refrigeration services that is trading well below our valuation. Operations are in Australia, the Middle East , UK and Ireland.

Dexus Property, having been buffeted with the other property trusts recently, is now trading well below the NTA of $1.00 and has now strengthened the balance sheet with two capital raisings. We have built a position around $0.70 post these raisings and can see good upside over the medium term. Meanwhile we receive a solid dividend yield of 8%.

At the larger end Oz Minerals is a one mine copper and gold producer in South Australia. There are only a few pure play copper mines in the world and an Australian location is preferred in our mind to some of the more exotic African locations. We believe the market tends to underestimate sovereign risk in valuing offshore mining companies despite a series of unusual and sometimes unpleasant events in recent years. Oz Minerals was known as Oxiana before most of the assets were sold leaving the company with one mine, low debt and a healthy cash balance. The key performance driver is the copper price as mine volume expansion is limited beyond 100,000 tonnes per annum of copper concentrate per annum.

Australian Wealth Management merged with IOOF Holdings in May and is now known as IOOF Holdings with the code “IFL”. The company continues to grow by acquisition which is reducing our visibility of the core earnings. This position is under review.

Our stock numbers increased to 30 from the usual 25 over the quarter due to the addition of a number of smaller stocks.

OUTLOOK

VALUATION IS A FUNCTION OF EARNINGS AND THE PRICE THE MARKET WILL PAY FOR THOSE EARNINGS. THERE HAS BEEN A LOT OF NOISE RECENTLY BUT EARNINGS WILL PREVAIL. WHILE ECONOMIC VARIABLES HAVE DOMINATED NEWS FLOW AND MARKET DIRECTION, WE ANTICIPATE SOME GOOD OLD FASHIONED VALUATION WORK WILL PAY OFF THIS REPORTING SEASON.

We believe the market hit bottom in early March and expect volatility during the US reporting season this month and Australian reporting season in August. This will provide some trading opportunities prior to a stronger market leading up to December. While we have increased exposure to small stocks there have been only a few changes to the balance of the portfolio which suggests that we still see good upside in our current positions. The quality of our stocks should become apparent during this reporting season. It is also important to avoid disappointment over reporting season, so we have spent a lot of time on our earnings assumptions.

While the balance of the year will be influenced by interest rates, exchange rates and economic data there are a number of more interesting issues to watch out for.

The first is the trajectory of earnings growth in the next few years. We see 2011 as being important now, as post this reporting season, it will be the first forward earnings year. Many stocks will deliver a material return to growth in 2011 as the lower comparatives of today give way to a post recession cycle.

Secondly, we anticipate greater emphasis by investors in dividend yield as well as the usual search for capital growth. Expectations of total return have fallen to more conservative levels as investors have been a delivered a reminder of the power of inherent investment risk.

We expect Total Shareholder Return (TSR) to make a comeback and yield to be sought. Interest in the risk yield trade off is already apparent in property stocks where yields above 8% are considered barely adequate when property valuation risk is taken into account.

Thirdly, those who have read the thoughts of Barack Obama will know the new President is not your average politician. Obama has a passion for renewal including social services (especially health), American dependence on oil and the tax system. The extent of change and the funding of that change will have a direct impact on US markets. The all important role of the US consumer is crucial to that market. While the automotive companies are down and out, Obama has an opportunity to remodel the consumption of oil in the USA. Lower economic activity levels combined with more efficient vehicles will reduce oil consumption.

Fourthly, we believe that China will find it difficult to grow GDP at well over 8% as the global economy works out of recession. The recent boom in resource stocks amidst a world slow down was based on the ability of Chinese domestic stimulus and demand to replace the slump in export volumes. We have visited China twice this year and believe the market is too optimistic and that the development of a consumer led economy is a long way off. How can a consumer led economy develop when the average citizen earns less than US$2,000 per year? As such we have a more sanguine view on the prospects for resources in the coming months.

Major changes to Australian work practices will be implemented this year. Labour costs are a major variable and unions have a duty to optimise the salaries and conditions of their members. While union membership has dropped over the last decade it is likely that union participation will rise in the years ahead. This is an area we will monitor given the extent of change ahead and the importance of labour costs on operating margins for our investee companies.

In the past two years literally thousands of investors have been dealt financial wounds by investing in poorly constructed and highly volatile products. The losses from various names include Westpoint, Fincorp, Australian Capital Reserve, Storm Financial, ABC Learning, Allco, Babcock & Brown and Timbercorp. Predictably Government has called for more regulation which always happens when something goes wrong. Regulatory gaps do exist both in relation to advice and products. Masses of paper and legal mumbo jumbo are already inhibiting the efficacy of basic documentation relied on by consumers. Regulation will not stop people buying shares in flawed products and companies. It is hoped that effective regulation that impedes the scurrilous spruiker is invoked without burdensome paperwork that inhibits business flow for those with noble intentions.

Finally there is no sector that promotes discussion more than the banking sector. Banks make up more than 20% of the market. In the years ahead our banks will enjoy a far less competitive environment thanks to the overseas banks being throttled by the GFC and the contraction in the role of the regional competitors. Recently banks have fostered the good clients and culled the weak while charging expanded spreads on loans and raising fees. The banks are still working through the damage to their loan books from property, small business and private equity lending and we expect more write downs this year. We think it is still too early to lift bank weightings but are very aware that the banks may emerge in a position of unprecedented strength in a couple of years.

Quest turns five years old in August and we thank our investors for their support. Quest has now out performed the benchmark in both bull and bear markets during that time. We are refreshing our branding to mark the anniversary and prepare our business for the next five years. An upgrade to our website will commence shortly.

Fees

No performance fee was earned during the June 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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