QUEST

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QUARTERLY REPORT
SEPTEMBER 2009

John Citizen

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Mr John Citizen

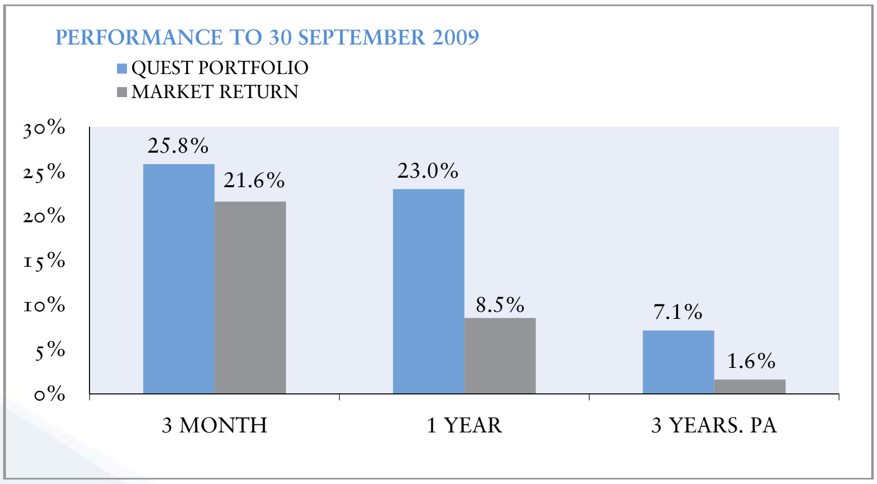
123 ABC Street
Sydney NSW 2000

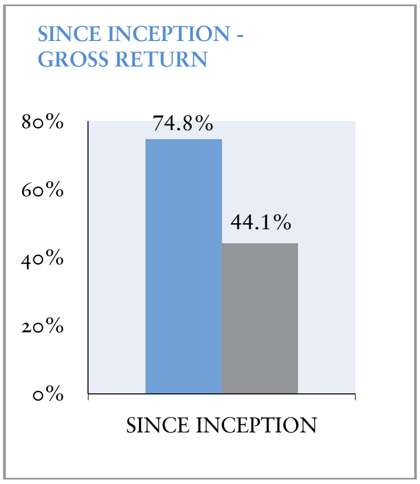
Account Name: John Citizen

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

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

*Includes fees for the quarter



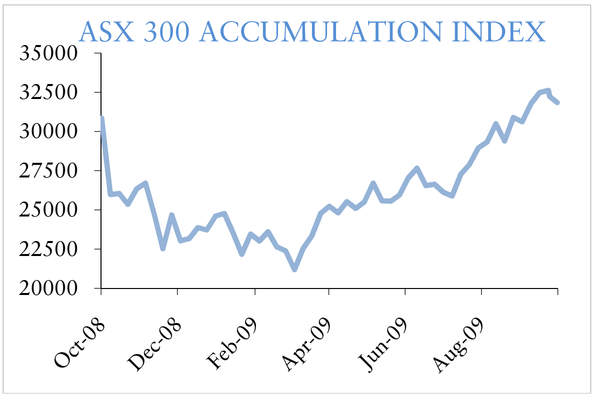


** The portfolio returns quoted above represent the return achieved if invested in the Quest portfolio since inception (February 2005). Individual returns will differ for investors that made an initial investment after this inception date or where additional investments or redemptions have been made.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

MARKET SUMMARY

THE AUSTRALIAN MARKET ROSE MORE THAN ALL MAJOR GLOBAL INDICES, ROARING AHEAD IN THE SEPTEMBER QUARTER TO POST A 21.6% GAIN, THE BIGGEST QUARTERLY RISE IN 22 YEARS. THE QUEST MODEL PORTFOLIO CONTINUED TO COMFORTABLY OUTPERFORM THE MARKET, AFTER FEES. THE AUSTRALIAN MARKET IS NOW UP MORE THAN 50% FROM THE LOWS OF MARCH BUT REMAINS 30% BELOW ITS RECORD HIGH IN 2007.

The market backed up the strong gains in the June Quarter with three consecutive bumper monthly gains in each of July (+7.3%), August (+6.6%) and September (+6.3%). It seemed that the more the market rose the more investors sought out stocks that were only months ago seen as risky investments.



Source: IRESS

The market was driven by consistently positive economic data and a good August reporting season. Consumer and business confidence both improved, with the consumer index surging 34% in the last four months, the most significant recovery in its 35 year history. Following full year results in August, analysts began to upgrade earnings forecasts. This was a significant change from the consistent wall of downgrades seen over the last two years. This positive "earnings momentum" is likely to continue and may justify further gains in stocks prices.

The Banks (+35%) were the best performers during the quarter, being a major contributor to the market return. Banks benefited from improved earnings certainty into 2011 and beyond, as estimates of bad debts were revised lower as the Australian economy strengthened and unemployment expectations diminished. Real estate trusts (+28.3%) were also strong, reflecting "de-risked" balance sheets resulting from the large and very dilutive equity raisings conducted.

Overall, industrial companies (+24%) fared better than resource stocks (+10%), the reverse of the June quarter. Healthcare (+8%), Utilities (+5%) and Telcos (-3%) all underperformed as investors sought out the more risky, cyclical investments.

The A$ continued to rise, up 9% in the quarter, reflecting a consistent and significant devaluation in both the US$ and the British Pound. The size of these moves reflects the ongoing concern about the ability of the US and UK to continue to fund their large and expanding fiscal deficits. Related to this was the 9% gain in gold during the quarter whilst oil remained relatively flat at around $70.

Strong equity issuance continued during the quarter. Initially raisings were limited to larger companies, however small stocks joined in mid year.

With large amounts of cash sidelined during the worst days of the global financial crisis, the rising market saw investors move back into the market. Cash levels remain high by historical standards and it is likely the "weight of cash" seeking more risky assets will continue for the balance of the year.

PORTFOLIO ACTIVITY

OUR PORTFOLIO WEIGHT IN SMALLER STOCKS CONTINUED TO RISE DURING THE QUARTER AND NOW SITS AT 28% OF THE PORTFOLIO. A NUMBER OF SMALL STOCKS HELD AT THE END OF JUNE HIT OUR TARGET PRICES AND WERE SOLD. A STRING OF CORPORATE DEALS DURING THIS QUARTER PROVIDED ACCESS TO SOME BUSINESSES AT DISCOUNTED PRICES.

While some larger positions such as Australian Stock Exchange, BHP, Commonwealth Bank, QBE and Westpac were increased during the quarter, our attention continued to be on smaller stocks. The improved economic outlook and the availability of capital from equity markets drove a swag of corporate transactions that provided discount entry to a number of stocks.

Since January 2009, capital raisings have now reached $50 billion while dividends have been cut by 25%. The result is a significant decrease in debt levels held by Australian companies. Overall debt is now estimated at 30% of equity in listed companies with forecasts as low as 20% within two years.

The frequency and discounted nature of these deals proved to be advantageous to Quest clients who were able to pick and choose from an extensive menu. During the quarter we participated in seven capital raisings all being mid and small sized stocks.

Corporate fund raisings that we participated in include Bauxite Resources, Bendigo and Adelaide Bank, Elders, Sedgman, Seek, Virgin Blue and WDS Limited.

Bauxite Resources are a Perth based miner with very large bauxite tenements and existing production. Located close to the coast, this company has a distinct advantage in that infrastructure services such as rail and port are already available. First ore was recently shipped to Chinese buyers who refine bauxite into alumina which is smelted into aluminium.

Elders is a well known Australian name in agricultural supplies and services. Historically the stock has been a woeful performer being part of the blinkered Futuris group. We see upside in this stock after the recent sale of peripheral assets and debt reduction by the new management team.

Sedgman is an engineering business specialising in coal handling and preparation plants. Coal is big business for Australia and increasing demand from Asia continues. A fundraising in August at $1.30 provided a good entry point for our portfolio.

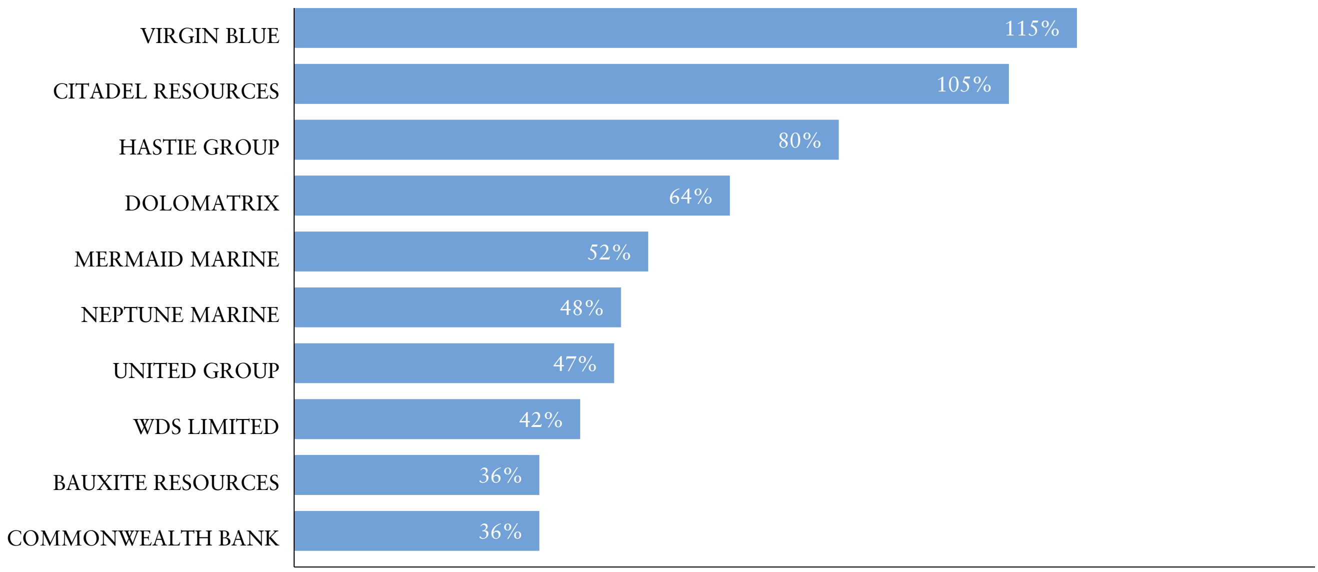
Seek is an online recruitment business with obvious leverage to an improving economy. Revenues are primarily derived in Australia and New Zealand but it has a growing exposure to emerging markets via investments in Brazil, Malaysia and China. It also continues to grow its presence in education and vocational training.

Virgin Blue was added in August when the company raised capital at 20 cents to fund operations. While we normally avoid airlines, this was a very cheap entry to a stock with such leverage to the cycle. At the time of writing Virgin shares are trading at 45 cents.

WDS has been in our portfolio for some time and we continue to build the position. The company provides engineering services to the mining industry and is well placed to participate in the development of the coal seam gas industry in Queensland. This stock is a good example of the volatility that small stocks are subject to as cycles develop. WDS traded at almost $3 before the financial crisis but fell to 48 cents at the nadir. Today it trades just above $2.

Aquarius Platinum, Alumina, Aristocrat and Oilsearch have also been added to the portfolio reflecting our increased confidence in the global economy and the market over the next 12 months. Mermaid Marine, IOOF, Fantastic Furniture, Bendigo and Adelaide Bank, Oz Minerals and Wesfarmers hit target prices during the quarter and were sold. We also sold Beach Petroleum which has failed to deliver to our expectations.

TEN BIGGEST SHARE PRICE MOVERS IN PORTFOLIO (SEPTEMBER QTR)



OUTLOOK

THE MAJOR OUTLOOK FACTORS FOR THE NEXT QUARTER ARE EARNINGS, INTEREST RATES AND LIQUIDITY. AN UPDATE ON CORPORATE EARNINGS WILL BE DELIVERED BY THE UPCOMING AGM SEASON. INTEREST RATES WILL RISE FROM HISTORICALLY LOW LEVELS. AN ABUNDANCE OF INVESTIBLE CASH WILL CONTINUE TO CAUSE VOLATILITY.

The first week of October saw the first upward interest rates move away from the emergency recession induced setting of 3.0% in response to an improving economic outlook. The RBA appear to be specifically concerned with consistently firming house prices. Between September 2008 and April 2009 there were six rate cuts totalling 4.25% which dropped the cash rate from 7.25% to 3.0%. Prior to that cycle, there were 12 consecutive rate rises totalling 3% over 5 years. Australia is the first country in the G20 to lift rates post the financial crisis.

Notwithstanding the rate rise scenario we can see the All Ordinaries reaching the 5000 level possibly by February. Such a move would require a solid effort by bank stocks or resources or possibly both.

The next bank reporting season is in November and will highlight the improving bad and doubtful debt scenario, improved business conditions and the lack of competition amongst banks post the financial crisis. The banks, which make up more than 25% of our market, are a reliable source of franked income, an attribute that finds favour with retail clients. Offshore investors continue to be attracted by the resilience of Australian banks and will be further encouraged by the strengthening Aussie dollar post rate rises. The resources sector, 20% of our market, is a tougher call. The outlook appears very solid for coal and iron ore thanks to Chinese restocking demand however other metals less reliant on China are more opaque. While metal restocking in China seems complete, it appears other markets are now also in a restocking phase from a low base. Demand from non Chinese markets was so poor early in 2009 that Chinese demand for a basket of commodities rose to 44% of total from 32% in only 7 months. Historically restocking leads to an overshoot in commodity prices (just as the financial crisis prompted an overshoot on the way down). This view supports our increased position in Alumina, Aquarius Platinum, Bauxite Resources and Citadel Resources. The rampaging US government debt has led us to add gold play Newcrest Mining to the portfolio.

On a less positive note, government intervention is a cause for concern. While regulation and compliance are crucial to an effective market, the emergence of government induced sovereign risk is new to the Australian market. In the last two years, a range of industries have been affected by sudden changes in the rules ranging from gas production to pathology services. The effect on some industries of draft carbon reduction legislation is so destructive that some trade unions are actively objecting to the proposal. While Quest does not own Telstra, the threat of an enforced structural separation to Australia's 9th largest company does little to encourage business confidence amongst foreign investors or amongst the 1 million plus shareholders who purchased shares in Telstra on or since October 1998.

Consensus earnings per share growth estimates for 2010 are flat however forecast 2011 growth is a startling 25%. The recapitalisation of balance sheets suggest that corporate mergers and takeovers will commence in 2010 and continued investment by foreign companies into Australia is likely. The strengthening currency will drive further acquisition activity by our larger companies into overseas markets. Overall we hold a positive view on the outlook for the next quarter but recognise the market has run hard and some consolidation is likely as we move into 2010.

FEES

Given recent strong performance, some investors in the Quest high net worth portfolio are now at or near the high water mark previously established.

Some investors may pay a performance fee for the quarter (payable in the following quarter), depending on when the initial investment was made and the nature of any subsequent additional cashflows.

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Past performance may not be a reliable indicator of future performance.

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