Australian Equities Concentrated Portfolio

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.

August 2019

Key Portfolio Features

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	32 now, maximum 35
Quest AUM	$1.2 billion
Strategy AUM	$80 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

August Summary

The ASX 300 recorded the first negative monthly return in August for the calendar year. Whilst down 2.2% (after accounting for dividends received), the market is up 21% for the calendar year. Another solid year for equity investors.

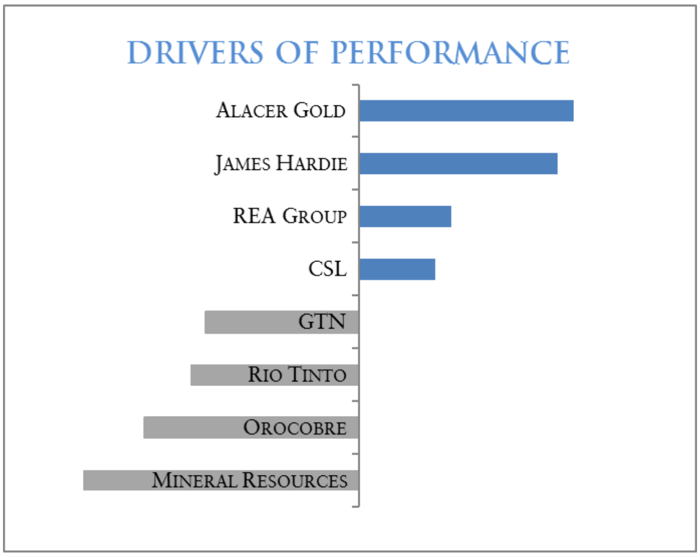
Last month we emphasised that the world is all about interest rates, at present. That has not changed but while expectations are for further cuts in the US, Europe and Australia there are deepening concerns about the lack of global growth. With interest rates already so low, questions remain as to the impact of further changes to monetary policy. Can lower rates or more quantitative easing revive global growth?

Interest rates are already negative in Germany, France, Belgium, Sweden, Slovakia, Italy and in many other countries. In fact, the global stock of negative-yielding debt is now in excess of $17 trillion and over 30% of the world's investment grade debt now carries a negative yield. These are startling statistics.

We remain cautious on the market maintaining a focus on valuation amidst the macro and reporting season noise. It does appear that the enthusiasm for low cost ETF and passive Index products is leading to mass buying, with little heed to valuation disciplines. Indeed, this herd mentality may lead to the next correction.

At Quest, we continue to invest at prices where we see value rather than accepting the frothy pricing that is evident in many parts of the market. In recent times, this has been by way of some IPOs and placements as well as quality stocks that have had sudden price corrections but where the investment case remains attractive.

Examples in each of these categories include our participation in the listings of Investec Property Fund and Prospa at IPO, and our recent A2 Milk purchase after the stock fell sharply early in August.



Performance

before fees and tax (Past performance is no guarantee of future performance)

To 31 August 2019	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-2.1%	3.7%	6.9%	12.7%	10.3%	10.4%	11.7%
ASX 300 Accumulation Index	-2.3%	4.3%	9.1%	11.3%	7.9%	8.5%	7.9%
Value added	0.2%	-0.6%	-2.2%	1.4%	2.4%	1.9%	3.8%

*per annum

Portfolio activity

The 2019 reporting season completed in August. This is a busy time and stock turnover was lower than usual with only one new holding added being A2 Milk. We were happy with our stocks that reported with no unpleasant surprises. Worley was our worst falling 24% but that had more to do with the oil price and short term outlook than the result itself. A number of well-known stocks that we do not own fell heavily in August including Brambles, CIMIC, Iluka, Caltex, Boral, Corporate Travel, Orora, Viva Energy and South 32. Avoiding these draw downs is helpful.

Our best relative performers were James Hardie, Alacer Gold, CSL, RIO, Prospa, Sydney Airport and REA.

Both James Hardie and CSL reported well. The market was impressed with the prospect of James Hardie sustaining higher margins as it continues its transition under a new CEO. We agree, as our investment thesis included a view that the operational capability should improve, delivering both cost savings and a stronger competitive position. This now appears to be playing out and the share price is responding.

In our view, CSL is a high quality business and has a management team that continues to deliver. We have held this stock since inception back in 2005! We were pleased to see strong full year results. This performance reflects the impressive business decisions made by management over many years. CSL trades at new highs.

Prospa is a relatively new addition to the portfolio having made its debut on the ASX in June this year. With no surprises in its maiden result, the business looks well placed to grow its market position substantially. The core small business loan product continues to gain traction and loss rates are as expected. The business is now accessing lower cost funding which further strengthens the competitive position through lower prices to customers. Management are also busy leveraging their early market leadership by launching additional products. The market clearly likes the story with the shares closing at $4.60, up from its IPO price of $3.78.

A2 Milk is a business with terrific brand strength and a capital light operating model that results in extraordinary cash generation. It rates highly under our qualitative assessment of business quality (Q stocks). We have been monitoring this business for some time. Valuation has always been the challenge with the market prepared to pay up in advance for the company's growth strategies.

A2 Milk was added to the portfolio after a share price fell 20% following the results in August. With the company expanding further into China and continuing its push into the US, significant funds are being reinvested across the business, impacting margins in the short term. The size of the prize is large as these are the two biggest markets in the world. It seems the market did not appreciate that margins would fall as a result. This stumble provided an acceptable entry point for Quest as our valuation points to significant upside if management can execute. We are visiting the China operations of A2 Milk in September to further our understanding the dynamics in this key market.

Cash at the end of the month was approximately 6%.

Fact of the month

The tallest timber building in the world at Barangaroo has been such a success that Lend Lease have followed up with another next door. The eye-popping construct is made from cross laminated timber without concrete pours and steel thus minimal emissions. The sustainable timber is glued and pressed with negligible wastage, transported and installed to measure. Construction was eerily quiet and quick. The timber absorbs office noise. Lend Lease have also committed to another wooden 12 story building in Brisbane.

The Quest process

The Quest team invest to make an above average return. We pay less heed to beating an index.

We research investments from the ground up and invest based on our assessed valuation. We seek minimum 15% upside. This valuation becomes our target price.

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

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