



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

DECEMBER 2017

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 out perform the S&P/ASX300 Accumulation Index (pre fees). SMA's are professionally managed portfolios where the investor retains beneficial ownership of the underlying securities.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	31 now, maximum 35
Quest AUM	\$849 million
Strategy AUM	\$73 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

THE DECEMBER REVIEW

Our local market rose 1.9% on an accumulation basis, the 7th consecutive monthly rise. The ASX 300 delivered an 11.9% accumulation return in 2017. The Dow Jones return was 25% while the S&P 500 is up 19.4% this calendar year.

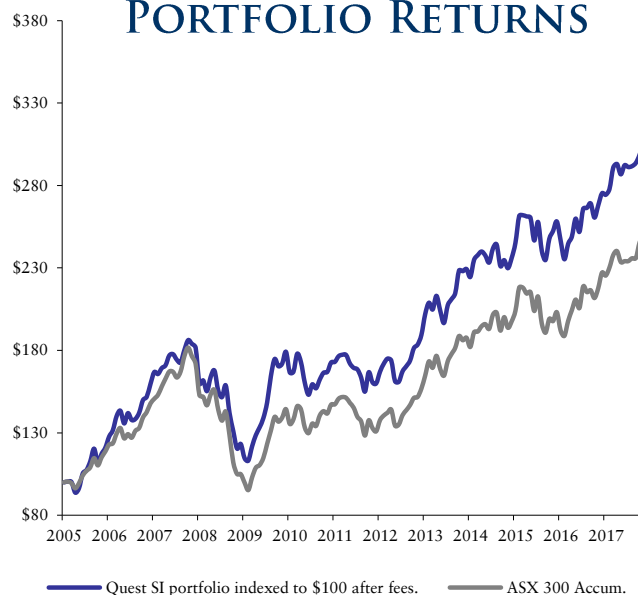
The Quest portfolio 12 month return post fees is 16.7%.

The key issue for Quest portfolio managers this month was the US Congress vote for a tax reform package that represents the most significant tax change for 30 years. Companies with US earnings will benefit by varying degrees by paying less tax. Already Bluescope Steel has announced a 7% drop in US tax in FY 18 and an 11% decrease thereafter. Expect further announcements in the New Year from companies with US operations.

It is worth noting that despite earnings excitement in equity markets, the USD is in decline post the confirmation of tax cuts suggesting that markets are concerned that major structural deficits could arise.

Quest manages \$850 million across 3 different products. Our concentrated portfolio has been running for nearly 14 years and is 4.4% ahead of benchmark pre fees since inception, our Highly Concentrated 10 stock portfolio is currently being seeded after an excellent 18 month trial that delivered a return of 50% and the Ex 20 portfolio commenced in March 2017.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 December 2017	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	4.8%	9.7%	19.1%	13.4%	13.9%	7.9%	12.0%
ASX 300 Accumulation Index	1.9%	7.7%	11.9%	8.8%	10.1%	4.0%	7.6%
Value added	2.9%	2.0%	7.2%	4.6%	3.8%	3.9%	4.4%

*per annum



PORTFOLIO ACTIVITY

December was a good month for the Quest portfolio particularly in the small and mid cap holdings. Our portfolio added 4.8% in December.

The Quest best in December saw a number of good performers. **Netwealth Group** (NWL) rose 36%, **Pushpay** (PPH) rose 26%, **Bingo Industries** (BIN) was up 13%, **Orocobre** (ORE) rose 11% while **Westfield** (WFD) lifted 13% after a \$33 billion bid from Paris based **Unibail-Rodamco**, the world's third largest listed property investor. **Oilsearch** (OSH) added 11% while **Evolution Mining** (EVN) climbed 8%.

There were no poor performers however **IOOF Holdings** (IFL) and **Sydney Airport** (SYD) lagged the market by more than 3%.

The strong performance of Netwealth Group was the highlight of December. Netwealth floated at more than 30 times earnings in late November and has risen 96% from the \$3.70 float price. The company is now capitalised at a robust \$1.6 billion.

Netwealth provides portfolio administration and investment solutions to advisers and individuals. The business is growing rapidly due to support from adviser groups who are looking for better administration solutions. There is a **definitive move** by investment advisers away from larger institutions including banks. Allocations in the float were hard to come by as less than 40% of the company was sold to the public. Quest had to go hard in the first days of trading to build a position in this strongly growing business.

The bid for **Westfield Holdings** (WFD) by **Unibail-Rodamco** at a stock and cash equivalent price of \$10.01 saw Quest sell our Westfield holding on market after the takeover announcement. In the biggest property takeover in Australian history, Unibail-Rodamco have bid \$33 billion for the Lowy colossus. Westfield floated in 1960 and with patriarch Frank Lowy now 87 years old, the deal sees closure of the Lowy success story and importantly frees up the 3 Lowy lads to do something other than maintain a legacy for the rest of their time.

Pushpay (PPH) continues to attract investor interest and has nearly tripled over the year. We have written often on this US business already but the January update should confirm further growth for a stock that has automated the huge business of donations to

churches. This is a market of over \$123 billion in the USA in 2016! Pushpay added 26% in December.

During the month our lithium producer **Orocobre** (ORE) breached the \$7 level and is now up 53% for the year. Only weeks ago this was the most shorted stock on the market, a hideous miscalculation by the hedge fund community.

In December we added road operator **Macquarie Atlas** (MQA) after Macquarie Bank sold their holding. We anticipate management will be internalised in 2018.

Cash at year end was 5%.

MAJOR POSITIONS ABOVE ASX300 INDEX

Large stocks	Commonwealth Bank (CBA)
	Brambles (BXB)
	Macquarie Group (MQG)
Mid Cap stocks	Janus Henderson (JHG)
	Lendlease (LLC)
	Boral (BLD)
Small Cap stocks	Bingo Industries (BIN)
	Netwealth (NWL)
	iSelect (ISU)

TOP ATTRIBUTORS

Netwealth Group (NWL)
 Bingo Industries (BIN)
 Pushpay Holdings (PPH)
 Oilsearch (OSH)
 Westfield Corporation (WFD)
 Orocobre (ORE)
 Evolution Mining (EVN)

KEY DETRACTORS

IOOF Holdings (IFL)
 Brambles (BXB)
 Sydney Airport (SYD)



INVESTMENT APPROACH

The Quest Asset Partners team use a three stage process to research opportunities in the Australian market. We are looking for unrecognised potential.

Our **Stage 1** qualitative business assessment is combined with our **Stage 2** integrated quantitative valuation process to find the best opportunities. We visit a lot of businesses in our travels.

Our portfolio is concentrated to a maximum of 35 of our best ideas with 30 stocks on average.

We invest to make a return not to beat an index.

A Quest portfolio will include known names such as major banks but we look to add value outside of the major stocks. The portfolio typically carries a number of smaller businesses as market research is often scant.

Our typical client has an interest in the Australian share market but lacks the time to maintain a portfolio. Our clients are often unable to access the new floats and other opportunities that we see regularly.

Our client base includes people from all walks of life that have realised an occasional read of the financial press does not compete with the experience and contacts available to our four investment professionals.

INVESTMENT TEAM

- Michael Evans
- Chris Cahill
- Troy Cairns
- Swapan Pandya

PLATFORMS

The Quest Australian Equities Concentrated Portfolio is currently available on the following platforms:

	Web site	Retail	Sophisticated Investors
Mason Stevens	Link	✓	✓
JBWere Multi-Asset Platform	Link		✓
Macquarie	Link	✓	✓
HUB24	Link	✓	✓
Powerwrap	Link	✓	✓

BLOG

To read “**Bingo cleans up on result**”, “**Summary of Fiscal 2017**”, “**Lonsec Awards 2017**”, “**Henderson to merge with Janus Capital**” and other Quest Insights visit www.questap.com.au/news/

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