



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

DECEMBER 2018

## 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.

## KEY PORTFOLIO FEATURES

|                      |   |
|----------------------|---|
| Inception            | 9 February 2005   |
| Investment Universe  | ASX listed  |
| No. of holdings      | 31 now, maximum 35  |
| Quest AUM            | \$1,021 million   |
| Strategy AUM         | \$71 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  |

## DECEMBER SUMMARY

A further small fall in December capped off the year. With the Australian market having the worst close to the year since 2011, there was no Santa rally in 2018.

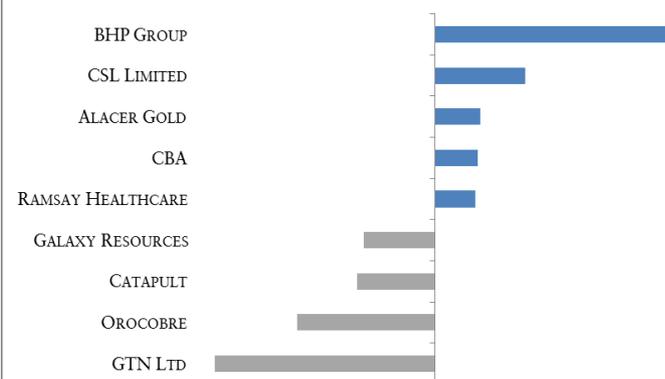
The ASX300 fell only -0.2% (after factoring in dividends) in December, masking the wild gyrations experienced during the month. The market hit a low on 21 December then rebounded sharply, continuing the rally into the New Year. Yields on bellwether US 10yr Bonds fell heavily, highlighting ongoing uncertainty about the trajectory of growth in the US and a flight to safety. The oil price dropped another 20% before bouncing strongly to end the month almost unchanged. Gold was well supported with the A\$ gold price reaching an all-time high by month end.

Global markets were dealt with more harshly with virtually all major indices experiencing further nasty falls. The worst markets were Japan (-10%), US (-9%), Germany (-6%) and China (-4%).

Perhaps surprisingly the Materials sector was the standout sector in Australia, buoyed by strong gains in iron ore and gold. Evolution Mining (+18%), BHP (+12%), South 32 (+8%) and RIO (+7%) were amongst the best. Healthcare and Utilities also enjoyed positive returns reflecting a flight to defensive earnings and the fall in bond yields. The best in this group included Resmed (+6%), CSL (+4%) and AGL (+10%).

The Quest portfolio lagged the market, mostly as a result of a disappointing earnings downgrade from GTN. Our best contributors were BHP, CSL, Alacer Gold, CBA and Ramsay. In addition to GTN, our detractors were Orocobre, Catapult and Galaxy.

## DRIVERS OF PERFORMANCE



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

| To 31 December 2018               | 1 month | 3 months | 1 year | 3 years* | 5 years* | 10 years* | Since inception* |
|-----------------------------------|---------|----------|--------|----------|----------|-----------|------------------|
| Quest Aust. Equities Concentrated | -1.4%   | -9.8%    | -3.3%  | 7.7%     | 8.3%     | 11.7%     | 10.8%            |
| ASX 300 Accumulation Index        | -0.2%   | -8.4%    | -3.1%  | 6.7%     | 5.6%     | 8.9%      | 6.8%             |
| Value added                       | -1.2%   | -1.4%    | -0.2%  | 1.0%     | 2.7%     | 2.8%      | 4.0%             |

\*per annum



## PORTFOLIO ACTIVITY

---

As previously noted we have rotated the portfolio away from what we saw as fully priced investments. This gave us cash to deploy as share prices began to weaken and we looked to add stocks where the fundamentals justify a return of above 15% or more on investment. **Aristocrat Leisure** and **Sonic Healthcare** were notable additions to the portfolio in December, a result of lower prices in a falling market.

**Aristocrat Leisure** returned to the portfolio with Quest having previously held the stock 18 months ago. The company has since made two acquisitions and now enjoys a lower US tax rate. The share price has fallen over 30% from its highs around concerns about its investment in social gaming (i.e. non-casino mobile games). However, Aristocrat's traditional land-based slot machine business continues to gain share as it outperforms its debt constrained competitors. Social gaming is a relatively small part of Aristocrat's earnings base and we think Aristocrat can still generate double digit earnings growth over the medium term. We rate Aristocrat as a B grade in our Q Stocks quality filter and we are attracted to the recurring earnings and a strengthening market position. Aristocrat currently trades below our valuation on a PE of around 16x.

**Sonic Healthcare** was added via placement at \$19.50 per share to raise \$600m to fund the acquisition Aurora Diagnostics in the US. Sonic shares traded around \$22 at year end. Aurora is the second largest provider of anatomical pathology services in the US. Sonic has been a prolific acquirer with well over 100 acquisitions including assets in the UK, Germany and the US. We rate Sonic as a B grade, however, our interest has always been tempered by its reliance on government reimbursement, given the habit of governments to periodically cut funding to its suppliers. With the upcoming Federal election we now expect that its more likely that both parties compete to support the sector in an effort to persuade voters. The domestic pathology business is also enjoying good sample volumes at present. Sonic reaffirmed profit guidance during the raising and with the acquisition making good strategic sense we saw the \$19.50 entry point as a good opportunity to deploy our cash holdings.

We exited our holdings in Fortescue Metals and Evolution Mining during the month. We chose to add to our position in Alacer Gold at good prices, replacing some gold exposure lost

through the sale of Evolution. We also added to Woodside Petroleum and CSL and reduced our position in Vista Group.

At month's end our cash holding was reduced to 1.8%.

The market now finds itself in a bear phase and while it has fallen 9.5% since late August, it is only down 3.1% over the 2018 calendar year. This is far from devastating in the scheme of things and we note that the market has only fallen in the calendar year four times in the last twenty years.

Overall we remain patient; believing wealth is built over time. We continue to hunt for investments that meet both our quality and valuation criteria. The current market is in a transition phase: stocks that were blindly supported despite crazy valuations are now confronted by a more sceptical market that demands visibility and confidence in the trajectory of future earnings. This should provide fertile ground for good stock picking. We are now beginning to see interesting opportunities arise as prices and sentiment stabilise.

## THE QUEST PROCESS

---

The Quest team invest to make an above average return, it is not to beat an index. We research investments and invest based on our assessed valuation. This is our target price.

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

## CONTACT QUEST

---

Phone:

Michael 02-9409 2300

Chris 02-9409 2301

Troy 02-9409 2303

Suite 8.07, 6A Glen St, Milsons Point NSW 2061

[quest@questap.com.au](mailto:quest@questap.com.au) [www.questap.com.au](http://www.questap.com.au)

### Disclaimer

This report has been prepared by Quest Asset Partners Pty Limited, AFSL 279207 (wholesale), ABN 47 109 448 802. It should be regarded as general information only rather than advice. It has been prepared without taking into account any person's objectives, financial situation or needs. Whilst Quest has used its best endeavours to ensure the information within this document is accurate it cannot be relied upon in any way and recipients must make their own enquiries concerning the accuracy of the information within. Past performance is not a reliable indicator of future performance. All performance figures are based on the JBWere Multi-Asset platform seed portfolio. Performance can vary by platform and client due to mandate restrictions and other constraints. Before making any financial investment decisions we recommend recipients obtain legal and taxation advice appropriate to their particular needs. Investment in a Quest Asset Partners Separately Managed Account can only be made on completion of all the required documentation. As Quest hold a wholesale AFS licence, this report should not be passed on to any retail client.

The Lonsec Rating (assigned October 2018) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Quest Asset Partners Pty Limited product(s), and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria.

For further information regarding Lonsec's Ratings methodology, please refer to our website at: <http://www.lonsecresearch.com.au/research-solutions/our-ratings>