



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

DECEMBER 2015

INVESTMENT PROFILE

The Quest Australian Equities Concentrated Portfolio is a Separately Managed Account (SMA), actively managed by Quest Asset Partners Pty Limited. The objective is to return 4% p.a. over the S&P/ASX300 Accumulation Index (pre fees). SMA's are professionally managed portfolios where the investor retains beneficial ownership of the underlying securities. This concentrated portfolio is suitable for investors seeking capital gains and income over the medium term via a professionally managed exposure to the Australian share market.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	Maximum of 35
Quest AUM	\$1,046 million
Strategy AUM	\$59 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 REVIEW

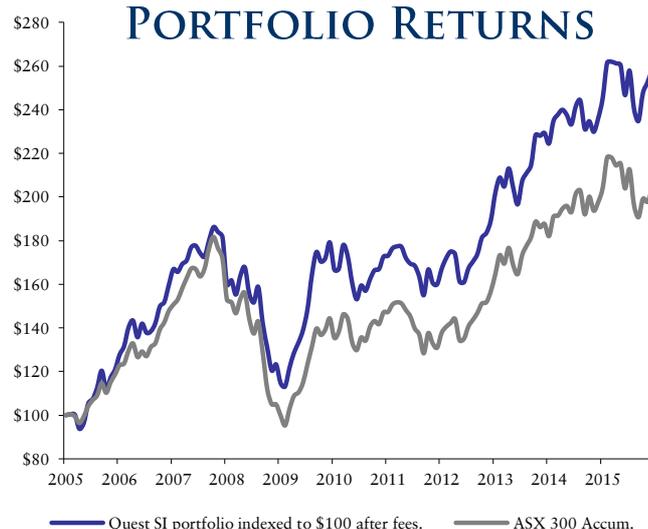
The Quest portfolio returned **2.6%** (pre fees) in December relative to the 2.7% rise in the ASX300 Accumulation Index.

The portfolio is now 9.8% ahead of the S&P/ASX300 Accumulation Index over 12 months pre fees. Our 1 year absolute return is 12.6% pre fees.

The local market was volatile during December, falling back initially with concerns over the weakness in resources, and the US Fed raising short term rates for the first time in nearly ten years. Then rallying strongly, led by consumer staples and banks. Consumer and business confidence continues to rise following the change in Prime Minister but the Mid Year Economic and Fiscal Outlook (MYEFO) made for grim reading. A surplus is now more than five years away. Global markets were weak

*Preliminary unaudited return

PORTFOLIO RETURNS



PERFORMANCE	BEFORE FEES AND TAX		(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)				
	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
To 31st December 2015							
Quest Aust. Equities Concentrated	2.6%	10.3%	12.6%	14.1%	10.9%	10.4%	11.7%
ASX 300 Accumulation Index	2.7%	6.5%	2.8%	9.0%	6.7%	5.5%	6.9%
Value added	-0.1%	3.7%	9.8%	5.1%	4.3%	4.9%	4.8%

*per annum



PORTFOLIO ACTIVITY

The portfolio rose strongly in December but lagged a rebounding Top 20 – the latter having struggled in 2015. One of the best performers for Quest in December was **Lendlease** (LLC) which popped 12% for the month. Lendlease has been out of favour over recent months due to concern regarding a slowing Australian housing market and the perceived apartment default risk at Barangaroo. We see these concerns as overstated, especially as resales of Barangaroo apartments have been well above the original prices. The position has been built up again given the opportunity provided by this price weakness.

AGL (AGL) continues to perform strongly as a number of factors make AGL more attractive. New management are seeking to boost both capital and operating efficiency. The electricity market is tightening as the LNG plants ramp up demand. Intermittent renewable generation is also creating volatility. Capital management is likely to commence shortly.

Greencross (GXL) the owner of pet care retailer and veterinary businesses rebounded strongly as rumours of private equity interest in the business turned into reality. We added the stock to the portfolio in the third quarter as the valuation became attractive. Greencross' markets are attractive, large and growing, with Greencross well placed to continue to win share.

Vista Group (VGL) again provided a good return after they announced that their Movio digital marketing business was gaining traction with both movie studios and exhibitors, principally in the US.

Oil Search (OSH), **iSelect** (ISU) and **Surfstitch** (SRF) were the major detractors during the month.

There was little portfolio activity during December. Whilst December returns were positive, the market was quite weak in the middle of the month and we used this period to buy. The major move was to reweight towards the Top 20 after a prolonged period of underperformance and ahead of an expected Christmas rally. **Wesfarmers** (WES) was added to the portfolio, as the shares fell to a level Quest could justify

based on valuation.¹ Wesfarmers has a number of attractive, well managed businesses, with attractive returns and investment potential, but as a very large and significantly diversified Australian company it is difficult for Wesfarmers to provide a return different from the average. Of note we also added to the Westpac holding on a similar theme.

The holding in **Healthscope** (HSO) was further reduced on concerns about short term earnings uncertainty as the company continues to invest. Wesfarmers was the top performing stock in the Top 20 in December and by the end of the month the target was reached and sold.

SIGNIFICANT INVESTMENTS

Large	Commonwealth Bank (CBA)
	CSL (CSL)
	AGL Energy (AGL)

Mid Cap	APA Group (APA)
	Lend Lease (LLC)
	Ramsay Healthcare (RHC)

Small Cap	Surfstitch Group (SRF)
	Link (LNK)
	Amaysim Aust. (AYS)

TOP CONTRIBUTORS

Commonwealth Bank (CBA)
Lendlease (LLC)
AGL (AGL)

KEY DETRACTORS

Oil Search (OSH)
iSelect (ISU)
Surfstitch (SRF)

¹ Quest generally uses a long term net cashflow valuation method for investment evaluation.



INVESTMENT APPROACH

The Quest Asset Partners team use a three stage process to research opportunities that may not be readily available to investors.

We search for businesses that are mis-priced by the 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. Our portfolio is concentrated to a maximum of 35 of our best ideas.

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

A Quest portfolio will include some known names such as major banks as well as mid-size and smaller companies. We look to add value outside of the major names. The portfolio typically carries a number of recently listed businesses as this is where analyst coverage is less intense.

Our typical client has an interest in the Australian share market but lacks the time to maintain a portfolio. Our clients are unable to access the 50 new floats and other opportunities we have seen recently.

Our client base includes people from all walks of life that have realised an occasional read of the financial press is unable to compete with the experience and contacts available to our four investment professionals.

Disclaimer

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INVESTMENT TEAM

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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		✓
HUB24	Link	✓	
Powerwrap	Link	✓	

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To read visit www.questap.com.au/news/

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