



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

FEBRUARY 2020

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. The SMA structure allows the investor to retain beneficial ownership of securities via a custodian while maximising transactional visibility. A unit trust is unable to provide this level of visibility.

FEBRUARY SUMMARY

In physics, a fulcrum is the point against which a lever is placed to get purchase, or upon which it turns or is supported. It is the fulcrum that lies at the centre of a see saw.

In February, global markets unknowingly experienced the power of the fulcrum. The weight of negative input overwhelmed optimism and ended the long-standing bull market which so any of Australia's investors had assumed was normal.

While Quest portfolios fell in a market that is now showing signs of panic, we are at least in a sound, rational position. We have warned repeatedly that valuation metrics were in the stratosphere particularly in high growth technology stocks. Our first warning comment on this issue was in June 2018. Our current stock holdings are supported by rational valuation assumptions.

Our Quest portfolios are at the top of the top quartile over 1, 2, 3 and 5 years. We have seen a few events like the current sell down over the years. Fear driven selling is not new. It will provide longer term opportunity.

We see this as a classic "X-Factor", a necessary correction regardless of the cause.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	33 now, maximum 35
Quest AUM	\$1.21 billion
Strategy AUM	\$85 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

PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 29 February 2020	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-7.9%	-4.2%	15.4%	13.1%	9.9%	10.8%	11.7%
ASX 300 Accumulation Index	-7.8%	-5.2%	8.8%	8.6%	6.2%	7.9%	7.6%
Value added	-0.1%	1.0%	6.6%	4.5%	3.7%	2.9%	4.1%

*per annum



PORTFOLIO ACTIVITY

The arrival of an unexpected event or “X- Factor” is impossible to predict and always provides an unpleasant surprise.

Over the years we have seen a few “X-Factor” events. The 1987 crash, the fall of the Soviet Union, Dot Com crash and the GFC. We realised that the identification of an unexpected event or “the X Factor”, was not as important as understanding the risks born by the portfolio in the event of a major shock. Regardless of the cause, we needed to focus on where risks lie if everything was to change. Predicting the nature of the event is less important.

Our team is of the view that our portfolio is well placed with sound investment rationale shaping the portfolio. A correction will reduce our portfolio value but we think that opportunities will arise from this correction.

In February the ASX 300 accumulation gave back 7.7% after a 24% rise in calendar 2019. The ASX benchmark has risen in 16 of the last 20 years and has risen nearly 500% in that time. A great run for investors. The Australian market is now down over 20% from the peak on January 22nd at the time of writing this monthly in mid- March.

The Dow Jones fell 10% in February while the S&P fell 8.4%. The Nasdaq fell 6.3%. The FTSE fell nearly 10%. Shanghai did well falling only 3.3% but has lagged global markets for some time.

While it is hard to accept as an investor, the market was well ahead of itself. We have struggled to justify prices for months now, which is why we have been net sellers of stocks. In January we sold both **IAG** and **Westpac**. During February, we sold our

Oilsearch holding and reduced holdings in **James Hardie** and **A2Milk**. We have also reduced some smaller cap stock holdings.

The best absolute performers in February were **Opticomm**, **Alacer Gold** and **A2 Milk** which returned positive returns in a very weak market. All other holdings were lower in February.

This correction gives us an opportunity to invest for the next three to five years at the new lower level of pricing that has suddenly become available. Our quality based filters have again pointed us towards higher ranking stocks in our investment process that are now cheaper. Our cash levels are higher than average.

QUEST UPDATE

The Quest ASX300 portfolio delivered a 15.4% return in the 12 months to February 2020, which is 6.7% ahead of the market.

The Quest Ex 20 portfolio delivered a 15.6% return in the 12 months to February 2020, which is 8.1% ahead of the market.

The Quest Long Short portfolio is expected to launch in April 2020.

THE QUEST PROCESS

The Quest team invest to make an above average return. We pay little heed to any index. We research investments from the ground up and invest based on our assessed valuation. We seek minimum 15% upside.

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