



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

FEBRUARY 2016

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	\$934 million
Strategy AUM	\$54 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

FEBRUARY REVIEW

The Quest portfolio underperformed the ASX 300 Accumulation Index by 2.9% (pre fees) with a return of negative 4.6% relative to negative 1.7% by the index. In annual terms the portfolio has delivered a negative 8.0% return compared to the index return of negative 13.5%.

Market volatility was high in February with some severe reactions to news flow from the half yearly reporting season. The market moved more than 1% on 9 of the 20 trading days with 5 being up and 4 down. While some of this volatility is created by hedge funds reacting to the latest results and outlook statements, the confusing macro situation has created a higher than normal level of uncertainty.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 29th February 2016	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-4.6%	-6.2%	-8.0%	6.8%	8.4%	8.4%	10.6%
ASX 300 Accumulation Index	-1.7%	-4.6%	-13.5%	2.9%	4.6%	4.3%	6.1%
Value added	-2.9%	-1.7%	5.5%	3.9%	3.8%	4.1%	4.5%

*per annum



PORTFOLIO ACTIVITY

At the end of the month, **Galileo Japan Trust (GJT)** announced the proposed liquidation of the 23 property assets in their Japanese portfolio at a price slightly above NTA. Quest owns 9.7% of Galileo. The Trust has been a good earner for Quest since 2013 when we bought into a restructuring at \$1.50. The stock rose 11% in January and a further 15% in February to \$2.38. The proposal should deliver \$2.65 per share cash in August 2016 plus further dividends between now and then. In total and assuming the deal completes, Quest investors will generate a return of more than 90% from Galileo in just under 3 years.

Quest had a number of outperforming stocks including **Healthscope (HSP)** up 12%, **Origin Energy (ORG)** up 10% and **Ramsay Healthcare (RHC)** up 9%. The number of positive returns was however negated by two large corrections in other stocks.

Quest had two poor performers in February which dragged our numbers down. **Surfstitch (SRF)** fell 32% after withdrawing previous earnings guidance due to the number of new investment options that are reportedly available. The earnings affect arises as the company has a policy of writing off expenditure rather than capitalising which may lead to lower reported earnings. This change in guidance drew an aggressive reaction in the market.

The market was unimpressed as the company had raised funds at \$2 only in November. While the correction was brutal, less than 10% of the shares on issue transacted over the next 5 trading days. This is a low number given the size of the fall.

Amaysim (AYS) fell as it reported weaker than forecast subscriber growth numbers due to heightened competitive pressure in September/October last year. AYS responded with new plans in November following the wholesale price review and reported strong Christmas trading. The market continues to be competitive and AYS have again responded with new plans which will become effective from April. The price review mechanism with Optus is working as expected. AYS have reported improving gross margins despite the challenging market conditions and prospectus EBITDA guidance has been maintained.

Our portfolio has done well by keeping out of resource related stocks in recent months however this strategy did not work in February. Most resource related stocks did well as commodity prices recovered however we are sceptical that this optimism will prevail.

SIGNIFICANT INVESTMENTS

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

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

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

TOP CONTRIBUTORS

Galileo Japan Trust (GJT)
Healthscope (HSP)
Origin Energy (ORG)

KEY DETRACTORS

Surfstitch (SRF)
Amaysim (AYS)
Henderson Group (HGG)



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.

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		✓
HUB24	Link	✓	
Powerwrap	Link	✓	

BLOG

To read “**Galileo Japan Trust delivers for Quest Asset Partners**”, an article in The Australian and other Quest Insights visit www.questap.com.au/news/

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