



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

JANUARY 2019

## 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.

## JANUARY SUMMARY

Volatility continued in January but this time investors were the winners. The Santa Rally that we lacked in December arrived with a stunning reversal in sentiment in global markets.

The ASX300 rose 3.8% while the Dow was up more than 7%. The MSCI rose 7.8% and the S&P500 added 7.9%.

Australia lagged the world indices as the banking sector lost ground ahead of the Royal Commission recommendations.

The local market was led by Energy stocks as the oil price rose 12.8% after 3 weak quarters. Metals were strong globally in January. A disastrous tailings dam collapse at a Vale mine in Brazil saw iron ore stocks rally hard as 40m tonnes of supply was removed from markets.

US 10 year Bonds were flat however the US interest rate outlook has changed drastically. Whereas up to 4 rate hikes were expected last year, the latest US Federal Reserve comments suggest rate rises in calendar 2019 may be off the agenda. This was the most significant factor in the month.

The best global markets were Argentina, Brazil, Turkey and Russia which demonstrates how sentiment has changed in a matter of weeks.

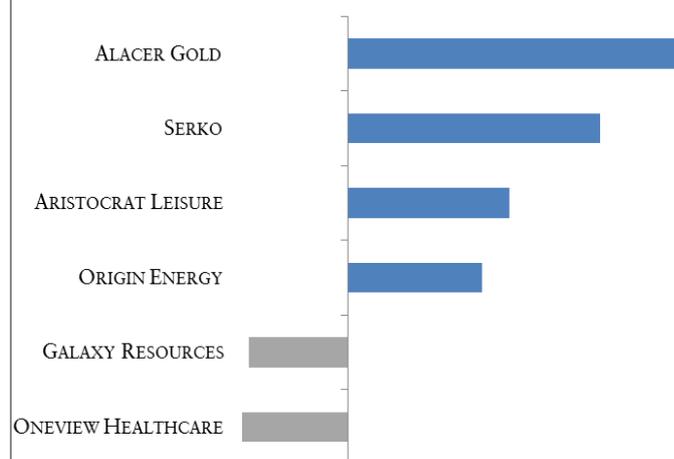
The Quest portfolio added 3.5% in January. Our best contributors were Oil Search, Alacer Gold, Serko and Aristocrat Leisure.

Recent lack of performance by our small cap holdings has affected our performance numbers in recent months. The smaller end of the market has under-performed the larger market now in most months since May last year. There are however some signs of an improvement in January.

## KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	31 now, maximum 35
Quest AUM	\$1,051 million
Strategy AUM	\$74 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

## DRIVERS OF PERFORMANCE



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 January 2019	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	3.5%	-0.4%	0.6%	10.5%	9.4%	12.8%	11.0%
ASX 300 Accumulation Index	3.9%	1.4%	1.1%	10.0%	7.0%	9.8%	7.1%
Value added	-0.4%	-1.8%	-0.5%	0.5%	2.4%	3.0%	3.9%

\*per annum



## PORTFOLIO ACTIVITY

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January saw some movement in our portfolio after some stocks came back to buyable prices. New holdings were added in **Xero** and **Origin Energy**.

Xero has built a market leading position in small business cloud accounting software in Australia and New Zealand and is expanding globally. Xero was purpose built for the cloud and has no legacy desktop products unlike the competitors. The product is popular with customers and has a strong accountant support in the key markets. We expect continued global migration from spreadsheet accounting to cloud based accounting. Xero has also garnered strong support from 3rd party developers to create an 'app store' equivalent for small businesses. We rate Xero as an "A" grade stock and see valuation upside via the significant global market opportunity.

Origin Energy has been in our portfolio in past years; we know the stock well. The main driver for inclusion was price. The stock had fallen for months into the end of last year and was trading nearly 40% below our sale price in 2016. The price fall brought it back into our buy zone and lifted our exposure to the oil price in the overall portfolio. We also own Oil Search and Woodside Petroleum.

We added to positions in **Aristocrat Leisure**, **James Hardie** and **Woodside Petroleum** in January. Aristocrat made two acquisitions last year and enjoys a low US tax rate. The share price has fallen over 30% from its highs in mid-2018 around concerns about an investment in non-casino mobile games. The market got carried away last year in this stock but has now settled back into our buy range. The traditional slot machine business continues to gain share as it outperforms debt constrained competitors.

Oil Search has rebounded strongly with the oil price while Alacer Gold has produced the first gold ounces from the new sulphide ore plant. Alacer have got the timing perfect here with the gold price now above \$1,300 per ounce. We anticipate Alacer will lift gold production from 170,000oz to over 300,000 oz in 2019.

In January we sold **Fortescue Metals** for a handy gain but much too early with hindsight. The Brazilian tailings dam collapse sent the stock racing after our exit as iron ore prices rallied. At least our investors did not profit from misery.

**Ramsay Healthcare** was also sold; we are not optimistic on the margin prospects here given the health policies of the potential new Australian government in May. It may be that sense prevails and price regulation does not happen post the election. We choose to avoid this area for now.

The small remaining holding in **Lend Lease** was also sold while our **BHP** holding was reduced into a rising share price.

## QUEST EX 20 PORTFOLIO

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The Ex 20 portfolio gained more than 5% in January with solid performances from **Alacer Gold**, **Aristocrat**, **Oil Search**, **Lovisa** and **Tabcorp Holdings**.

## THE QUEST PROCESS

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The Quest team invest to make an above average return; not to beat an index.

We research investments and invest based on our assessed valuation. This becomes 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 Metals, 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

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Michael 02-9409 2300  
Chris 02-9409 2301  
Troy 02-9409 2303  
Swapn 02-9409 2302

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)

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