



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

JANUARY 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	\$994 million
Strategy AUM	\$57 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

JANUARY REVIEW

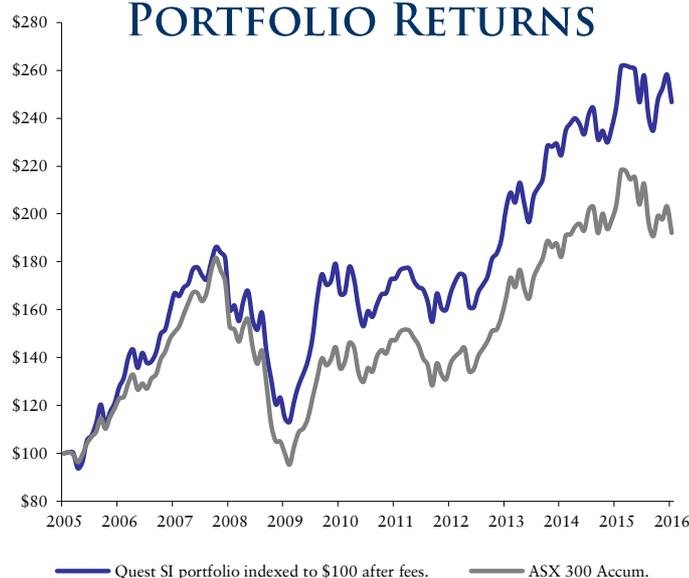
The Quest portfolio out-performed the ASX 300 Accumulation Index by 1.2% (pre fees) with a return of -4.2% relative to -5.5% by the index. In annual terms the portfolio has delivered a 3.5% return compared to the index return of negative 5.8%.

A significant correction occurred in early January after the euphoric Christmas rally that saw a crazy 7% gain in the latter part of December. The correction needs to be taken in context; the market has now returned back to mid-December levels.

The outlook for interest rates remains positive with little scope for significant rises given the lack of global growth. Stocks that demonstrate above average growth, stocks with US dollar denominated earnings and stocks with strong cash flow, yield and low debt should do well.

Resource stocks will be volatile with some dramatic bounces likely given the extent of the sell offs that have occurred already. We remain uninspired by the resource outlook however there will be trading opportunities.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31st January 2016	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-4.2%	0.2%	3.5%	10.0%	9.9%	9.3%	11.1%
ASX 300 Accumulation Index	-5.5%	-3.5%	-5.8%	5.3%	5.5%	4.6%	6.3%
Value added	1.2%	3.7%	9.3%	4.7%	4.4%	4.7%	4.9%

*per annum



PORTFOLIO ACTIVITY

Quest sold our holding in **Oil Search** (OSH) after a valuation downgrade resulting from the tumbling oil price. We think there is more pain to come in the oil sector after Brent price falls of 48% in 2014 and 35% in 2015. There is severe pressure on the energy sector particularly stocks with considerable debt such as **Origin Energy** (ORG) and **Santos** (STO). Oil has fallen another 7% in January. Upcoming reporting from oil giants **BP** and **Royal Dutch Shell** will be a reminder of how tough the oil business has become. Retrenchment numbers in the industry globally are huge and growing. Expect billions in write downs in coming weeks.

January saw the market swing into defensive mode with yielders such as **REITS** and **Utilities** being the strongest sectors while most sectors fell. **Energy** and **Materials** were hammered.

Quest had a number of outperforming stocks including **Amaysim** (AYS) up 38% and **Galileo Japan Trust** (GJT) up 11%. **Greencross** (GXL) the owner of pet care retailer and veterinary businesses was up another 4% as rumours of private equity interest in the business continued. **Link Administration** (LNK) was up again, another 5% while **IDP Education** (IEL) was up 5%.

Poorer performers were **Henderson** (HGG) down 13%, **iSelect** (ISU) down 18% and **Magellan Financial** (MFG) down 16%.

During the month we participated in a placement by **Oreobre** (ORE) who are commissioning the world's first new lithium mine for 20 years in Argentina. The company has raised money (again) after running short of funds. The commissioning, albeit delayed, is progressing with production of over 600 tonnes of Lithium Carbonate expected in January on the way to full operational output of 1,460 tonnes per month by September. It has been a tough road for ORE but with lithium being one of the few commodities to be rising in price recently, ORE now has plenty of cash to complete commissioning and move to cash generation. Lithium demand, thanks to surging battery demand, could well be the commodity of the year as supply is well below demand. ORE raised \$85m at \$2.10 per share and is trading well at \$ 2.50 per share.

In January the capitalisation of **CSL** (CSL), a Quest investment since 2005, surpassed the market capitalisation of **BHP** (BHP) for the first time. CSL has rated "A" under our process for a decade and is currently executing the company's 8th buy back.

Wesfarmers (WES) was added to the portfolio in December as a trade coming into the New Year and on the back of further bad news in relation to competitor **Woolworths** (WOW). This trade was successfully closed out in January. Quest does not own **National Bank** (NAB) shares and have not participated in the Clydesdale de-merger. The new business will be known as **CYBG Group PLC**.

Chinese investor Hony Capital invested over \$700m in troubled oil and gas play **Santos** (STO) back in October 2015. A mark to market of that investment indicates Honey have had a poor investing debut in Australia on behalf of their investors having lost \$420m in only a few months.

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

Amaysim (AYS)
Galileo Japan Trust (GJT)
Link Administration (LNK)

KEY DETRACTORS

Henderson Group (HGG)
Magellan (MFG)



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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<http://www.beyond.lonsec.com.au/intelligence/lonsec-ratings>

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	✓	

BLOG

To read "**Solid return for Quest portfolios in 2015**", "**Correction? Not really.**" and other Quest Insights visit www.questap.com.au/news/

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