



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

JULY 2017

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.

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	Maximum of 35
Quest AUM	\$769 million
Strategy AUM	\$61 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

THE JULY REVIEW

The Quest portfolio return eased 0.04% in July slightly below the market which was flat.

The Quest portfolio is **5.0%** ahead of the market for the previous 12 months pre fees with a 1 year return to end July of 12.0%.

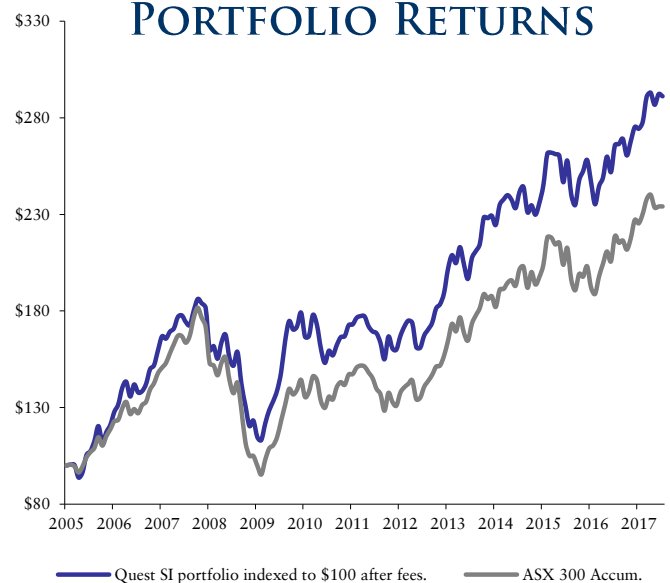
The highlights of the month were the strength in resource stocks and the APRA capital requirement announcement in the pursuit of an “unquestionably strong” banking sector. The new 10.5% target is achievable without capital raisings by the banks. They all rose as a result. The RBA kept rates on hold and resources rallied sending the AUD up to 80 cents/USD, the highest in two years.

Quest holds Commonwealth Bank and Westpac and is net under-weight the bank sector. The bank rally did not assist our relative performance but our resources holdings in BHP, RIO and South 32 performed very well. Materials stocks were the strongest sector in July.

The Dow Jones was up 2.5% while the S&P rose 1.9% with both reaching new highs yet again. The Nasdaq was up 3.3% and the FTSE100 fell 2.7%.

The best sector was Healthcare up 6.1% while Energy was the worst on weak oil prices, falling 7%.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 July 2017	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	0.0%	0.3%	12.0%	8.9%	14.6%	7.3%	11.5%
ASX 300 Accumulation Index	0.0%	-2.5%	7.0%	5.1%	10.7%	3.7%	7.2%
Value added	-0.1%	2.8%	5.0%	3.8%	3.9%	3.6%	4.3%

*per annum



PORTFOLIO ACTIVITY

A rally in resource stocks and improved sentiment towards banks were the highlights in July. The Quest portfolio is currently under-weight the banking sector by 8.4% so the strength of banks held Quest back (in a relative sense) in July. The four banks make up a whopping 26.7% of the ASX300 while we sit at 18.3% in our portfolio. The bank rally saw our owned banks **Commonwealth Bank (CBA)** and **Westpac (WBC)** rise 1.1% and 4.3% respectively. We do not own National Bank and ANZ which rose 3.1% and 2.1% respectively. The APRA capital announcement took the pressure off bank shares for now.

Our best performer in July was **Bingo Industries (BIN)** which listed at \$1.80 in May 2017. Bingo was highlighted in both our May monthly report and our just released June quarterly. We are attracted by the recycling potential of this business and the opportunity in Commercial and Industrial disposal. Bingo rose 9.2% in July and closed the month at \$2.02. Bingo has been the subject of a recent television program which did not reveal any new issues for our research team.

Apart from Bingo, **South 32 (S32)** rose 8.5%, Westpac rose 1.1%, **BHP** popped 11% and **Osprey (OSP)** lifted 7.5%. Our laggards included **Janus Henderson (JHG)** and **Viralytics (VLA)**. Janus Henderson has rebounded post result in early August.

The major resource stocks rallied in July after strong rises in iron ore, coal, copper and zinc. Quarterly updates were also positive on costs. Our investors will recall that the arrival of activist investor Elliott Management saw us buy into BHP back in May at \$24.50. BHP is currently above \$26. Quest currently own BHP, RIO and South 32.

During July we added **Pushpay Holdings (PPH)** to the portfolio. Pushpay provides mobile facilitation of donations to not for profit businesses, mainly churches.

Telstra (TLS) has returned to our portfolio after falling since early 2015. The current price now reflects the arrival of the NBN and increased competition in mobile plans. Telstra is yielding over 7% fully franked.

The largest relative over-weight portfolio position continues to be **Janus Henderson (JHG)** which finalised a merger with Janus Capital in May. The stock now trades on the NYSE (rather than London) and on the ASX (as before) and is 6% of our portfolio.

During the month we added to holdings in **Sydney Airport (SYD)**, **Viralytics (VLA)** and **Evolution Mining (EVN)**.

Blackham Resources (BLK) was sold at a loss after a series of mine development disappointments.

We continue to hold no retail or energy stocks while our cash has returned to our long term average of 4%.

KEY PORTFOLIO CHANGES

New Stocks	Pushpay Holdings, Telstra
Sold	Blackham Resources
Positions increased	Sydney Airports, Viralytics, Evolution Mining
Positions reduced	None material

TOP ATTRIBUTORS

Bingo Industries (BIN)
South 32 (S32)
Westpac (WBC)

KEY DETRACTORS

Viralytics (VLA)
Janus Henderson (JHG)
Healthscope (HSP)



INVESTMENT APPROACH

The Quest Asset Partners team use a three stage process to research opportunities in the Australian 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. We visit a lot of businesses in our travels.

Our portfolio is concentrated to a maximum of 35 of our best ideas with 30 stocks on average.

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

A Quest portfolio will include known names such as major banks as well as mid-size and smaller companies. We look to add value outside of the major stocks. The portfolio typically carries a number of recently listed businesses as market knowledge is often scant.

Our typical client has an interest in the Australian share market but lacks the time to maintain a portfolio. Our clients are often unable to access the new floats and other opportunities that we see regularly.

Our client base includes people from all walks of life that have realised an occasional read of the financial press does not 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		✓
Macquarie	Link	✓	✓
HUB24	Link	✓	✓
Powerwrap	Link	✓	✓

BLOG

To read “**Summary of Fiscal 2017**”, “**Lonsec Awards 2017**”, “**Henderson to merge with Janus Capital**” and other Quest Insights visit www.questap.com.au/news/

CONTACT QUEST

Ph 02 9409 2333

Suite 8.07, 6A Glen St, Milsons Point NSW 2061

quest@questap.com.au www.questap.com.au

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