



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

JUNE 2015

## 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 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 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	\$1,010 million
Strategy AUM	\$53 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	Rated by Lonsec

## MONTHLY PERFORMANCE

The Australian market finished weaker as Greek financing issues impacted returns. The Quest Australian Equities Concentrated Portfolio return was negative 3.9% for June relative to the S&P/ASX300 Accumulation Index return of negative 5.3%. Over the longer term the portfolio has returned 8.9% and 18.8% pa over 1 and 3 year periods respectively.

## MARKET SUMMARY

The Australian market finished June down 5.3% in a period dominated by the Greek economic woes. The US S&P500 was down 2.1% and the Nasdaq down 1.6%. European markets suffered by proximity with the FTSE down 6.6% and the German market down 4.1%. The Nikkei was down 1.6% and the Shanghai market looks weak after a 7.2% fall.

Commodities look weak across the board with a rising USD. Iron ore, gold, copper and aluminium were weak. The Australian dollar rallied slightly to 77c USD and held against the Euro at 69 however the currency appears pressured.

## PORTFOLIO RETURNS



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 30th June 2015	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-3.9%	-4.1%	8.9%	18.8%	12.6%	11.7%	11.7%
ASX 300 Accumulation Index	-5.3%	-6.5%	5.6%	14.7%	9.5%	6.9%	7.3%
Value added	1.5%	2.4%	3.3%	4.1%	3.2%	4.7%	4.5%

\*per annum

## MARKET SUMMARY

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All sectors fell in month that saw the market fall 5.3% led by consumer discretionary, resources, materials and industrials. The yielding stocks including the banks and **Telstra** (TLS) did resist the trend with only slight falls suggesting that yield and the lack of value in the market could see yielding stocks deliver a better July.

There was plenty to worry about both internationally and at home with a weak Chinese outlook and constant bulletins about the severity of the Greek situation. The APRA changes to capital guidelines for banks, poor commodity price outlook and flat retail sales figures for April did not help.

The reporting season is looming and further earnings downgrades arrived including **Flight Centre** (FLT), **Nine Entertainment** (NEC), **Seek** (SEK).

Global merger & acquisition activity continued with American giant Anthem bidding for Cigna. The healthcare sector is one of a short list of sectors that delivers above average growth in a low growth world. Expect to see more activity here.

The most interesting domestic deal was **IAG** (IAG) issuing 3.7% of itself to Berkshire Hathaway and commencing a revenue and risk sharing deal that looks like a defensive move by IAG in favour of a potential new competitor. The deal does keep an expansionary Berkshire in the IAG tent and as such looks like another astute move by CEO Michael Wilkins.

Oil was down another 3.4% to US\$63, iron ore fell 4% and the gold dipped 1.5% to US\$1172 oz.

While the recent burst of IPO's has provided some interesting investment options, the upcoming reporting season will put an end to most activity until September.

## PORTFOLIO CHANGES

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The only stock addition in the month was **Amaysim** (AYS), an IPO listed on 15th June, underwritten by Goldman Sachs and Macquarie Capital.

**Amaysim** is an online led Mobile Services Provider with 700,000 subscribers at May 2015 and a 2% market share. The company commenced operations in 2010.

The company has a network supply agreement with Optus that was initially struck in 2010 and renegotiated in December 2014 with a 5 year term and a 5 year option. The business is asset light with low online customer acquisition costs.

Marketing is the key to growing share in the mobile market for services and data. Brand awareness, technology and customer satisfaction will be the focus for management in the coming year. The main risks to the business are the reliance on Optus and the intense level of competition in this market.

The weight in **CBA** (CBA) was increased at around \$81 after the banking sector corrected quickly from March highs. CBA peaked at \$96.32 in March so this was a solid correction!

The position in travel insurer **Cover-More Group** (CVO) was reduced as record price levels were achieved in June and our target price was met despite apparent weakness in the travel market.



## CONTRIBUTION

**Viralytics Ltd (VLA)** was a major contributor once again. The stock, in which Quest investors are substantial holders at 5.2%, rose 38% in June after a 16% rise in May. The Australian biotechnology company focuses on oncolytic virotherapy for the treatment of a range of cancers. Viralytics is the only ASX listed company in this space.

While the VLA performance made others look pedestrian, Quest had good contributions to return from lesser known salary packing business **Smartgroup**. Smartgroup (SIQ) surged 15% in the month after a prolonged period of looking cheap relative to the strength in the market.

**Commonwealth Bank (CBA)** managed a small rise in a weak month which helped deliver some performance.

**Surfstitch (SRF)** continued to rise in June and is now approaching \$2 which is triple our acquisition price. Quest investors account for a substantial shareholding position in Surfstitch. The company is the leading global online player in action sports with presence in Australia, Europe and the USA.

Quest does not hold **Woolworths (WOW)** which was helpful again in June. The stock has fallen 18% in the 2015 financial year including 8.5% in June. The Quest quarterly of December 2014 outlined our views on this stock where we noted WOW as one of two stocks to avoid.

The Quest portfolio holdings in **BHP (BHP)**, **CSL (CSL)** and **Westpac (WBC)** were our poorer performers during the month.

Our portfolio outperformed the lower benchmark index in June.

## SIGNIFICANT INVESTMENTS

Large	Commonwealth Bank (CBA)
	Westpac (WBC)
	CSL (CSL)
Mid Cap	Healthscope (HSO)
	APA Group (APA)
	Henderson Group (HGG)
Small Cap	iSelect (ISU)
	Estia Health (EHE)
	Surfstitch (SRF)

## TOP CONTRIBUTORS

Viralytics (VLA)  
Smartgroup Limited (SIQ)  
Commonwealth Bank (CBA)  
Surfstitch (SRF)  
Galileo (GJT)

## KEY DETRACTORS

BHP (BHP)  
CSL (CSL)  
Westpac (WBC)  
Orocobre (ORE)  
APA Group (APA)



## INVESTMENT APPROACH

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The Quest team use a three stage process to find opportunities that are not readily available to the average investor. 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 qualitative 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 well 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 cannot access all of the 40 new floats and other opportunities we saw in 2014.

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 a team of four experienced investment professionals.

## INVESTMENT TEAM

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- Michael Evans
- Chris Cahill
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## CONTACT QUEST

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## BLOG

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Quest's latest Insight is "**Smarter than the average bear?**".

To read more visit [www.questap.com.au/news/](http://www.questap.com.au/news/)

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