



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

MARCH 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	\$702 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 MARCH REVIEW

Our Quest portfolio return was 4.7% for the month which was well above the benchmark of 3.3%.

The portfolio has a one year return of 20.8%.

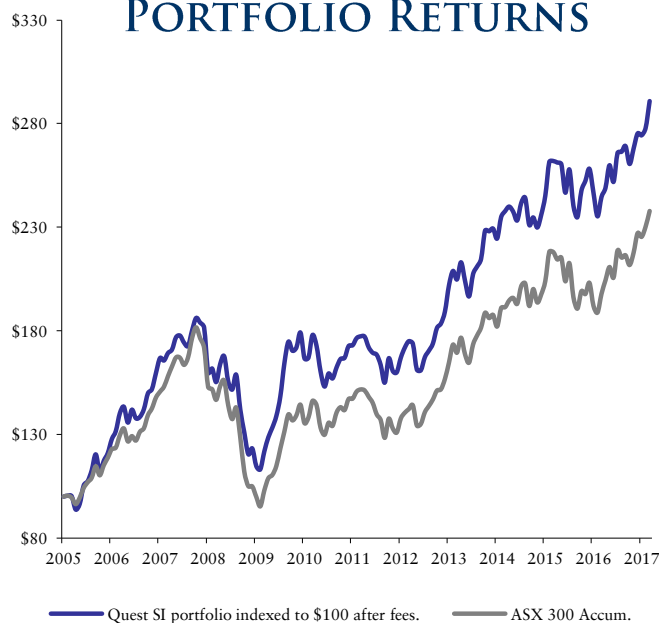
Our small cap stocks performed well with **Updater** up 70% and **Viralytics** up 31%. **South 32** rose 12% and **Sydney Airport** popped 12%. **AGL Energy** had another good month up 9% while **Aristocrat Leisure** (ALL) rose 8%.

The highlights of the month included the relative strength of the Australian equities market compared to global markets, the strength of the Utilities sector as expectations of higher longer term rates eased and the second consecutive month of softer commodity pricing.

April sees the arrival of dividends from a number of large companies including BHP, CBA, CSL, RIO, Telstra, Wesfarmers and Woolworths.

Quest is one of three finalists for the SMA Portfolio category in Lonsec's Fund Manager of the Year Awards. This is a prestigious award that recognises the achievements of the industry's key players. The winners will be announced in late May.

## PORTFOLIO RETURNS



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 March 2017	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	4.7%	6.1%	20.8%	9.3%	13.4%	7.7%	11.7%
ASX 300 Accumulation Index	3.3%	4.7%	20.2%	7.5%	10.8%	4.2%	7.5%
Value added	1.4%	1.4%	0.6%	1.8%	2.6%	3.5%	4.2%

\*per annum



## PORTFOLIO ACTIVITY

Our best performers in March were **Updater** (UPD), **Viralytics** (VLA), **South 32** (S32), **Sydney Airport** (SYD), **AGL Energy** (AGL), **Aristocrat Leisure** (ALL), **CSL Limited** (CSL) and **Henderson Group** (HGG). Each added more than 5% in March.

**Updater** was up a stunning 70% in March after announcing positive results in its first pilot program with US insurer Liberty Mutual. The data showed that house movers who were exposed to communications via the Updater platform were 93% more likely to purchase a Liberty Mutual insurance product than the control group. The strong result demonstrates the potential value of the Updater platform in the USA for businesses that want to target movers and therefore bodes well for the potential revenue model. Updater currently has three pilot programs in the US across different verticals (insurance, moving companies and banking) and is targeting a total of five pilot programs. Around 18 million US households relocate each year. See Quest blog 8 December 2016 located [here](#)

**Viralytics** had a strong month in anticipation of results due early April. We have owned shares in the company since a capital raising at 28 cents in early 2014. The stock is currently \$1.20. Viralytics has developed an oncolytic virus (CAVATAK) which shows great potential in targeting a range of cancers. The early results of trials with CAVATAK in combination with various blockbuster “check point inhibitors” are very encouraging. Clinical trials continue. Being a biotech, the stock tends to respond to news flow which can be months apart. As a result, Viralytics has periods of volatility around these announcements.

**South 32** came into the portfolio in January after we sold our Fortescue Metals investment. The switch shifted our focus from iron ore (which had doubled in price) to a broader group of metals including aluminium, coal and manganese. In March, South 32 announced a \$500m share buy-back given the build-up of cash in the business post high commodity prices.

**CSL** proves that great stocks can deliver vast wealth accumulation over the long term. The company has been in our Quest portfolio since inception in 2005 when our entry price was a humble \$15.30. Twelve years and 24 dividends later the stock is \$125. The company traded at new highs in March, is currently in

another share buy-back as a result of strong cash flow and enjoyed consensus earnings upgrades in February.

**Henderson Group** (HGG) is currently subject to an agreed merger with Denver based fund manager Janus Capital. The stock has languished since the BREXIT decision after the sharp fall in the GBP. We have a positive view on the merged entity and see the current marketing surrounding the merger as a trigger for renewed interest in Henderson. See Quest blog 06 April 2017 located [here](#)

The key short term issue for the market is the potential for the Trump rally to fizzle now that the realities of government process seem to have finally hit home in Washington. The US markets are dazzled by the excitement of tax cuts. The Republicans may find, once again, that the wheels of government move slowly.

## PORTFOLIO CHANGES

New Stocks	None added
Stocks sold	None exited
Positions increased	Healthscope, Henderson Orocobre, Viralytics Evolution Mining
Positions reduced	Suncorp

## TOP ATTRIBUTORS

Updater (UPD)  
Viralytics (VLA)  
AGL Energy (AGL)

## KEY DETRACTORS

Orocobre (ORE)  
Oneview Healthcare (ONE)  
Evolution (EVN)



## INVESTMENT APPROACH

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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 as part of the process.

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 less thorough.

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.

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For further information regarding Lonsec's Ratings methodology, please refer to our website at: <http://www.beyond.lonsec.com.au/intelligence/lonsec-ratings>

## INVESTMENT TEAM

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- Michael Evans
- Chris Cahill
- Troy Cairns
- Swapan Pandya

## PLATFORMS

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The Quest Australian Equities Concentrated Portfolio is currently available on the following platforms:

	Web site	Retail	Sophisticated Investors
Mason Stevens	<a href="#">Link</a>	✓	✓
JBWere Multi-Asset Platform	<a href="#">Link</a>		✓
Macquarie	<a href="#">Link</a>	✓	✓
HUB24	<a href="#">Link</a>	✓	✓
Powerwrap	<a href="#">Link</a>	✓	✓

## BLOG

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To read "**Henderson to merge with Janus Capital**", "**Team USA will outlast Team Trump**", "**Origin Addresses the debt**" and other Quest Insights visit [www.questap.com.au/news/](http://www.questap.com.au/news/)

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