



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

MAY 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	\$1,057 million
Strategy AUM	\$56 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

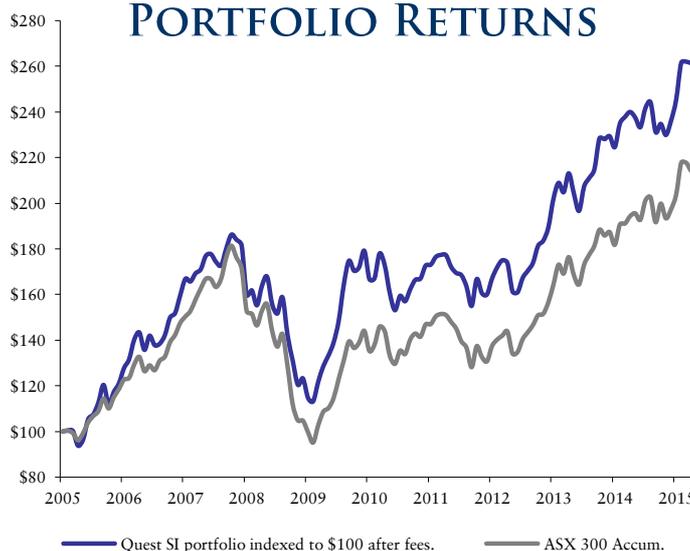
The Australian market finished up slightly higher in a volatile month. After pleasing outperformance in April of 1.4%, the Quest Australian Equities Concentrated Portfolio returned 0.0% for May relative to the S&P/ASX Accumulation Index return of 0.4%. Over the longer term the portfolio has returned 11.3% and 20.3% over 1 and 3 year periods.

MARKET SUMMARY

Volatility was again the standout feature of markets globally, with continued instability in bond, equity and currency markets. Greek default issues and speculation regarding when the US Fed would begin to raise rates dominated the market mood.

Global equity market returns were mixed, with the Shanghai Composite continuing its rapid climb (+3.8%). The Nikkei (+5.3%), Nasdaq (+2.6%), US S&P 500 (+1.1%) and Italian indices (2%) were all higher, whilst the Germany, French and Spanish markets were lower.

PORTFOLIO RETURNS



PERFORMANCE	BEFORE FEES AND TAX		(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)				
	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
To 31st May 2015							
Quest Aust. Equities Concentrated	0.0%	-0.5%	11.3%	20.3%	12.4%	13.1%	12.2%
ASX 300 Accumulation Index	0.4%	-1.3%	9.9%	17.0%	10.1%	8.0%	7.9%
Value added	-0.4%	0.8%	1.4%	3.3%	2.3%	5.1%	4.3%

*per annum

MARKET SUMMARY

Iron ore (+10%) rallied off the April lows whilst oil gave back some of the recent recovery. China's residential property market is showing signs of improvement, and not just in the major coastal cities.

The Australian market finished slightly higher despite the volatility. Banks were the worst performing sub sector. **NAB** (NAB) and **Westpac** (WBC) both announced capital raisings as APRA was back in the press highlighting the need for the banks to hold more capital ahead of global financial supervision conferences in June and July. NAB announced a proposal to distribute the remaining UK operations to shareholders and raised \$5.5bn to facilitate this. Bank analysts are attempting to out shock clients by reporting that something like \$30bn of additional capital will be required. That is about 7% of the current aggregate market capitalisation of the big four banks. Against this backdrop, not all the 0.25% RBA rate cut during the month was passed on to mortgage borrowers.

May is normally confession season ahead of the end of financial year and this year significant downgrades were announced by **Sims** (SGM), **WorleyParsons** (WOR), **REA** (REA), **Cardno** (CDD) and **Paladin** (PDN). In contrast **CSR** (CSR), **Orica** (ORI), **Smartgroup** (SIQ) and **Villa World** (VLW) delivered earnings upgrades.

Global merger & acquisition activity has also intensified, signalling CEO confidence, low cost of debt, low organic growth opportunities and relatively low corporate gearing. Goldman Sachs report global M & A transaction values to be 22% higher than Q1 2014. Interestingly many bidders are seeing their own share prices rally as a result of a bid, with current cost of debt making regearing an EPS accretive proposition. This is an unusual situation. The major sectors seeing corporate activity are healthcare, TMT, resources and insurance. The local market saw **Independence Group** (IGO) launch a share and cash bid for **Sirius Resources** (SIR) and **Programmed** (PRG) and **Skilled Group** (SKE) entered merger discussions.

PORTFOLIO CHANGES

AGL (AGL) was added to the portfolio for the first time as the new CEO announced aggressive action to boost the company's performance. In a multi-pronged approach, AGL is cutting operating and capital expenditure and boosting customer focus with an entirely new division focused on 'new energy' technologies.

Many large companies globally have found that nimble, new competitors can significantly disrupt their established profit centres and relationships through use of emerging technology. Classic examples have been Google versus Yellow Pages and Seek versus print media. Established companies generally have been slow to see the threat and the need to respond has been too great a challenge to existing business units. AGL is applying refreshing new thinking drawing from experience in overseas markets in establishing a new division with the funding and power to disrupt their own established businesses, with the primary aim of lifting customer engagement and advocacy. Through luck and good management, AGL has emerged with an extremely low cost generation fleet, a large scale customer base, and the potential to significantly improve shareholder returns in the years ahead. AGL has significantly lagged the market, is reasonably valued and provides attractive profit growth prospects.

Investments in **CSL** (CSL), **Lend Lease** (LLC) and **Ansell** (ANN) increased as Quest sort to boost the portfolio weighting to \$US earnings. We also added to holdings in **ANZ** (ANZ), **Healthscope** (HSO) and **Slater & Gordon** (SGH). Overall, we have maintained a higher cash weight than normal as we see volatility escalating at a time when most markets are not far from record highs. The portfolio participated in the placement by **Surfstitch** (SRF) to acquire surf based content for their websites. Surfstitch continues to develop their capabilities and we have lifted our target price based on an improving outlook. **Lovisa** (LOV), **G8 Education** (GEM) and **S32** (S32) were sold and our weight in **Cover-More** (CVO) lowered. Substantial profits were taken in **Lovisa** (LOV) (full exit) which listed at \$2.00 in December 2014 and last shares were sold at \$3.30. We exited the **S32** (S32) holding following the **BHP** (BHP) demerger.



CONTRIBUTION

Viralytics Ltd (VLA) was a major contributor to portfolio performance in May, up 26% for the month. VLA is an Australian biotechnology company focusing on developing oncolytic virotherapy for the treatment of a range of cancers. This immunotherapy space is currently a hot sector within oncology. Viralytics is the only true ASX listed company in this space and they are now seeing more widespread interest as they move to securing a global pharmaceutical partner.

Another strong contributor was **Cover-More Group (CVO)**. The travel insurance and medical assistance provider was up 11% for the month. Cover-More presented at the Macquarie Conference in early May which was well received and they have significantly outperformed the industry in terms of gross written premium growth in the March quarter according to APRA data. There are good medium to long term growth opportunities available with upside earnings risk dependent on new contract wins.

The big four banks all had a negative month due to a focus on capital requirements. Our holdings in **Westpac (WBC)** and the **Commonwealth Bank (CBA)** were the largest detractors to the performance however on a positive note Quest held no **National Australia Bank (NAB)** when they announced their \$5.5bn capital raising.

SIGNIFICANT INVESTMENTS

Large	Westpac (WBC)
	Ramsay Health Care (RHC)
	CSL (CSL)
Mid Cap	Healthscope (HSO)
	APA Group (APA)
	Henderson Group (HGG)
Small Cap	iSelect (ISU)
	Surfstitch (SRF)
	Estia Health (EHE)

TOP CONTRIBUTORS

Viralytics (VLA)
Henderson Group (HGG)
Cover-More Group (CVO)
CSL (CSL)
Orocobre (ORE)

KEY DETRACTORS

Westpac (WBC)
Commonwealth Bank (CBA)
Oil Search (OSH)
Magellan (MFG)
APA Group (APA)



INVESTMENT APPROACH

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

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

CONTACT QUEST

Kathryn Ginns
Ph (02) 9409 2333

Suite 8.07, 6A Glen St
Milsons Point NSW 2061

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

BLOG

Quest's latest Insight is "**Batteries change home power demand**".

To read more visit www.questap.com.au/news/

Disclaimer

This report has been prepared by Quest Asset Partners Pty Limited, AFSL 279207 (wholesale), ABN 47 109 448 802. It should be regarded as general information only rather than advice. It has been prepared without taking into account any person's objectives, financial situation or needs. Whilst Quest has used its best endeavours to ensure the information within this document is accurate it cannot be relied upon in any way and recipients must make their own enquiries concerning the accuracy of the information within. Past performance is not a reliable indicator of future performance. Before making any financial investment decisions we recommend recipients obtain legal and taxation advice appropriate to their particular needs. Investment in a Quest Asset Partners Separately Managed Account can only be made on completion of all the required documentation. Quest holds a wholesale AFS licence.