



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

MAY 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	\$758 million
Strategy AUM	\$60 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 MAY REVIEW

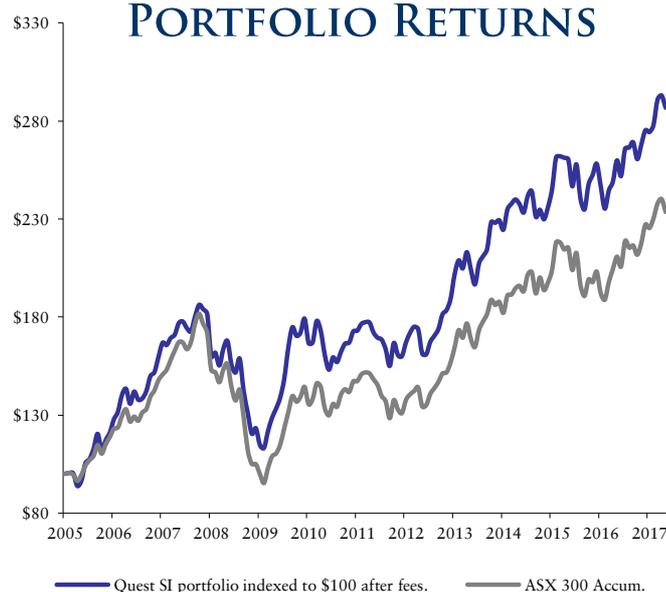
The Quest portfolio delivered out performance of 1.1% in May. The Quest return was -1.6% while the Australian accumulation index fell 2.7%.

Our Quest portfolio is now 2.8% ahead of the market over 3 months and 2.0% ahead of the market over 1 year. The 1 year return is 12.8%. Our annualised return since inception is 11.5% which is more than 4% ahead of the market since inception in 2005.

The highlight of the month was the circa 10% fall in the Aussie banks which dragged our market lower while other global markets rose. The Dow Jones was up 0.3% and touched a new high, Nasdaq was up 2.5% and the FTSE100 rose 4.4%.

ANZ, NAB and WBC all went ex-dividend in May but the correction was much bigger than that. The pressure of a slowing property boom, poor wage growth accompanied by rising cost of living, regulatory pressure and a new bank levy proved too much for the sector. There was noticeable flow to other sectors; away from banks.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 May 2017	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-1.6%	4.2%	12.8%	8.9%	15.1%	7.1%	11.5%
ASX 300 Accumulation Index	-2.7%	1.4%	10.8%	6.0%	11.7%	3.4%	7.3%
Value added	1.1%	2.8%	2.0%	2.9%	3.4%	3.7%	4.2%

*per annum



PORTFOLIO ACTIVITY

Our best performers in May were **Orocobre** (ORE), **Updater** (UPD), **Aristocrat Leisure** (ALL), **Boral** (BLD), **Sydney Airport** (SYD) and New Zealand cinema software company **Vista Group** (VGL). Quest has no holding in **ANZ** or **National Bank** which was a major relative performance boost in May.

Poor performers were gold miner **Blackham Resources** (BLK), **Osprey Medical** (OSP) and **Oneview Healthcare** (ONE) which fell 20% in May. We are not concerned with this fall on very thin volume.

Henderson Group (HGG) continues to be our largest relative over-weight stock and we added further to the position this month. Henderson Group finalised a merger and consolidation at the end of May and is now known as **Janus Henderson**. The stock now trades on the NYSE (rather than London) and on the ASX. Post the consolidation the stock now trades at 10 times the previous level so do not be fooled into thinking you have made a fortune. We continue to be positive on Janus Henderson. See Quest blog 06 April 2017 located at <http://questap.com.au/henderson-to-merge-with-janus-capital/>.

BHP was added to the portfolio after underperforming the market by 15% since Christmas. BHP's \$20bn investment in US shale has performed poorly for the big Australian ever since the first investment in 2011 in Haynesville, Louisiana. Despite recent improvements in well productivity, ongoing drilling requirements and low oil prices resulted in an ongoing cash drain. Despite this, oil leases in core Texan shale oil locations sell for significantly more than the forward oil curve.

A trigger for our investment was the arrival of shareholder activists **Elliot Management Corp** on the register. This is Elliott's first foray into Australia. Typically, activists apply pressure for a change in strategy. In this case, the shale assets are one of a few targets for activism. Elliott has a long successful track record in activist investing and have now moved boldly on the world's biggest resources company. We think Elliott will gain some support from institutional investors. We also see Elliott being prepared to play a longer term game. BHP is capable of delivering our 15% minimum upside from here. Interestingly, the upcoming change of Chairman at BHP could provide an excuse for a rethink on the future of the shale assets.

It is worth noting that BHP have recent form when it comes to addressing outdated strategies; they abandoned the progressive dividend policy which had been entrenched since the 1990's.

During the month we also added to holdings in **Brambles** (BXB), **Cooper Energy** (COE) and **IAG Suncorp** (SUN) has reached our target and has been sold. Our holding in **AGL Energy** (AGL) continues to be reduced after excellent price performance. **CSL** was reduced also. **Aristocrat** (ALL) rallied yet again post a result that impressed even the optimists however our target was achieved. Aristocrat delivered more than a 50% return in less than a year.

We hold a negative view on the Australian dollar and continue to favour stocks with offshore earnings or USD denominated revenue. We continue to be keen on gold where margins will benefit from a weaker AUD.

We hold no retail or telcos. Our cash is still higher than the 4% average at 8.5%.

KEY PORTFOLIO CHANGES

New Stocks	BHP
Sold	Suncorp
Positions increased	Henderson, Brambles, IAG
Positions reduced	Aristocrat, AGL Energy, South 32

TOP ATTRIBUTORS

Henderson (HGG)
Boral (BLD)
Orocobre (ORE)

KEY DETRACTORS

Oneview Healthcare (ONE)
Westpac (WBC)
Healthscope (HSO)



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 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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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		✓
Macquarie	Link	✓	✓
HUB24	Link	✓	✓
Powerwrap	Link	✓	✓

BLOG

To read "Lonsec Awards 2017" "Henderson to merge with Janus Capital", "Team USA will outlast Team Trump", and other Quest Insights visit www.questap.com.au/news/

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