



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

INVESTMENT PROFILE

The Quest Australian Equities Concentrated Portfolio is a Separately Managed Account (SMA), actively managed by Quest Asset Partners Pty Limited. Our objective is to outperform the S&P/ASX300 Accumulation Index. SMA's are professionally managed portfolios that allow the investor to retain beneficial ownership of underlying securities while maximising transactional visibility.

MAY SUMMARY

The Australian market rose in May for the fifth month in a row taking market gains to 15% since January.

The market hit a new decade high a few days after the Federal Election but has waned as Trump trade wars continue to weaken US and global markets. The New York born leader of the world's largest economy continues to lead with his chin. There does not appear to be a plan or end game and it does seem that this trade dispute is looking more BREXIT like. Lingering, worsening and unresolved.

While the Australian market rose most global markets eased. China gave up another 6% in May. Shipping companies are now diverting vessels to non-Chinese markets as tariffs slow trade. The Dow Jones lost 6.7%, the Nasdaq lost nearly 8% and the UK FTSE slid 3.5%. Note however that this is the first month in this calendar year that any of these three markets have fallen.

Banks continued to rise in May. The big four are 22% of our market so a bank rally in company with resource strength usually sends the market up. In May, NAB led the charge up nearly 8% while CBA popped another 5%. Iron ore stocks were firm with Fortescue up another 20%.

Costa Group and Link Administration fell 30% and 21% respectively just to remind investors how harshly any earnings disappointment can be dealt with.

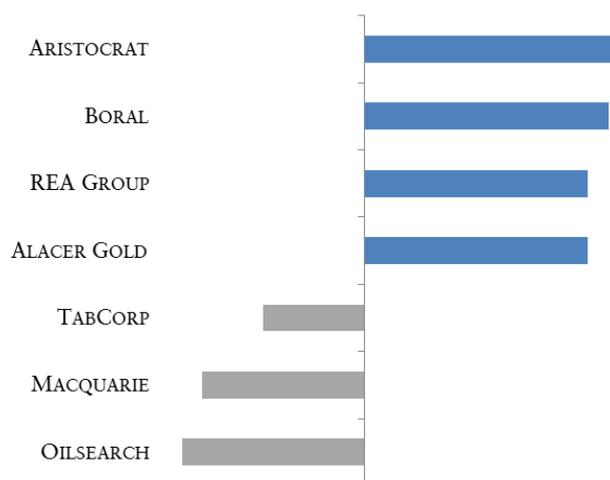
There has been a flurry of placements in property stocks in recent weeks particularly where office and industrial property is concerned. Quest participated in the Dexus raising of \$900m, Charter Hall LWR raised \$190m while the Investec Australia Property Trust IPO closed in May for a June listing with a \$100m raising.

MAY 2019

KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	34 now, maximum 35
Quest AUM	\$1.24 billion
Strategy AUM	\$80 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

DRIVERS OF PERFORMANCE



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 May 2019	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	2.1%	4.7%	7.7%	12.4%	10.2%	12.3%	11.6%
ASX 300 Accumulation Index	1.8%	5.0%	10.9%	10.6%	7.8%	9.9%	7.7%
Value added	0.3%	-0.3%	-3.2%	1.8%	2.4%	2.4%	3.9%

*per annum



PORTFOLIO ACTIVITY

Our best performers were Aristocrat Leisure up 12%, Boral up 12%, REA Group up 11% and Alacer Gold also up 11%. During the month of May, we added **Dexus** (DXS) to our portfolio. In recent months property stocks have continued to climb particularly in those stocks with non-retail exposure. During the March quarter our lack of exposure to this sector detracted from our numbers. As such, we have been waiting for an opportunity to address this sector as we expect interest rates to fall and yield assets to remain well sought.

Quest participated in Dexus stock placement in May to raise \$900 m to fund the acquisition of an office block at 80 Collins Street Melbourne. The placement was at \$12.10 per share. Dexus owns 54 office properties and over 70 industrial investments and is considered a leader in the office sector. We have since lifted the holding to a material 4% of our portfolio. Dexus traded at \$12.88 at month end.

Telstra (TLS) has returned to the portfolio after a four year absence. When we sold Telstra in 2015 we were concerned about increasing mobile competition and potential loss of market share in fixed broadband as the NBN was rolled out. The price has since fallen from over \$6 to \$3.60 currently. We believe the competitive outlook for the mobile business has now improved and see Telstra as having an advantage from being the first to roll out a 5G network. TPG and Vodafone are facing an extended court battle to appeal the ACCC decision to block their merger and Optus has shown signs of being less aggressive on price as its market share gains have plateaued. In broadband Telstra has managed to maintain close to 50% share of NBN subscribers and with the rollout now 70% complete, competitive pressure may ease. Telstra is also making good progress on its cost out program and capital expenditure is falling which gives us more confidence the current 4.5% dividend yield is sustainable. We see sufficient valuation upside from current levels to meet our target 15% return.

In May we sold our holding in waste recycler **Bingo Industries** (BIN). This was our second turn on this stock after a successful investment back at the float in 2017 that was sold at target price in 2018. Earlier this year, Bingo slumped 40% after a profit downgrade which saw Quest buy back in

below \$1.50. A rapid recovery followed and we have realised this gain. We also sold out of travel technology leader **Serko** (SKO) with a 40% gain as our target price was achieved.

Our position in **Westpac** (WBC) was reduced sharply after the stock went ex dividend in mid May. Cash is 5.7%.

FACT OF THE MONTH

Property stocks have raised \$2.5 billion from placements, IPO and SPP issuance this calendar year. Investors have rushed these property based yield investments. The raisings were made by ten different stocks including Dexus, Mirvac, Investec Australia and Viva Energy. The Charter Hall group have raised for three of their listed vehicles. The REIT sector is up 17% in five months with Charter Hall being the strongest performer up 47%.

THE QUEST PROCESS

The Quest team invest to make an above average return. We pay less heed to beating an index.

We research investments from the ground up and invest based on our assessed valuation. We seek minimum 15% upside. This valuation becomes our target price.

A Quest portfolio includes known names such as **CSL** and industrials such as **Amcors**. We also look to add value outside of the major stocks, recent examples being **Aurelia Metals**, **Viralytics**, **Bravura**, **Netwealth** and **Bingo Industries**. The portfolio typically carries a number of mid and smaller cap stocks where we believe our experience gives us an advantage.

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