



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

OCTOBER 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	30 now, maximum 35
Quest AUM	\$794 million
Strategy AUM	\$67 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 OCTOBER REVIEW

Global markets made new highs again in October. The S&P500 rose for the 10<sup>th</sup> consecutive month which has not happened for 90 years. The S&P is up 15% this calendar year.

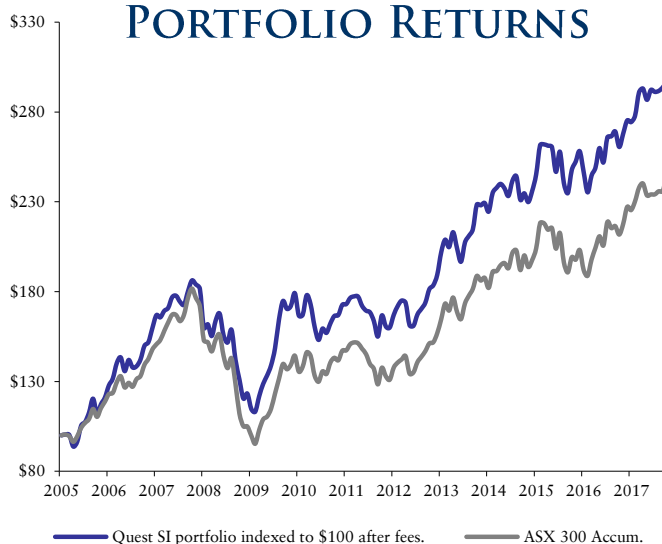
The Australian market finally moved ahead gaining 4.0% taking the calendar gain to 8.6%. The Quest portfolio pre fee return of 2.0% for the month lagged the ASX300 accumulation index return primarily due to a sharp correction in the price of Lend Lease.

The portfolio 12 month return pre fees is 17.0%. Quest pre fees performance is 4.1% p.a ahead of benchmark since inception.

The AUD has rolled off the July peak of 80.6 and is now 76.5 cents. This is positive for many local stocks with US dollars denominated earnings. We see the direction of the USD/AUD being critical to the immediate direction of the local market and anticipate further easing as US rates rise and proposed tax changes in the US continue to lift the USD.

Quest will seed a new **Highly Concentrated 10 stock portfolio** in November. This highly concentrated 10 stock portfolio is available to sophisticated investors and is designed to out-perform the All Ordinaries Index with a maximum of 10 stocks as determined by the Quest investment process.

## PORTFOLIO RETURNS



## PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31 October 2017	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	2.0%	2.9%	17.0%	10.8%	13.3%	6.9%	11.5%
ASX 300 Accumulation Index	4.0%	4.8%	15.9%	7.0%	10.2%	3.1%	7.4%
Value added	-2.0%	-1.9%	1.1%	3.8%	3.1%	3.8%	4.1%

\*per annum



## PORTFOLIO ACTIVITY

The Quest best in October in order of best attribution were **James Hardie** (JHX) up 12%, **Orocobre** (ORE) up 8%, **Boral** (BLD) up 5.6%, **Link Administration** (LNK) up 9% and **Healthscope** (HSP) up 17%.

Poor performers included **Lendlease** (LLC), **Bingo Industries** (BIN) and **Vista Group** (VGL).

The main contributor to Quest lagging the market in October was Lendlease which announced a partial asset sale (expected) and a downgrade to east coast construction margins (unexpected). This was frustrating as Lendlease has been an honest toiler for our portfolio for years making new post GFC highs in September and featuring in our last monthly review. A 10% correction was swiftly dealt although the company stated that the operational deficit from construction will be made up in the development division. Lendlease fell 9% as the market questioned whether the stock is really a proxy on east coast infrastructure development. Our view is unchanged, we maintain our position in the stock with our price target above current levels.

It was pleasing to see James Hardie move higher after our August purchase. We remain positive particularly with the US economy recovering and the AUD weakening since mid-September. The weakness in Bingo was in our view an aberration and the stock has moved back up in November.

Quest have recently added **Bravura Solutions** (BVS) to our portfolio. Bravura provides software to the wealth management and funds administration sector in the UK, Europe, Asia Pacific and South Africa. The company recently beat prospectus forecasts and a private equity sell down at \$1.55 presented an opportunity to invest. Bravura ranks as a B grade in our qualitative assessment and is currently trading at \$1.75.

**Oil Search (OSH)** has returned to the portfolio after an 18 month absence. We see growth opportunities with partners Total and Exxon in Papua New Guinea and the potential for some asset consolidation. The LNG expansion opportunities are low cost and close to Asian demand. PNG has abundant supplies of cheap gas and a doubling of production is likely by 2023. The recent sell down by the PNG government provided an attractive entry price of \$6.70. Oilsearch are now trading at \$7.30.

In mid October, **IOOF** (IFL) raised \$461m via placement in order to buy wealth assets from ANZ Banking group for \$975m. Quest participated in the placement for shares at \$10.60. IFL currently trade at \$10.80.

The Quest investment in **Updater** (UPD) has been sold after hitting our target price. This stock has been sensational over the last 20 months however we think the market has got ahead of itself and we have sold with a ripping gain of over 600%.

**South 32** (S32) has delivered for Quest this year thanks to firm alumina and coal prices. This position was reduced in October. S32 has risen 25% since June and the company continues with an on market buy-back.

Cash sits at higher than average at 8.5%.

## SIGNIFICANT INVESTMENTS

Large	Commonwealth Bank (CBA)
	Westpac (WBC)
	BHP (BHP)
Mid Cap	Brambles (BXB)
	Oil Search (OSH)
	Lendlease (LLC)
Small Cap	Bingo Industries (BIN)
	iSelect (ISU)
	Vista Group (VGL)

## TOP ATTRIBUTORS

James Hardie (JHX)  
Orocobre (ORE)  
Boral (BLD)

## KEY DETRACTORS

Lend Lease (LLC)  
Bingo Industries (BIN)  
Vista (VGL)



## 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 in our travels.

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 but we look to add value outside of the major stocks. The portfolio typically carries a number of smaller businesses as market research is often scant.

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.

## INVESTMENT TEAM

---

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

## PLATFORMS

---

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

---

To read “**Bingo cleans up on result**”, “**Summary of Fiscal 2017**”, “**Lonsec Awards 2017**”, “**Henderson to merge with Janus Capital**” and other Quest Insights visit [www.questap.com.au/news/](http://www.questap.com.au/news/)

## CONTACT QUEST

---

Ph 02 9409 2301/02/03/04  
Suite 8.07, 6A Glen St, Milsons Point NSW 2061  
[quest@questap.com.au](mailto:quest@questap.com.au) [www.questap.com.au](http://www.questap.com.au)

### **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. All performance figures are based on the JBWere Multi-Asset platform seed portfolio. Performance can vary by platform and client due to mandate restrictions and other constraints. 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. As Quest hold a wholesale AFS licence, this report should not be passed on to any retail client.

The Lonsec Rating (assigned September 2017) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to “General Advice” (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Quest Asset Partners Pty Limited product(s), and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria.

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