



AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

OCTOBER 2016

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	\$1,255 million
Strategy AUM	\$54 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

The local market fell back in October with some headwinds emerging. These include rising bond yields in most developed markets due to signs of inflation together with statements by the US Federal Reserve. In addition, the possibility of Donald Trump becoming President unnerved markets.

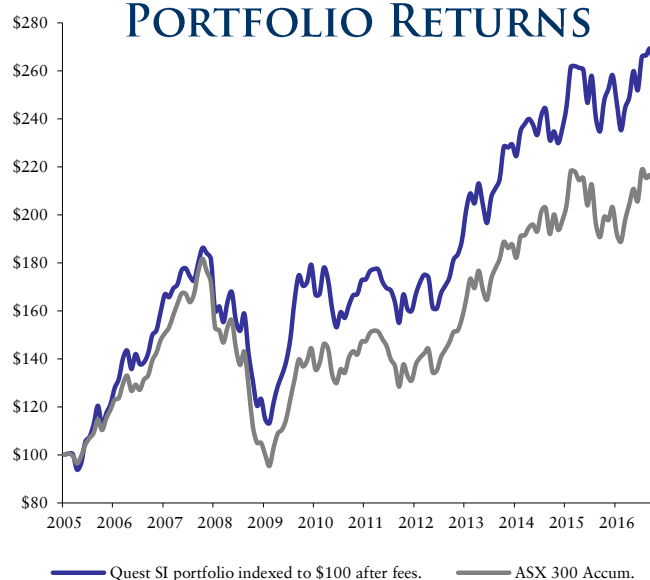
Equity markets were weak globally, with Emerging Markets outperforming. The British Pound continues to struggle, hitting a 31 year low against the US Dollar. In commodity markets, iron ore and coal continued to see strong rises.

Rising bond yields also resulted in significant rotation within equity markets, with resources more popular than REIT's and Utilities. Similarly, the 'Value' stocks outperformed 'High PE' and 'High Quality'.

Locally AGM's saw some negative earnings revisions in Industrials, the consensus FY17 EPS being reset downward by 5%.

We continue to be positive on our resources holdings, RIO, Fortescue and Orocobre into the New Year.

PORTFOLIO RETURNS



PERFORMANCE

BEFORE FEES AND TAX

(PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)

To 31st October 2016	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	-2.7%	-1.5%	7.4%	7.2%	12.0%	8.0%	11.1%
ASX 300 Accumulation Index	-2.2%	-3.2%	6.3%	3.9%	9.0%	4.3%	6.7%
Value added	-0.6%	1.7%	1.1%	3.3%	3.0%	3.7%	4.3%

*per annum



PORTFOLIO ACTIVITY

October was a softer month in the market. **Viralytics** (VLA), **Fortescue Metals** (FMG) and **Orocobre** (ORE) were our best performing investments for the month while **Healthscope** (HSO) eased sharply after reporting unusually lower hospital volumes in September.

The major portfolio moves during the month were additions to holdings in **Westpac** (WBC), **Vocus** (VOC) and **RIO**, mostly funded from cash. Also of note, we added to **Lendlease** (LLC) and reduced the **Stockland** (SGP) holding which hit our target. The Stockland sale was well timed with hindsight.

During the month Viralytics released new clinical trial data at a major European cancer conference. Trials of Cavatak continue to impress with early data suggesting good response rates. There is also evidence of a lower adverse incidence seen in other oncology treatments when combined with Cavatak.

Orocobre continues to be volatile but we are well up on entry price and our target remains above current levels. Lithium production ramp up continues in Argentina.

Health stocks were generally lower after the HSO announcement which affected Quest holdings in **CSL** and **Ramsey Health Care** (RHC). We have retained our Healthscope holding as we believe the stock price fall to be excessive. Quest participated in the recent Queensland site visit held by Healthscope.

Banks have performed poorly since early 2015 with intensified price competition and increased regulatory capital requirements. These falls have made the fully franked yields of the banks relatively more attractive. **Commonwealth Bank** (CBA), **Westpac** (WBC) and **Suncorp** (SUN) are now well represented in our portfolio.

We have continued to build the investment in **Vocus Communication** (VOC) post the fall in telecommunication stocks in August and September. The selloff provided the opportunity to acquire Vocus below \$6.00, well below our valuation.

RIO was purchased below \$50 in September and increased further in October. The position has been increased as higher iron ore and coal prices persist. Consensus earnings continue to materially lag recent commodity prices. We think it unlikely that poor

economic news will flow from China prior to the end of the Central Government term next year.

Whilst Quest has recently reviewed nearly 30 IPOs, we have participated in only four floats. This suggests quality is lower or pricing is higher. Maybe both.

Late in October **Galileo Japan Trust** (GJT) made a \$2.61 per unit distribution as the assets of the trust have been sold to Japanese investors and the fund is being wound up. A small residual will be paid in the first quarter of 2017. This marks the end of a rewarding investment for our clients while lowering the Property weight in our portfolio.

SIGNIFICANT INVESTMENTS

Large	Lendlease (LLC)
	Westpac (WBC)
	Origin Energy (ORG)
Mid Cap	AGL (AGL)
	Fortescue (FMG)
	Healthscope (HSO)
Small Cap	iSelect (ISU)
	Vista Group (VGL)
	Oneview Health (ONE)

TOP ATTRIBUTORS

Viralytics (VLA)
Fortescue (FMG)
Orocobre (ORE)

KEY DETRACTORS

Healthscope (HSO)
Link Administration (LNK)
Updater (UPD)



INVESTMENT APPROACH

The Quest Asset Partners team use a three stage process to research opportunities that may not be readily available to investors. 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. 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 known names such as major banks as well as mid-size and smaller companies. We look to add value outside of the major names, many of which are discussed each month in this newsletter. The portfolio typically carries a number of recently listed businesses as market knowledge is often less thorough for new businesses.

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.

Quest Asset Partners have sponsored the **Norths Pirates Junior Rugby Union Club since 2013.**

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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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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 "**Small stocks deliver for Quest in reporting season**", "**Summary of Fiscal 2016**", "**Quest adds Macquarie to Platform choice**" and other Quest Insights visit www.questap.com.au/news/

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