



# AUSTRALIAN EQUITIES CONCENTRATED PORTFOLIO

SEPTEMBER 2019

## 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.

## SEPTEMBER SUMMARY

The ASX 300 accumulation index added 2.3% in September taking the gain over the calendar year to 23% and the annual 12 month gain to 13%.

The ASX300 has risen every month this calendar year except August.

While the broader index was fairly subdued, there was again some major moves within sectors.

Banks were surprisingly the strongest sector given the tepid economic outlook and the likelihood of further interest rate cuts. NAB rose 8% in September with ANZ up 6%. Three major banks NAB, ANZ and WBC will declare dividends in November which adds to their appeal. There was also a value rotation in September globally that saw broad buying of lower multiple stocks at the expense of higher priced growth stocks.

This rotation saw defensive stocks weaken. Telcos were down 4% while Healthcare fell 3.1%. REIT's were weaker falling 2.7% after big gains during the year.

The AUD/USD held at 67 cents. Gold fell below US\$1,500 to \$1,478.

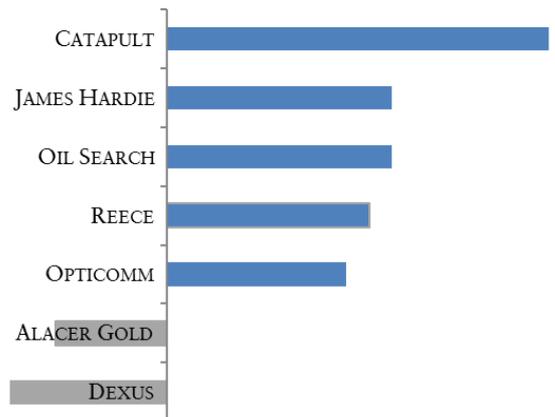
Oil was steady despite the attack on Saudi production. Iron ore popped 10%. The US 10 year bond yield reversed in September with a 20bp lift in yield.

We note the continued roll down in some high priced growth stocks internationally. Since listing, Uber has now fallen 30%, Lyft is down 47% and Spotify is down 36%. The controversial WeWork float in the US has stalled while Peloton fell 20% on debut. It seems the market has become wary of profitless revenue growth and that a "fear of missing out" has been replaced by a "fear of getting hurt."

## KEY PORTFOLIO FEATURES

Inception	9 February 2005
Investment Universe	ASX listed
No. of holdings	32 now, maximum 35
Quest AUM	\$1.2 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 30 September 2019	1 month	3 months	1 year	3 years*	5 years*	10 years*	Since inception*
Quest Aust. Equities Concentrated	1.7%	2.6%	9.7%	12.9%	11.9%	9.9%	11.7%
ASX 300 Accumulation Index	1.9%	2.6%	12.6%	11.9%	9.6%	8.1%	8.0%
Value added	-0.2%	0.0%	-2.9%	1.0%	2.3%	1.8%	3.7%

\*per annum



## PORTFOLIO ACTIVITY

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Our best absolute performers were **Catapult** up 17%, **James Hardie** up 10%, **Oil Search** up 10%, **Reece** up 9% and newcomer **Opticomm** up 8%. The **Dexus REIT** was the only disappointment falling 7% while **Alacer Gold** eased 5% after nearly doubling over the last year.

**Opticomm** has been added to our portfolio after an IPO conducted by Morgans in August. Opticomm is a network infrastructure operator specialising in the last mile of connection to homes in new housing estates. Opticomm competes with NBN and holds 30% estate market share. NBN has 60%. We like the economics here given the recurring earnings model and increasing demand for connectivity. The \$2 IPO price looks good given last trade at \$3.50.

In September we sold our holding in property services market leader **REA Group**. This stock was acquired in April at prices around \$76. We have sold closer to \$105. Our target price has been achieved. We consider that at these elevated prices, there is a considerable property recovery already built into the current share price. It often happens that anticipated recovery is priced so well in advance that it becomes more risky to await confirmation of that recovery.

During September, we attended the **A2 Milk** Investor Days in Shanghai. Quest bought into A2 Milk in August after a big tumble in the share price. The trip highlighted both the potential reward and the risks in this business. Our target price remains well above current levels. A2 Milk has terrific brand strength and high margins but the company does operate in a very competitive environment. The recently announced increase in marketing has spooked the market in the short term. Our analysis suggests the stock will generate above average cash flow over the next few years and we remain confident post trip in our position.

In September the Australian milk formula producer **Bellamy's** was bid for by leading Chinese dairy manufacturer **China Mengniu**. This takeover suggests there will be ongoing corporate consolidation in this very fragmented industry.

Our team also attended the James Hardie Investor roadshow in Europe and USA. Hardie is a larger position for us.

We have accepted the cash and scrip bid for Botswana copper explorer **MOD Resources** by **Sandfire Resources**. While only a small holding, the gain exceeds 25% in only a few months. It makes sense for MOD to take this project forward with a larger partner. The bulk of consideration is cash with a small Sandfire holding arriving later in the month as the deal completes. MOD Resources has now delisted pending completion.

Cash at the end of the month was approximately 3.5%.

## FACT OF THE MONTH

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While China may be absorbing pain from trade wars, it is making major strides in renewable energy. Coal has decreased from 74% of fuel consumption to 58% since 2006. Renewables consumption is now above 25%, well above the USA and Germany. China has the world's largest high speed rail network and the fastest growing subway system. China also has the fastest global uptake of electric vehicles and the bulk of the world's electric buses. China is still however responsible for a colossal 28% of global emissions but at least that contribution is no longer growing.

## THE QUEST PROCESS

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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 **RIO** and **Ancor**. We also look to add value outside of the major stocks, recent examples being **Prospa**, **Catapult**, **Carbon Revolution** and **Lendi**. The portfolio typically carries a number of mid and smaller cap stocks where we believe our experience in this field gives us an advantage.

## CONTACT QUEST

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