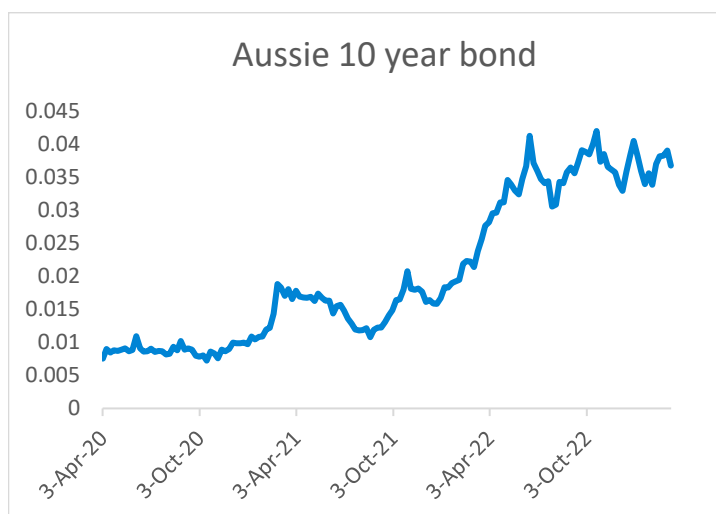


### PORTFOLIO FEATURES

Inception	9 February 2005
Benchmark Index	S&P/ASX300 Accumulation Index
No of holdings	31 (Maximum 35)
Quest AUM	\$1,953m
Strategy AUM	\$129m
Investment horizon	3 - 5 years
Investment Strategy	Fundamental with a focus on business quality and free cash flow
Derivatives/Shorting	Nil
AFSL	279207
Lonsec Rating	Reviewed and Rated by Lonsec



Source: Iress

### CONCENTRATED PORTFOLIO UPDATE FEBRUARY 2023

February saw markets pull back as reporting season provided a welcome update on financial performance after a prolonged period of global macro uncertainty.

Reporting season led to little change in overall consensus earnings forecasts for 2023 and 2024.

Earnings growth in FY23 is now a humble 2.5% with growth dominated by the Banking sector with 13% estimated growth. This is offset by a 14% fall in consensus earnings from the resources sector.

The Quest portfolio saw 80% of our holdings report results. Our largest positions **CSL**, **Ramsay Healthcare**, **Santos**, **Transurban** and **Allkem** were in line with expectations.

A number of results were ahead of expectations including **Woolworths**, **Macquarie Bank**, **Ventia Services**, **Charter Hall** and **Steadfast**.

In two cases results were below expectations leading to a sharply lower share price in **Domino's Pizza** and copper producer **29 Metals**.

A feature of reporting season was the growth in revenue (boosted by inflation) and a contraction in margin (higher costs). This will continue into the second half of the fiscal year.

Investors remain optimistic that the interest rate and inflationary cycle are soon to peak. At the time of writing, the NASDAQ is up 10% and the S&P500 up 4% so far this calendar year. This is despite an adverse 15 basis points lift in the US10 year bond to 3.98%.

The market has been second guessing the end of this adverse cycle for months now.

There are indications that inflation has peaked in Australia even though further interest rate rises are likely. Rates may move higher but with ten increases taking the cash rate from 0.1% to 3.6% already, the cycle is closer to the peak.

Our focus is currently on companies that will benefit from the inflationary cycle peaking in Australia. The market may look to buy long-dated growth stocks that have been languishing. Continuing rate rises in the US will see the Australian dollar fall, a positive for stocks with US denominated earnings such as **BHP**, **CSL** and **Santos**.

### Performance\*

To 28 February 2023	1 month	3 months	1 year	3yrs (pa)	5yrs (pa)	10 yrs (pa)	15yrs (pa)	Since inception (pa)
<b>Quest Aust Equities Concentrated</b>	<b>-3.2%</b>	<b>-1.2%</b>	<b>7.7%</b>	<b>13.2%</b>	<b>11.9%</b>	<b>11.9%</b>	<b>10.2%</b>	<b>11.9%</b>
ASX300 Accumulation index	-2.5%	0.2%	6.5%	7.9%	7.9%	7.9%	6.1%	7.6%
Value added	-0.7%	-1.4%	1.2%	5.3%	4.0%	4.0%	4.1%	4.3%

\*Returns before fees and tax based on the JBWere platform model portfolio. Past performance is no guarantee of future performance. Individual returns will differ for investors, depending on when the initial investment was established and the timing of any additional investments or redemptions. Inception date is February 2005



## MONTHLY ACTIVITY

Our best monthly returns in February were **Keypath Education** up 17%, **Steadfast Group** up 12% and **Aristocrat Leisure** up 7%. The Quest portfolio gave back return in resources which were generally weak.

Lithium producer **Allkem** saw production dip in Australian operations and slipped 12%. **29 Metals** was weak after ongoing capex chewed up sales revenue and fell 18%. **Paladin Energy** also fell 18% for no apparent reason and gold producer **SSR Mining** eased 15% on softer gold pricing.

**Domino's Pizza** tumbled 33% in the month after results failed to reflect the optimism expressed by management only weeks ago in December.

**Santos, Transurban** and **Woolworths** were the best attributors to performance this month.

The Quest portfolio is underweight the banking sector holding only **National Australia Bank**. This worked well in February as the banks generally under-performed the market. The mortgage crunch delivered by higher interest rates will become most apparent to borrowers in the June quarter of this year. At this time the greatest volume of previously fixed rate mortgages will switch to higher flexible rates.

During the month the successful **National Australia Bank** investment established in 2020 was reduced marginally. This further lifted our bank underweight. The **Ventia Services** holding was increased following a solid result.

Cash was 2.8% at month end.

## CHANGES TO SUPER LEGISLATION

The recent proposed changes to super have consequences for the industry that will affect portfolio construction. While not yet finalised, it is clear the proposal lacks analysis as the downstream effects seem to have taken the government by surprise.

The taxation of unrealised gains takes Australia in a whole new direction. This is unprecedented and raises the question of what comes next. The investor perception of super is likely to change.

Super funds that have owned long duration growth assets will now question that approach as yielding low growth assets will be more tax effective. The fluctuations in markets have been ignored meaning a fund may pay tax only to find asset prices subsequently falling. Where is the cash to come from with no asset sale? How are land, office and investment property to be valued year after year? What happens when asset prices fall?

Yielding shares that pay franked dividends may be favoured ahead of growth stocks which will see a shift from small and mid stocks to large stocks that pay franked dividends. Fixed interest may be a simpler option.

While the SMSF is fully funded by definition, the absence of any change to unfunded defined benefit funds (where politicians have their super) is visible. Legislation to further limit franking availability is afoot.

## 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. **The SMA structure allows the investor to retain beneficial ownership of the portfolio** while maximising transactional and tax visibility.

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