



Invest with Experience

Quest Australian
Equities
Concentrated
Portfolio

QUARTERLY REPORT
DECEMBER 2023



Australian Equities Concentrated Portfolio

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ACCOUNT NAME: Mr John Citizen

Portfolio Movement

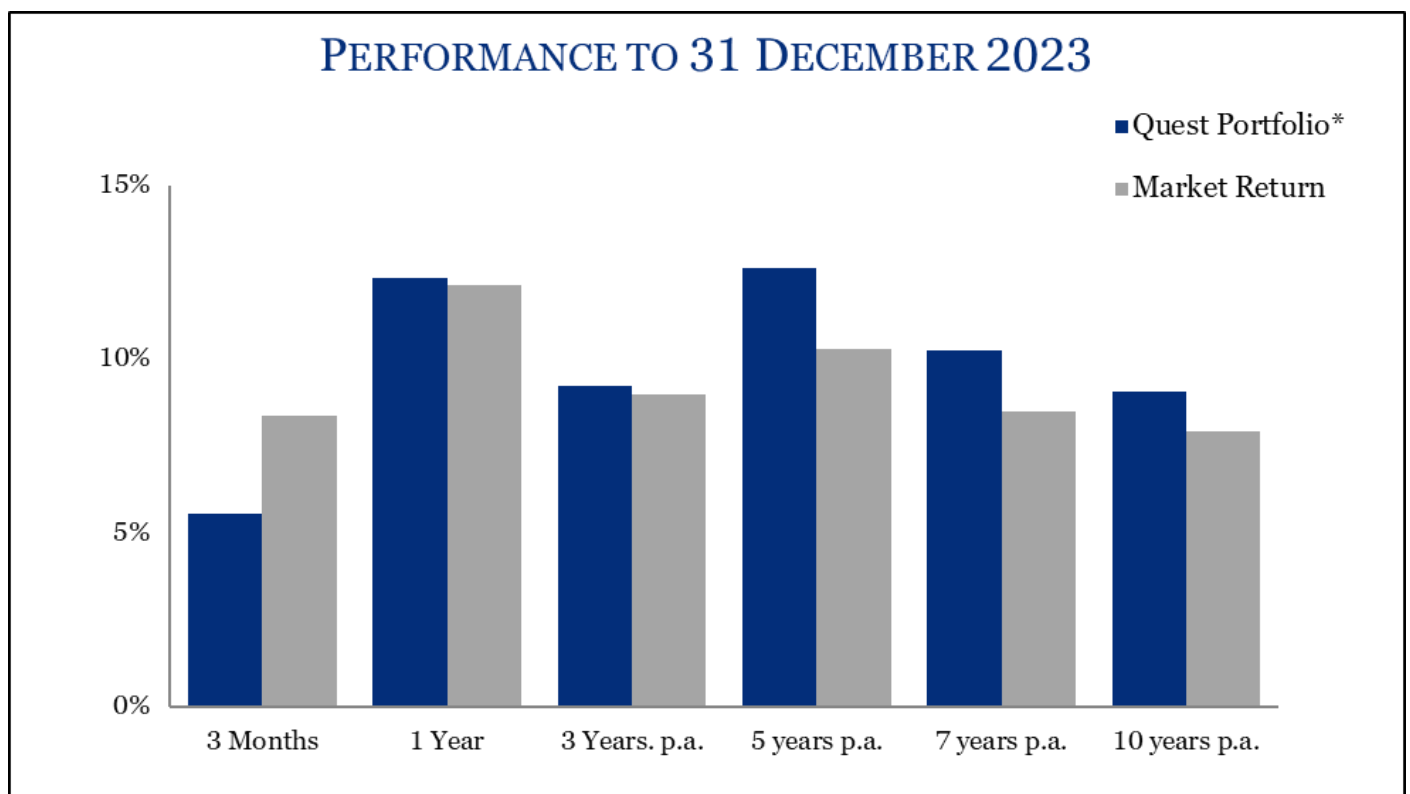
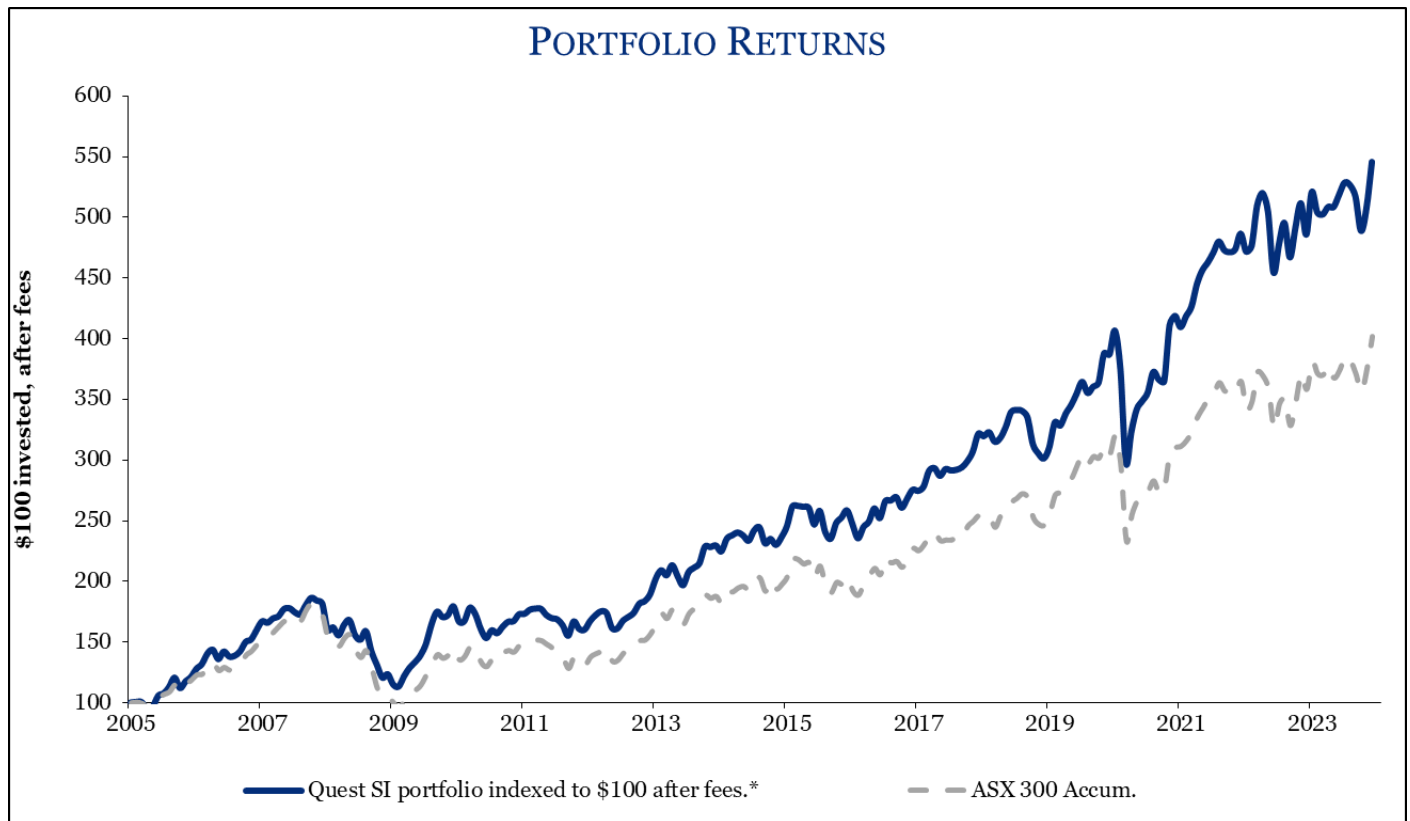
Previous market value 30 September 2023	
Contributions during Quarter	
Portfolio movement*	
Market Value 31 December 2023	

Your portfolio performance for the quarter*	5.58%
Market return (S&P / ASX 300 Accumulation Index)	8.36%
Your portfolio performance for the 12 months*	12.06%
Market return (S&P / ASX 300 Accumulation Index)	12.13%

* Includes fees for the period.



Portfolio Returns



* The portfolio returns shown above are for an actual client portfolio on the JBWere Multi Asset Platform. They demonstrate the returns achieved if invested in the Quest portfolio since inception (February 2005). Individual returns will differ for investors that made an initial investment after this inception date or where additional investments, redemptions or any SPP investments have been made. Quest returns are net of fees. Past performance is not a reliable indicator of future performance.



Market Review

The Australian S&P/ASX300 Accumulation Index rose 8.4% for the quarter after a vigorous rally in November and December. This was a remarkable conclusion to the year given the challenges faced by investors in 2023.

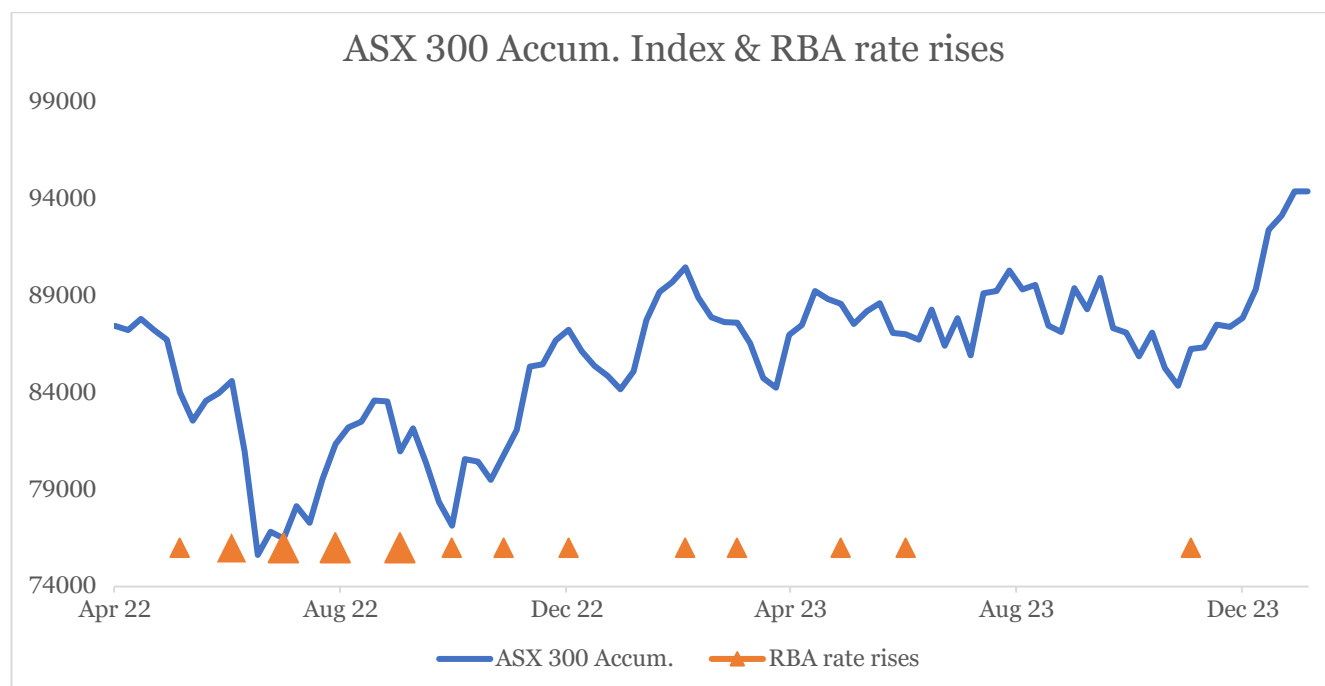
The highlights of the quarter were a perception that rates had peaked, a resultant flow of funds back into equity markets and a burst in corporate activity.

The previous September quarterly discussed the “rush to be bearish” that occurred between August and October 2023. We specifically named REITs, utilities, gold, retail, tech, bond proxies and some industrial small caps as sectors that would respond positively to changed perceptions on interest rates.

The chart below shows the barrage of Australian rate rises that has occurred over the last two years. A total of 13 rises of either 0.25% or 0.5% has raised the cost of living and impaired the local market during 2022 and 2023.

In November the bearish fever suddenly broke, delivering an astonishing run in the local market that delivered acceptable annual returns to investors for the calendar year. The local market fell in October but gained 5% in November and another 7.2% in December. The catalyst was lower inflation numbers and lower US 10-year bond rates.

The perception that the rate cycle has peaked and that rate cuts lay ahead in 2024, set off a global equities rally. The size and speed of this rally, which is based on positive utterances from Fed officials, should be treated with caution as the market may be ahead of itself coming into the New Year.

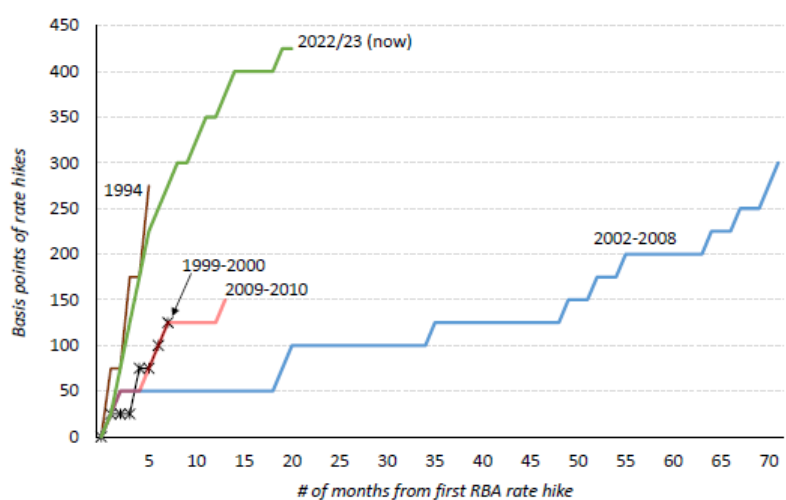


Source: Iress, Quest, Macquarie Bank

US 10-year bonds peaked at 4.9% in October then fell in November and December to finish at 3.8%, a full 1% below the October peak. Australian 10-year bonds were similar, falling from 4.5% to 3.9% over the three months. The large swings in bond markets during 2023 have become almost normal, however the recent expectation of lower rates has triggered an asset allocation shift towards equities.

The following chart from UBS compares the recent RBA moves with previous rate hikes. Given the scale and speed of the rate rises, the majority of asset allocators were negative on equities only months ago. We believe there is more equities inflow to come.

Figure 12: Speed & magnitude of RBA hiking cycles



Source: UBS, Refinitiv

Australia lagged the S&P500 return of 11.2% in the quarter as we lack the “Magnificent Seven” tech companies namely Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla. These seven stocks now have the same capitalization as the UK, Canada and Japan combined.

The December quarter saw the AUD rise against the USD from US\$0.64 to US\$0.68. Gold moved from US\$1,866 to US\$2,072 per oz. Iron ore rallied further to US\$142 T from US\$119 T, a bonus for Government tax revenue. Lithium slumped with spodumene falling to a lowly US\$1,000 T for 6% grade FOB according to the Platts index. Brent oil was soggy falling from US\$95 to US\$77.

There was a flurry of local corporate activity in the quarter:

- **Newmont Corporation** (NYSE:NEM) has swallowed ASX’s largest gold company **Newcrest** with Newmont now trading as a CDI in Australia (Newmont ASX:NEM).
- In December, long suffering **Link Administration** shareholders received a proposal from **Mitsubishi UFJ Financial Group** that has been accepted by the Board. Link shareholders will receive \$2.26 per share. Note the price was a lot higher 5 years ago.
- Lithium miner **Liontown** is constructing an underground project near Kalgoorlie and was the subject of a \$3 bid from **Albemarle** who withdrew the bid after a blocking stake was acquired by Gina Rinehart.
- **SQM** bid for prospective lithium miner **Azure Minerals**. Gina Rinehart again stepped in and blocked the bid. The two parties have now bid jointly in an agreed deal.
- **Adbri** received a \$2 billion bid from **CRH** (London) and major shareholder **Barro**.
- In December, **Chemist Warehouse** announced a merger with listed **Sigma Healthcare** in a deal that delivers the anticipated listing of the Chemist Warehouse business and raised \$400 m.
- The proposed **Origin Energy** bid by **Brookfield** and **Mid Ocean Energy** was voted down by shareholders. Once again team Australia, led by Australian Super disrupted a foreign bid.
- The merging of lithium producer **Allkem** with **Livent** (NYSE:LTHM) has been approved by the shareholders of both companies. Allkem ceased trading in late December and will now trade as **Arcadium Lithium PLC** (ASX:LTM). A poor naming effort in our view, it sounds like they own shopping malls. This name does little to describe the activities of what will be the world’s third largest lithium producer!



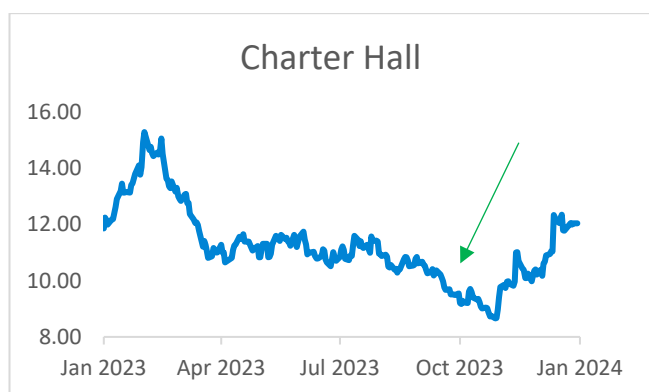
Portfolio Review

The Quest portfolio lagged the market in the December quarter. The Quest model return was 5.9% while the market added 8.4% on an accumulation basis.

The **best performers** over the quarter, strangely all up 29%, are summarised below:

Genesis Minerals up 29%: a relatively new holding, we know the management team who previously ran Saracen Minerals. The team intend to consolidate gold assets in the Leonora region in Western Australia. Genesis raised \$470m in 2023 to buy **Dacian Gold** and assets from **St Barbara Mines** including the Gwalia gold mine and Leonora processing mill. Gwalia produced 34,000 oz gold in the September quarter and ore from nearby areas will lift mill throughput. The aim is to operate more efficiently by lifting mill utilisation and gold production from a range of nearby pits.

Charter Hall up 29%: A leading property owner and manager, we took a contrarian view back in September after the price collapsed as rates rose. We have built this position as the stock fell to as low as \$9.40 (it was \$22 only 2 years ago) and are enjoying the recent rush in the share price as investors return to the REIT sector. CHC went ex a \$0.22 cent distribution just prior to Christmas. CHC closed the year at \$12.04.



Source: Iress

Catapult up 28%: CAT delivered a half year result in mid-November that was well received by the market. The stock popped from \$0.90 to \$1.40 in a few weeks and now trades at \$1.38. Catapult is a global leader in data analytics in sport. Catapult is used by over 4,000 teams in over 100 countries in more than 40 sports. The result included strong revenue growth and improved margin confirming

that operating leverage will boost returns as revenue builds.

James Hardie up 20% before sale this quarter: A Quest favourite, we have now bought and sold JHX three times in the last two decades. JHX has benefitted from the strong US housing cycle. We have sold this position during the quarter as our price target has been achieved.

MAAS Group up 17%: We have held MGH since the float in late 2020. MGH is based in Dubbo and has multiple divisions including quarrying, equipment hire and land/house sales. The company has made many acquisitions and now has interests in southeast Queensland and Victoria. The integrated nature of the MAAS business gives it a strategic advantage over local smaller competitors.

Key drivers to regional growth are favourable population movement and State Government commitment to development. The possibility that interest rates have peaked is particularly promising for the land sales division while the sale of some peripheral assets is seen as proof that MGH can develop and recycle assets.

Some of our **stocks did perform poorly** in the quarter.

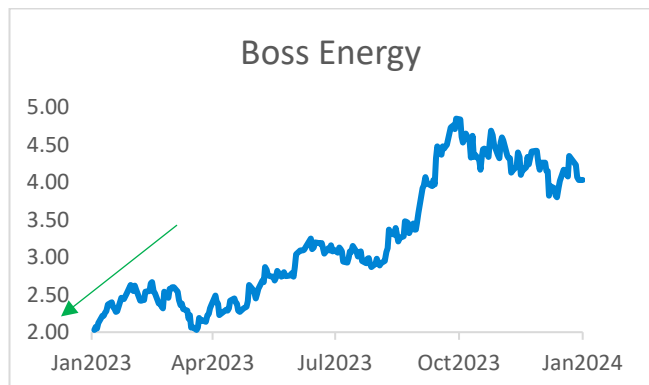
SSR Mining down 23%: delivered a surprise lift in development costs and more conservative gold production. This was unexpected. The stock is under review.

Boss Energy down 17%: Do not be concerned, Boss has nearly doubled since purchase and intends to restart mining at the remote Honeymoon mine in South Australia in the New Year. This will be the first uranium restart globally for a long time.

Our original investment was at \$2.15, the stock is now \$4.03. The uranium price in the last year has roared from US\$40 per pound to above US\$90. We remain bullish on uranium but the market will remain volatile.

Boss announced the first offtake contract in December. The wait has been worth it as the uranium price continued to rise. Boss also holds a stockpile of U₃O₈ worth over \$100 million which can be used to underwrite contract delivery during commissioning.

The World Nuclear Association has successfully pushed for recognition of uranium by COP28 in Dubai in November 2023 as an energy source.



Source: Iress

Allkem down 16%: this was a poor year for lithium stocks as prices slumped. Lower demand, product stockpiles, higher than expected Chinese production and high EV prices best sum up the tough year endured by producers. Our view is that the worst is over and we note stability in the lithium price in recent weeks and improved share prices.

The power in the supply chain lies with **miners who control source rock and brine**.

This explains the enthusiastic attempts by a number of parties to build rock and brine assets. **Albemarle, SQM, Livent**, Gina Rinehart and **Mineral Resources** have all spent 2023 building their asset bases.

The merger of **Allkem** with **Livent Corporation** (NYSE: LTHM) was approved by shareholders in December. The merged larger vehicle will trade as **Arcadium Limited** (ASX: LTM and NYSE: LTMN) from early January.

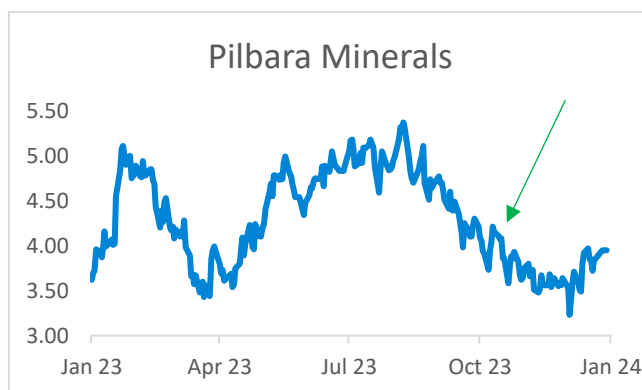
Credit Corp fell 16% in the quarter after a downgrade of the US trading book. The fall was initially a hefty 30% from \$18 to \$12 where we added to our position. We saw this tumble as being an over-reaction. Credit Corp rallied back strongly to \$16.20 at year end.

This was a disappointing year for our only utility, **Transurban**, which has finished the year not much better than it started. The range is again dramatic with a peak of \$15.20 in April and a base of \$11.80 in October. TCL closed in the middle at \$13.71 but we expect a better year in 2024 given our view that rates are near the top and that inflation will be sticky. Transurban tolls are adjusted by inflation regularly.

Portfolio changes include:

IGO Limited has been a good investment for Quest but we have recently sold this position. Initial sales were at very good prices with an average exit above \$11. The untimely death of the CEO, a write down in recently acquired nickel assets and some issues with the operating JV that controls their lithium assets led to a review and sale of IGO. The stock fell heavily after our exit. It was replaced by **Pilbara Minerals**.

Pilbara Minerals is new to the portfolio after the stock tumbled 25% due to lower lithium spodumene prices. Pilbara is a major spodumene producer with 620,000 T produced in 2023 and a target of 680,000 T in 2024. Works are underway, in a project known as P1000, to reach 1 million T pa. Mine life is 34 years. Pilbara also has an interest in a lithium hydroxide plant in a JV with Posco being built in South Korea due to commission in 2024. Pilbara is conspicuous by the lack of any major shareholder in the company or the asset itself in Western Australia at a time of asset aggregation. Our average entry level is \$3.80.



Source: Iress

Stanmore Resources was sold this quarter after a tremendous performance over 2 years. This stock has tripled since our purchase. We do struggle to confidently predict the met coal price going forward. Stanmore is well run, delivers very strong cash flow and sells into a hungry Asian market but our target price has been achieved.

Our team also made some changes in the quarter which included increasing holdings in **BHP, National Bank** and **Genesis Minerals**.



Quest Asset Partners product recognition by consultants

Financial Newswire/SQM have awarded the Quest Concentrated portfolio **Fund Manager of the Year** in 2023 in the Australian Equities SMA category.

In October, Lonsec lifted the rating of the Quest Concentrated and Ex20 SMA portfolios to the highest rating of **Highly Recommended**.

Quest was again a finalist in the 2023 Lonsec Fund Manager Awards but we did not win this time.

The Quest Concentrated SMA was the best performing Australian Equities portfolio over both 5 and 10 years to 30th June 2023 in the Morningstar Survey.

Outlook

We are more positive than in recent quarterly updates as we believe we have reached a peak in the interest rate cycle.

An easing in US 10-year rates and lower inflation numbers has brought buyers back to the market. The surge in November and December across all sectors delivered a solid return at the end of a difficult year.

The US 10-year bond bottomed at a paltry of 0.05% in July 2020 and hit a high in October 2023 of 4.97%. This represents a 100 fold lift in yield over the cycle. It has been a remarkable effort for markets to have stayed steady for two years.

At calendar year end, the S&P500 is up 24.2% for the year (fuelled by the Magnificent Seven tech stocks) while the ASX300 has gained 12.1%.

We therefore enter 2024 with some confidence and believe the rate cycle has largely run the course. We do think that inflation can linger for some time yet.

The Australian Government's recent Mid-Year Economic and Fiscal Outlook forecasts an orderly decline in inflation to 3.75% by June 2024 and 2.75% by June 2025. That would be an excellent outcome and a return to within the 2-3% band targeted by the RBA. Almost too good to be true.

International trade is still hampered by war in Ukraine and the Middle East and logistical issues now exist in the safe passage of ships in the Red Sea. The extended shipping route via Cape Horn

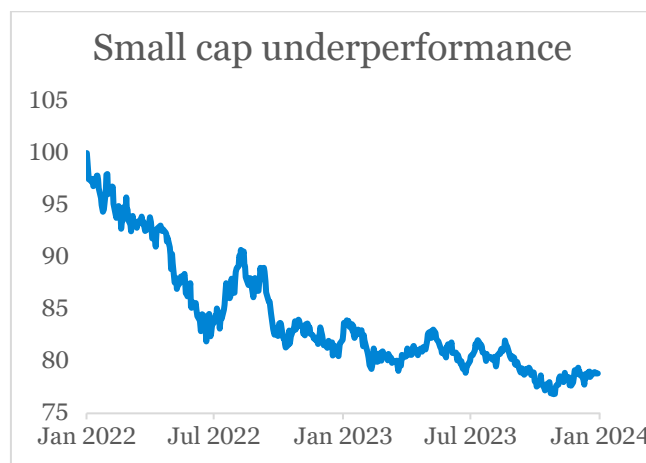
adds 10 to 14 days to a trip and doubles shipping costs. This situation has the potential to be damaging as there appears to be a strategy to open multiple fronts against Israel by their traditional enemies.

The Government is supporting wage rises, immigration levels are very high, and Australia is short of housing. We consider that the RBA forecast for inflation may be optimistic.

The consumer appears to be handling the cost of living pressure by cutting spend on anything seen as excessive. Those with deposits are enjoying higher interest rates that have risen from almost nil to as much as 5%. Most beneficiaries are baby boomers who are spending on children, grandchildren and themselves. Historically, Australians take 90% of their wealth at retirement to the grave; an astonishing percentage. This has changed with strong evidence that seniors are spending and apparently happier to run down savings. It seems that the Aussie tradition of taking retirement savings to the grave may be under review!

The US election is unlikely to affect markets until later in 2024. Biden is desperate to hold Trump off so there will be no attempt to reduce the massive US deficit.

Late in the year a spate of takeover activity caused some excitement. Highlights are listed above in our Market Review. It is way overdue with many stocks, particularly small cap industrials, looking cheap.



Source: Iress

The above chart details the remarkable lack of interest, until recently, in smaller cap companies relative to their larger Top 50 counterparts. A peak in interest rates could see a healthier asset allocation to small cap equities in 2024.

The upcoming year is likely to feature some corporate activity and hopefully deliver some new and interesting IPO opportunities.



The Quest portfolio top 10 holdings represent 62% of the portfolio. These stocks are **BHP, NAB, CSL, Santos, Macquarie Bank, Charter Hall, Ventia, Woolworths, Transurban** and **Aristocrat**. All pay dividends which is important given higher interest rates.

These stocks form the foundation of the portfolio. While many can add value over a long period of time, the mid and small cap stocks often add additional alpha. Mid and small industrials in the portfolio include **Xero, Credit Corp, Corporate Travel, ALS Limited** and **Qualitas**.

During 2023, the REIT sector was shunned. We now have 4% of the portfolio in **Charter Hall** which is a leading property owner and manager. The stock had a tough year starting at \$12 and faded to \$8.70 in October. In November however, the stock rose 20% and gained another 16% in December. This is a remarkable turnaround, particularly for a REIT which was the best performing sector in December. Charter Hall finished the year at \$12.04, a mighty 40% up from the October nadir.

Quest remains relatively underweight in banks with holdings in **National Australia Bank** and **Macquarie** totalling 14% of the portfolio.

Our emerging gold producer **Genesis Minerals** had a good year. We are positive on gold given the political backdrop. Our gold exposure may increase.

The upcoming year may see more interest in small caps. Our holding in **Catapult**, which we have held for a few years, is a global leader in sports tracking software. The CAT bounced 50% during November and December.

Mining names in mid and small include **Boss Energy, Allkem, Mineral Resources** and **Pilbara Minerals**. All are capable of high returns in the right environment with the key variable being commodity price. We remain positive on the outlook for lithium and bullish on uranium pricing. Lithium prices fell 80% in 2023; clearly prices rose too far in 2022 and have now over corrected to the downside.

Our oil exposure is via **Santos** which we believe is undervalued. The company has been affected by approval delays for new projects. Our view is that gas is an essential transition fuel and that Australia needs to develop a stable portfolio of energy options.

It is noteworthy that the recent COP28 held in Dubai (with 85,000 attendees) finally agreed to transition away from fossil fuels. There was also

agreement by 130 countries to triple installed renewables from 3.4 TW in 2022 to at least 11 TW by 2030. This ambition is easy to transcribe but will be very hard to achieve. Significantly, a total of 22 countries pledged to triple **nuclear power generation** capacity by 2050. The list includes the US, Canada, Japan, France, Poland, South Korea, the UK and the UAE. Three of the top ten nuclear nations did not endorse the commitment being China, India and Russia. China has a significant program underway regardless. As nuclear power plants already number 437 operating and 37 under construction globally, with others planned, demand for uranium and processed material looks robust. Our uranium holding is **Boss Energy**.

The portfolio currently holds 27 stock positions which is historically low. This suggests some new names will be added in the New Year. The maximum stock numbers are 35 for this portfolio.

Cash was 5.6% at year end.

Performance Fees

A performance fee is payable for the December quarter for most clients.