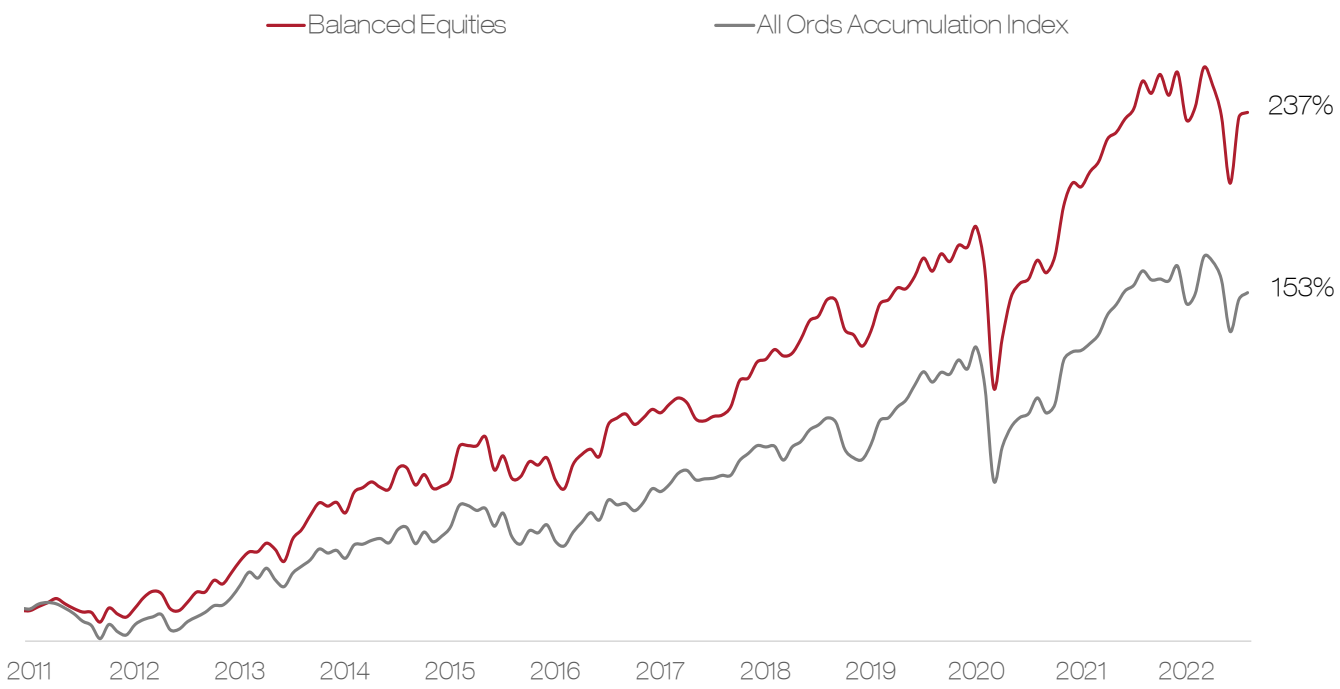
Endeavor Asset Management

Balanced Equities

August 2022

Performance*	Month	Quarter	One Yr	2 Yr p.a.	3 Yr p.a.	5 Yr p.a.	10 Yr p.a.	11 Yr p.a.	Inception
Balanced Equities	0.7%	0.4%	-4.2%	12.1%	8.6%	11.5%	11.6%	10.5%	237%
All Ordinaries Accum.	1.3%	-2.4%	-3.9%	11.4%	6.2%	8.6%	9.5%	8.6%	153%
Outperformance	-0.6%	2.8%	-0.3%	0.7%	2.4%	2.9%	2.1%	1.9%	84%



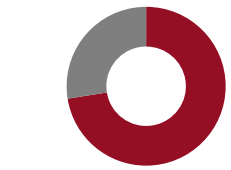
Top Contributors

Altium Limited
IGO Limited
Life360 Limited

Top Holdings
ASX 200

AMP Limited
BHP Group
CSL Limited
National Australia Bank
Woodside Energy Group Ltd

Cash Weighting



Equities 72% Cash 28%

Bottom Contributors

City Chic Collective
Mayne Pharma Ltd
Silver Lake Resources

Ex 200

Clover Corporation
Imdex Limited
Mayne Pharma Ltd
Money3 Corporation
Symbio Holdings Ltd

Portfolio Characteristics

PM: Hayden Beamish
Low/Moderate Risk
85% ASX200 Limit
15% Ex200 Limit
20-35 ASX Listed Equities
Unconstrained Cash
All Ords Accum. Benchmark

*Note: Performance of the strategy group is representative of individual client portfolios, although performance can differ due to inherent differences between clients' portfolios such as initial entry timing, legacy holdings or requested stock exclusions. Performance measured is after fees, taxes and franking credits. Monthly performance figures include an accrual for fees charged quarterly. Top holdings and contributors are listed in alphabetical order.

Portfolio Commentary

The Balanced Portfolio returned +0.7% for the month compared to the All Ordinaries Accumulation Index 1.3%. For the last 5 years the Growth Portfolio has now delivered 14.0% p.a. after fees compared to the All Ordinaries Accumulation Index 8.6%.

Macro

In August, central banks reinforced their commitment to contain inflation by increasing interest rates, despite cooling economic growth data. Uncertainty remained elevated, especially in Europe where the energy crisis intensified. Macro fears rattled both offshore equity and bond markets which came under pressure during the month. The MSCI World Index declined -4.1%, Europe -4.7%, S&P 500 -4.1%. Australia outperformed most markets with a 1.3% increase driven by a better-than-expected earnings season. The only other years with higher volatility to this point were the: The Great Depression, dot-com crash, GFC and COVID crash.

In Australia, reporting season showed a resilient Australian economy and consumer. At the index level, earnings were broadly in line with consensus expectations. The hit rate of company's earnings beating expectations versus missing was weak relative to history, but the average earnings misses were small. While profitability is now under more pressure, there was little evidence of any material weakening in broad-based demand and very few companies reported lower margins.

For now, consumer demand has been more resilient than many feared in the face of higher inflation and rising interest rates. Although, the financial results are backwards looking. It will take longer for rate rises to impact company earnings, especially in more interest sensitive interest rate sensitive sectors such as housing.

Investments

In August, we exited seven holdings. We sold **Tassal Group** at $5.15/sh after the company received a revised takeover offer which we believe reflected fair value. The offer was 38% higher than our initial entry in April 22. We also reduced our high growth exposure and sold our last remaining bank. We now have limited exposure to Australian financials and no direct property exposure.

During the month we added six new positions to the portfolio. Examples of investments we added to include **Woodside Energy, Woolworths Group** and **Telstra Corporation**. All based on reasonable valuations, supportive thematic, and defendable earnings in the current economic environment.

The net result of the investing activity was an increase in the cash level to 28%. We are comfortable with a high cash weighting, which we will look to reduce when compelling opportunities present.

Key contributors in August included **Whitehaven Coal, Altium** and **Life360**.

Our core holding, Altium, delivered a result that beat expectations at both the revenue and margin line. It was a high-quality result and consequently the share price increased +18% in August. The positive surprise was the higher average revenue per user due to a shift towards professional subscribers. This resulted in Altium guiding that their US$500m medium term target can be reached with 20% fewer subscribers than before. We believe that Altium is leading a "winner takes it all" race to develop a global digital electronics design and manufacturing platform. If they are successful, there is still significant upside from the current $4.7b market capitalisation.

Whitehaven Coal delivered a great result as expected, with $3.1bn EBITDA for the year. The stock still trades on an undemanding 2.3x EV/EBITDA and the thematic is improving daily. The share price closed the month at $7.96/sh, up 3.2x on our average entry price of $2.50/sh.

Retailers building inventory was a key theme this reporting season. Many well managed consumer discretionary companies we follow have deliberately built inventory ahead of time as a buffer against supply chain disruptions which remain unpredictable. The market questioned this strategy at a time when consumer demand is at risk of falling. This was a driver of many earnings downgrades in the sector since discounting will be required to clear inventory if demand drops.

An example is plus sized clothing retailer **City Chic** which declined 29% in August following the result. The higher inventory level was the negative surprise. To avoid delays like last year, management have strategically built inventory well ahead of demand. We believe this is prudent but the market fears that management have overestimated demand. The City Chic management team are high quality with significant industry expertise, and we are willing to back their strategy.

Following a busy reporting season of company meetings, we have company site trips, strategy days, and conferences planned over the next few months.

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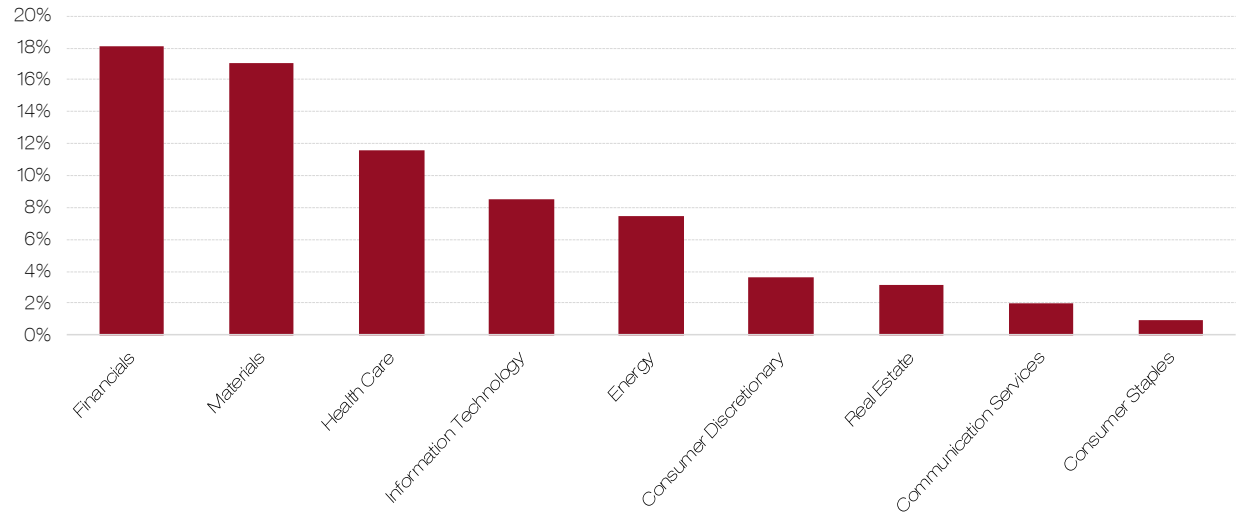
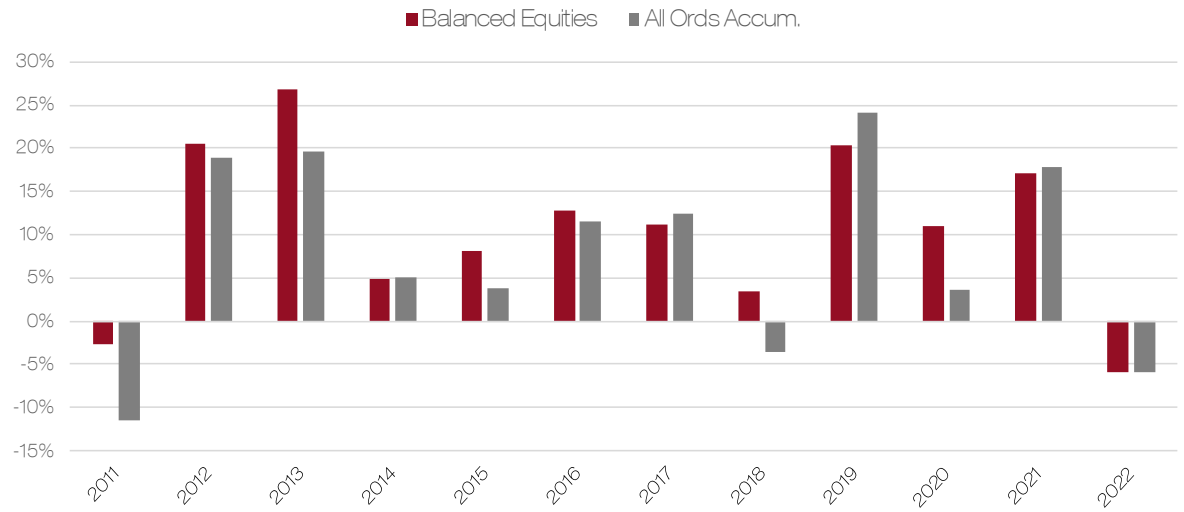
Portfolio Factsheet - August

Industry Exposures



Annual Return Chart



Investment Philosophy

Bottom up, fundamental focused investor with a 3-5 years time frame

Focus on under owned, under researched businesses

Returns can be maximized through fundamental industry and company research combined with active portfolio management

Small cap bias where inefficiencies in the market are the greatest

High conviction concentrated approach allows portfolios to hold only high conviction investment ideas

When investing in companies Endeavor take on the view of being the owner of the business

A concentrated portfolio with a flexible mandate

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