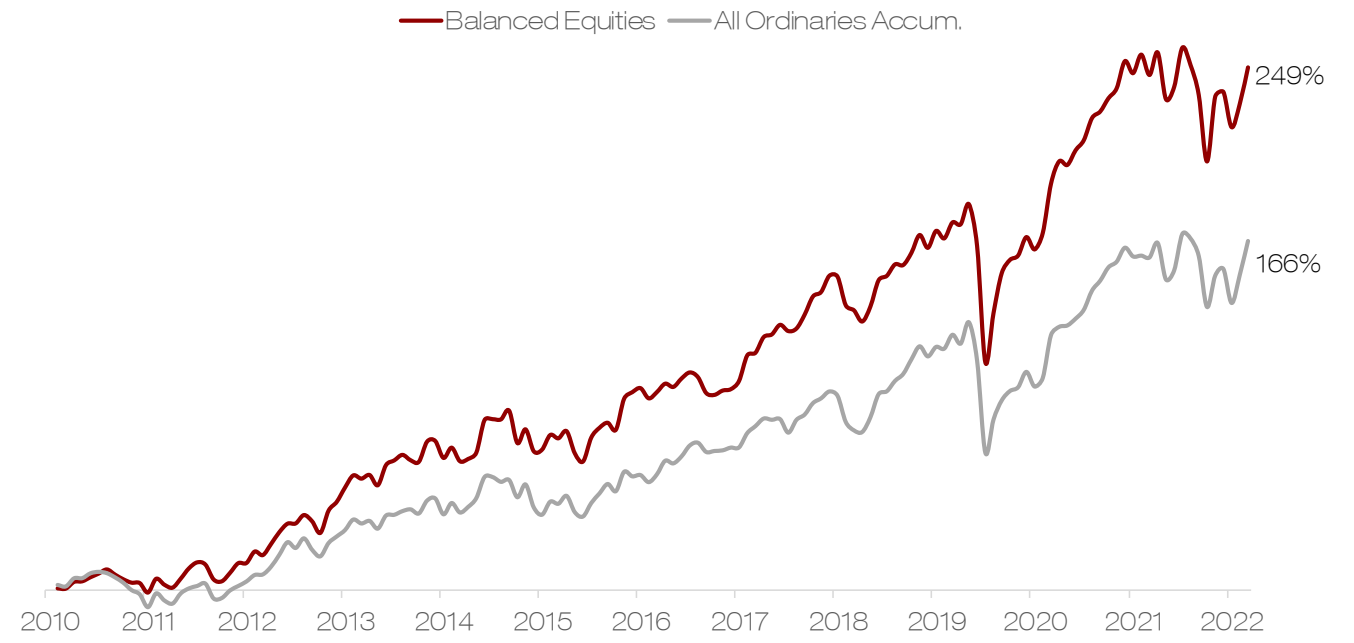
Endeavor Asset Management

Balanced Equities

November 2022

Performance*	Month	Quarter	One Yr	2 Yr pa.	3 Yr pa.	5 Yr pa.	10 Yr pa.	12 Yr pa.	Inception
Balanced Equities	5.2%	3.5%	0.8%	9.0%	8.2%	10.4%	11.6%	10.9%	249%
All Ordinaries Accum.	6.4%	5.3%	3.0%	9.7%	6.3%	8.4%	9.5%	8.4%	166%
Outperformance	-1.2%	-1.8%	-2.2%	-0.6%	1.9%	2.0%	2.0%	2.5%	83%



Top Contibutors

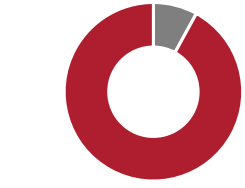
BHP Group Limited
OZ Minerals
CSL Limited

Top Holdings

ASX 200

BHP Group Limited
AMP Limited
Altium Limited
National Aust. Bank
Worley Limited

Cash Weighting



Cash 8% Equities 92%

Bottom Contibutors

City Chic Collective
Xero Ltd
ResMed Inc.

Ex 200

Money3 Corporation
Clover Corporation
Polynovo Limited
Imdex Limited
City Chic Collective

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

Portfolio Commentary

The Balanced Equities portfolio returned 5.2% in November compared to the All Ordinaries Accumulation Index ('the benchmark') +6.4%.

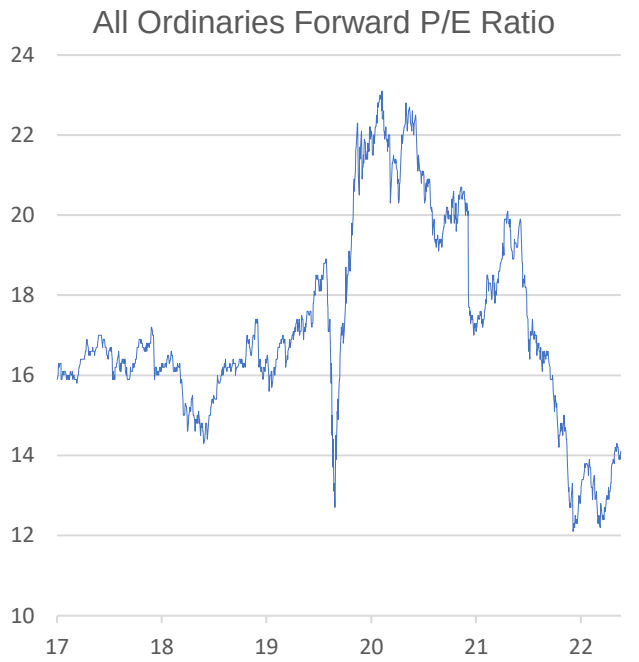
Endeavor now has a twelve-year track record. **Since inception the Balanced Portfolio has returned 249% after fees (10.9% p.a.) compared to the benchmark 166% (8.4% p.a.).**

Macro

Central banks are not done with this hiking cycle. But November gave a clear indication that they were closer to the end. There is no doubt that goods prices are dropping across various sectors around the world. Supply chains are normalising and inflation pressures are easing. Rents have contributed to higher inflation but forward looking indicators show that prices are finally cooling.

We believe that November marked the peak in terms of outsized rate increases and that more normal-sized moves will follow. However, we caution that financial conditions remain tight and the impact of higher interest rates on the economy will be felt in 2023.

The P/E ratio of the ASX has declined from 20x in December 2021, to a low of 12.5x in September 2022, to 15x at the end of November 2022. We do not believe valuations are a risk to the market. The risk is to earnings as lower economic activity will lead to downgrades. We look to avoid these companies that will be under earnings pressure



Contributors and Detractors

BHP was the largest contributor to performance after a 20% increase in November. This was pleasing to see considering we increased our weighting in October following a macro driven sell off. We took minor profits during the month but it remains our largest holding based on a compelling valuation, which should be supported by China reopening in 2023.

OZ Minerals was the second largest contributor to performance after the company received a revised takeover offer from BHP. We exited the position during the month.

CSL Limited, **Computershare** and **Altium** were also in the top five contributors for November.

During the month, **Polynovo** raised capital to increase manufacturing capacity and hire more sales representatives, to help satisfy the growing demand. Following the raise and a period of rapid sales growth, consensus revenue and earnings estimates have increased.

Earlier in the year we reduced our exposure to companies reliant on consumer spend, although one position we held has been a significant detractor this year. In November, **City Chic** management highlighted that weak demand has continued. Whilst an earnings downgrade was widely expected, the margin compression surprised the market. When the need to discount prices to clear excess inventory ends, so may the pressure on earnings and the share price. We have seen this cycle play out with other retailers this year. We now hold a minor exposure to City Chic, and the broader consumer discretionary sector.

Xero and **Resmed** also detracted from performance but the share price movements were macro related with no material changes to the investment cases.

Entries and Exits

In November we added **Wesfarmers** to the portfolio. A key reason for our investment is due to the acquisition of Kidman Resources Lithium Hydroxide asset (Mount Holland) which occurred three years ago. We owned Kidman at the time and know the asset well. On the headline multiple, WES is trading on 22x forward earnings, but at spot Lithium prices the multiple is closer to 6x P/E based on 100k t/p.a. production and 12x P/E based on 50k t/p.a. Although the asset is still several years away from production. Another way to look at it is the spot value of the lithium business equates to $33/sh and the WES share price is currently $48/sh. The lithium earnings are clearly significant, and in our opinion undervalued by the market.

We originally bought **Whitehaven Coal** around $2.40/sh and entirely exited at $10.50/sh in October. In November we added WHC back to the portfolios at $8.50/sh which represented a favourable risk/reward proposition once again. WHC is trading on 1.8x EV/EBIT and a 12% dividend yield which is supported by strong earnings growth. We re-entered with a smaller portfolio weighting than which we exited.

Conclusion

Our investments have a sustainable clear competitive advantage that is imperative for sustaining strong organic earnings growth. We continue to focus on best-in-class investments without being over exposed to any particular sector.

We think most companies in our portfolio are well protected from recessionary induced earnings downgrades given our key focus over many years has been to invest in companies that can grow regardless of the economic cycle.

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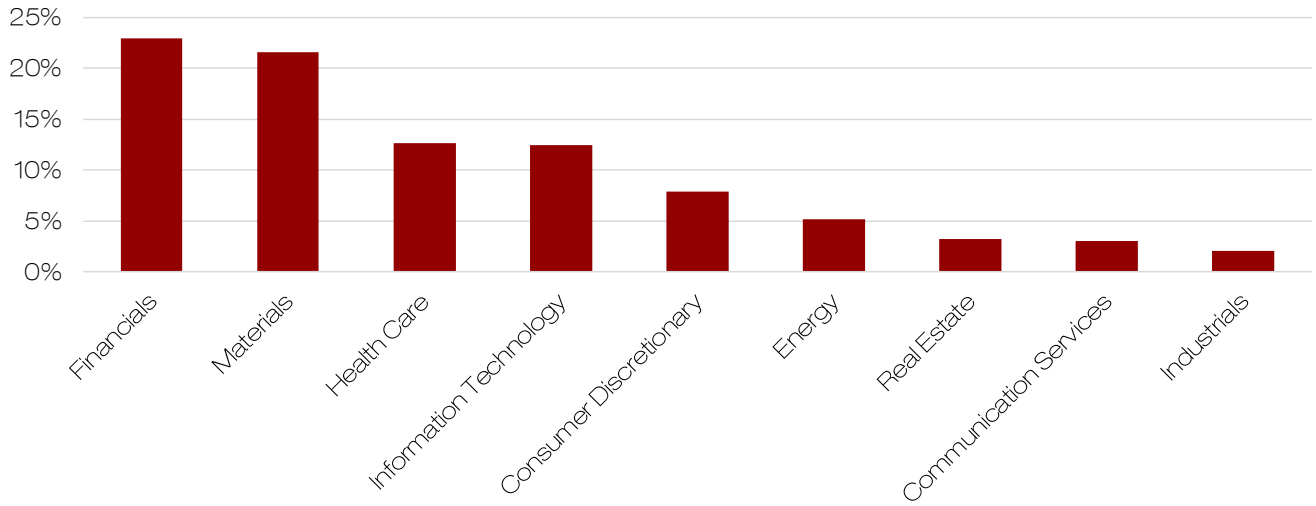
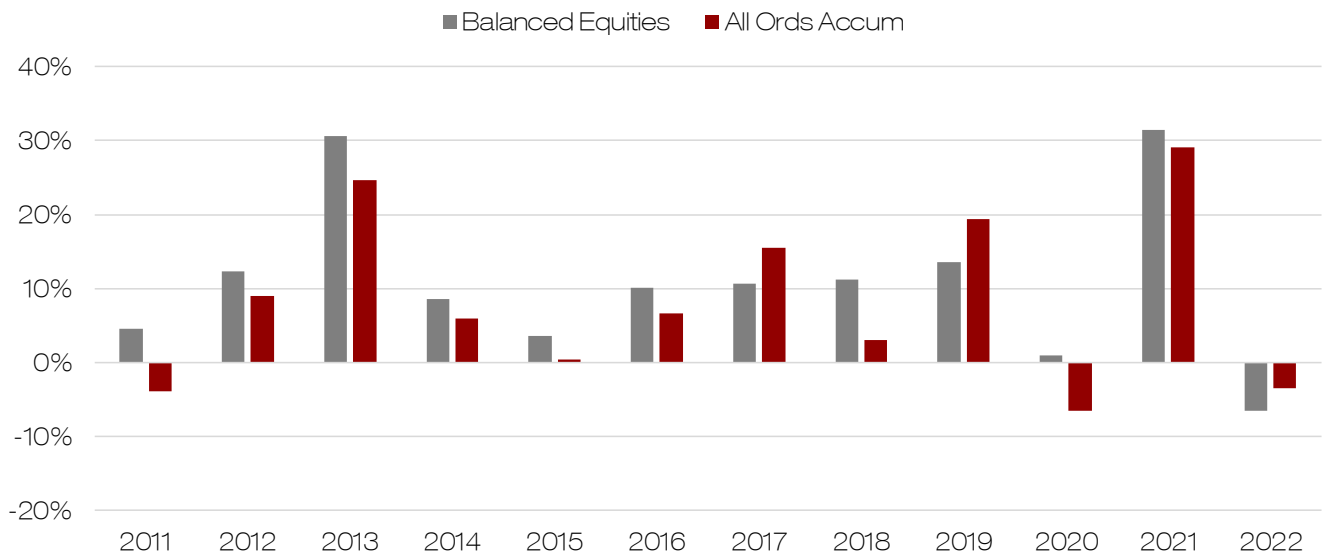
Portfolio Factsheet

Industry Exposures



Annual Return*



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 ideas

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

A concentrated portfolio with a flexible mandate