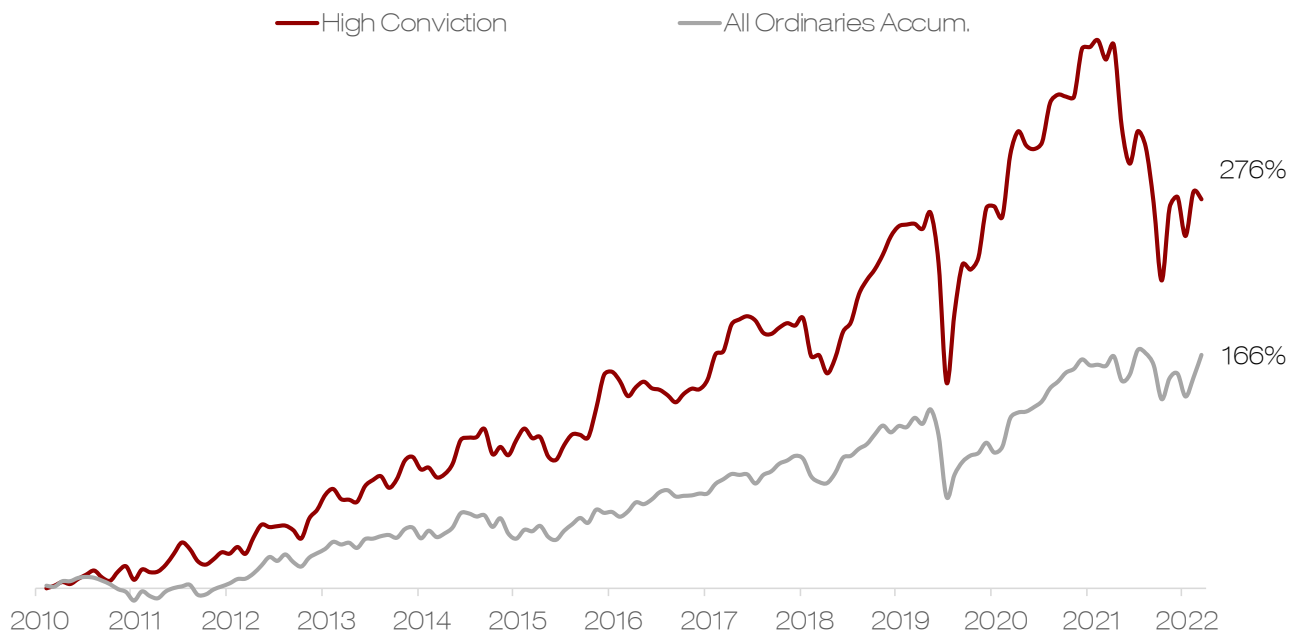
Endeavor Asset Management

High Conviction

November 2022

Performance	Month	Quarter	One Yr	2 Yr pa.	3 Yr pa.	5 Yr pa.	10 Yr pa.	12 Yr pa.	Inception
High Conviction	-1.4%	-0.4%	-20.9%	-4.0%	1.6%	7.0%	11.7%	11.5%	276%
All Ordinaries Accum.	6.4%	5.3%	3.0%	9.7%	6.3%	8.4%	9.5%	8.4%	166%
Outperformance	-7.8%	-5.7%	-23.9%	-13.6%	-4.7%	-1.4%	2.2%	3.1%	110%



Portfolio Factsheet

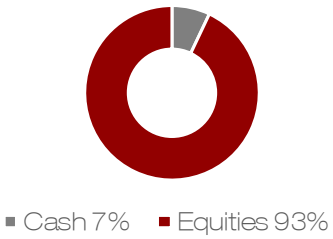
Top Contibutors

Imdex Limited
Immutep Ltd
Webjet Limited

Top Holdings

Imdex Limited
Money3 Corporation
Altium Limited
Wisetech Global Ltd
Block

Cash Weighting



Bottom Contibutors

City Chic Collective
Artrya limited
Universal Biosensors

Portfolio Characteristics

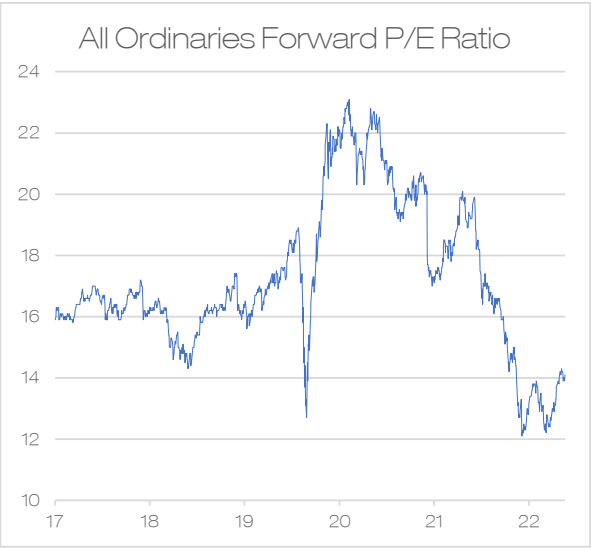
PM: Richard Hamersley
High Risk
Unconstrained in ASX200
Unconstrained in Ex200
20-35 ASX Listed Equities
Unconstrained Cash
All Ords Accum. Benchmark

*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 High Conviction portfolio returned -1.4% in the month of November (net of fees) compared to the All Ordinaries Accumulation Index ('the benchmark') +6.4%. The benchmark was buoyed by a strong rally in the resources sector which the High Conviction portfolio has minor exposure. The Small Industrials Index was +2.6% in November, underperforming the resources and the broader index.

The P/E ratio of the ASX has declined from 18x 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 earnings as lower economic activity will lead to downgrades. We look to avoid these companies that will be under earnings pressure.



Investments

The High Conviction portfolio has been positioned mostly in small cap companies, and this sector has seen the most weakness with the Small Ordinaries Accumulation Index down 18% for the rolling 12 months. Giving us comfort is that the company fundamentals for the majority of investments in the High Conviction portfolio haven't changed. **Valuations and the risk reward proposition of the companies we are positioned in are the most compelling we have seen in years.**

Contributors and Detractors

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.

Notable contributors to the portfolio in November were **Imdex** and **Webjet**. IMD gave a positive market update and a successful defence of an infringement on a core patent. The company has a deep pipeline of innovative products, which we think will be converted into sustained earnings growth and further share price appreciation. Online travel agent Webjet released a strong first earnings result driven by strong market share growth as it emerges as a structural winner from the pandemic.

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.

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. We think this lithium asset is material and under appreciated, since negligible value is ascribed to it by the market.

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 of the companies in our portfolio are well protected from recessionary induced earnings downgrades. The composition of companies and sector exposures in the portfolio hasn't changed significantly this year. We invest for a 3-5 year timeframe and our experience shows that being patient brings reward.

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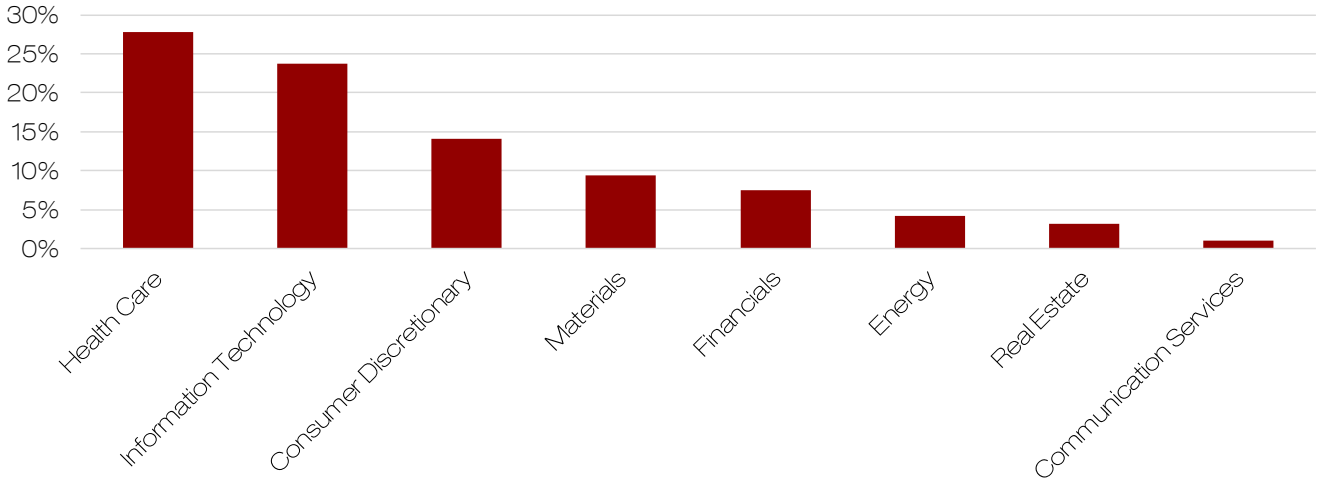
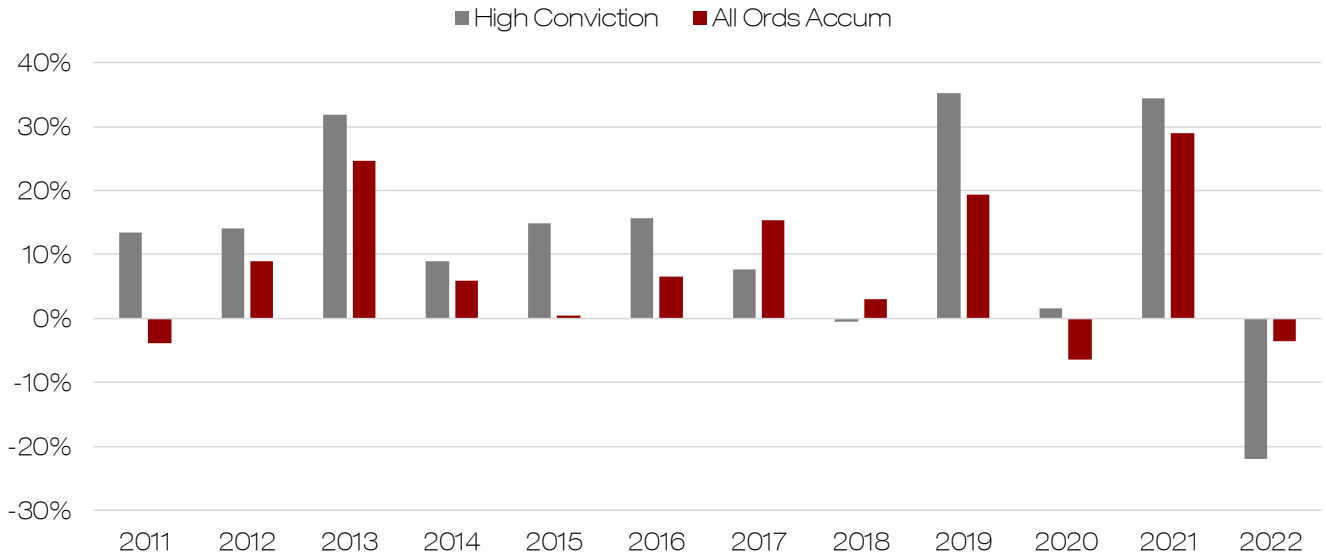
Portfolio Factsheet

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

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