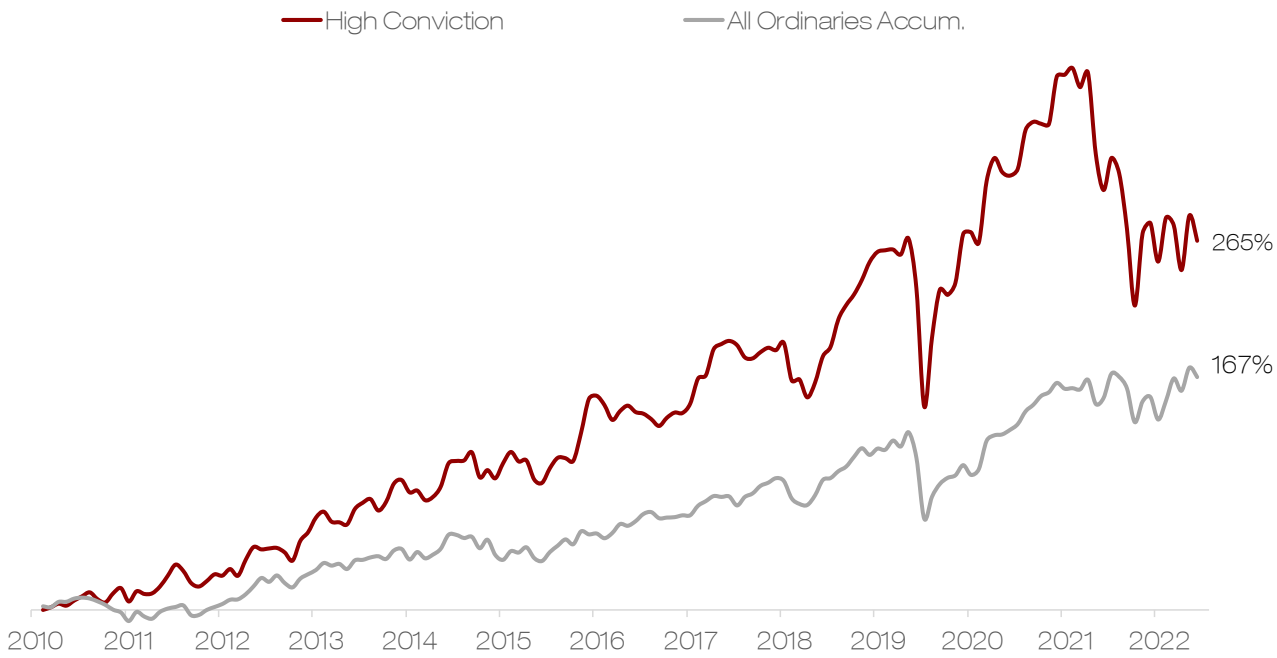
Endeavor Asset Management

High Conviction

February 2023

Performance	Month	Quarter	One Yr	2 Yr pa.	3 Yr pa.	5 Yr pa.	10 Yr pa.	12 Yr pa.	Inception
High Conviction	-4.7%	-3.0%	-9.1%	-5.9%	3.3%	4.5%	9.8%	10.8%	265%
All Ordinaries Accum.	-2.5%	0.4%	6.0%	8.0%	8.5%	8.1%	8.1%	7.9%	167%
Outperformance	-2.2%	-3.3%	-15.0%	-13.8%	-5.2%	-3.6%	1.7%	2.9%	98%



Portfolio Factsheet

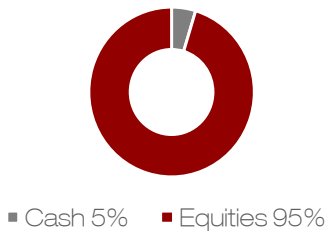
Top Contibutors

Next Science Limited
Wisetech Global Ltd
Stanmore Resources

Top Holdings

Imdex Limited
Solvar Limited
Wisetech Global Ltd
Block
Altium Limited

Cash Weighting



Bottom Contibutors

City Chic Collective
Immutep Ltd
Imdex Limited

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 -4.7% in the month of February (net of fees) compared to the All Ordinaries Accumulation Index which returned -2.5%.

The Small Ordinaries Index declined 3.7% in February, the sector of the market where the High Conviction portfolio is mostly positioned.

The return for the rolling 12 months is -9.1% (net of fees), compared to the benchmark +6%. The FYTD return is +14.6% (net of fees) compared to the benchmark +13.8%.

The portfolio had a cash weighting of 10% at month end and is currently greater than 20% (at time of writing). The cash level arms the portfolio to take advantage of emotional selling during times of panic. We have seen it before during the GFC when the stability of financial system was questioned. The bankruptcy of a regional US bank subsequent to month end may be isolated for now, but the fast pace of rising interest rates is bound to be building pressure elsewhere. We wait patiently, knowing the companies we own are fundamentally immune and the cash we hold can be used to buy opportunistically. We also believe that central banks are likely to soon pause interest rate rises which would support equity valuations.

As mentioned in our previous newsletter, we think future returns will be dictated by earnings direction and company specific value drivers, instead of valuation concerns that dominated market concerns in 2022 as higher interest rates took hold. On this front we see multiple value drivers for companies held in the portfolio in 2023. Furthermore, the positioning of the portfolio in companies that aren't at the mercy of the economy, that is companies that can grow no matter the economic environment, places the portfolio in a strong position. We think most of the companies in our portfolio are well protected from recessionary induced earnings downgrades.

Reporting season for our companies was solid overall. Our core holdings either met or beat earnings expectations. The weakness in the portfolio for the month was partly due to a pullback following a strong prior months' performance coupled with general market weakness. The market rally in the prior month ran out of steam as interest rate expectations rose due to persistently high inflation. The RBA began the month with a more hawkish tone outlining their intention to take rates higher. How much further will depend on how much the Bank focuses on the persistence of inflation compared to the recent data flow showing softer domestic activity and retail spending. More recent data has shown a collapse in lending commitments and building approvals in Australia.

Over the course of 2023 we may see markets shift from recession fears to hawkish central banks and back again based on changes in key economic data points. We remain focussed on our investment process and the fundamental drivers of the companies we invest in.

Key contributors in February were Next Science and Wisetech.

Wisetech posted strong revenue and earnings growth for the first half, and reiterated guidance. Margins continue to expand, led by a continual decline in the % of sales and marketing expense of revenue, a key positive indicator to us that the software is selling itself. It was also announced that Wisetech recently signed up a key new customer; the largest freight forwarded in the world. Wisetech is delivering on becoming the 'system for global logistics'. Of the current 47 customer global rollouts for Wisetech's logistics software system, 11 are with the top 25 global freight forwarders. We think market dominance is inevitable and Wisetech remains a core holding.

Next Science rebounded strongly in February, regaining lost ground in January. As we mentioned in the prior newsletter, it has been a frustrating six months for Next Science with continued delays in the publishing of compelling data that is widely seen as needed to drive stronger sales. We remain patient. The potential earnings and its competitive position has not changed since we initially invested.

A key detractor for the month was biotech Immutep. Immutep declined 18% in February on no fundamental news that warranted the share price fall. All key infection points remain on schedule for 2023. And the balance sheet remains strong to fund itself past these inflection points. We remain patient.

In February we exited Lifestyle Communities. Lifestyle Communities has been a great contributor to the High Conviction portfolio over many years. We decided to exit based on valuation and the looming headwind of rising capitalisation rates that we think the market isn't pricing in.

We continue to focus on ensuring most of our investments have a strong competitive advantage, in a sector with high barriers to entry, with strong organic earnings growth outlooks, that are well managed and trade on what we consider to be compelling valuations. 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.

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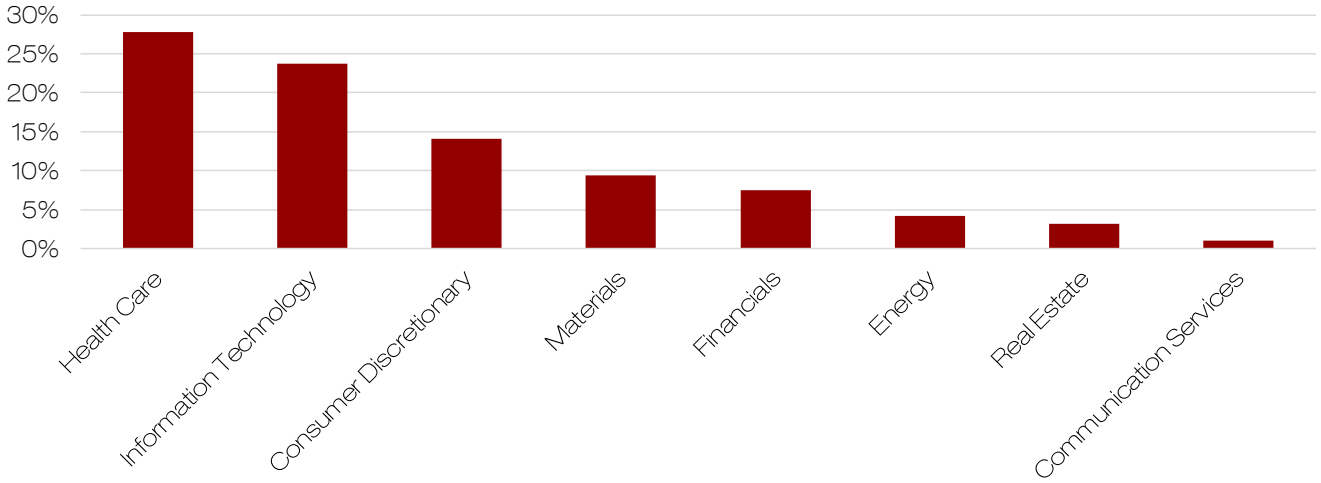
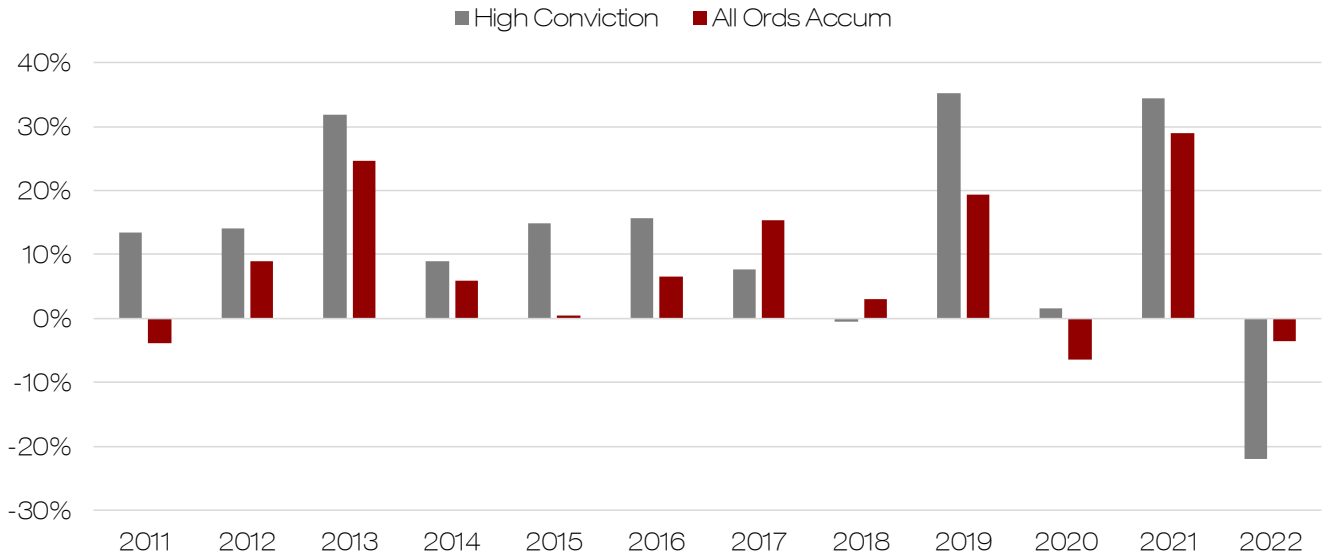
Portfolio Factsheet

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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