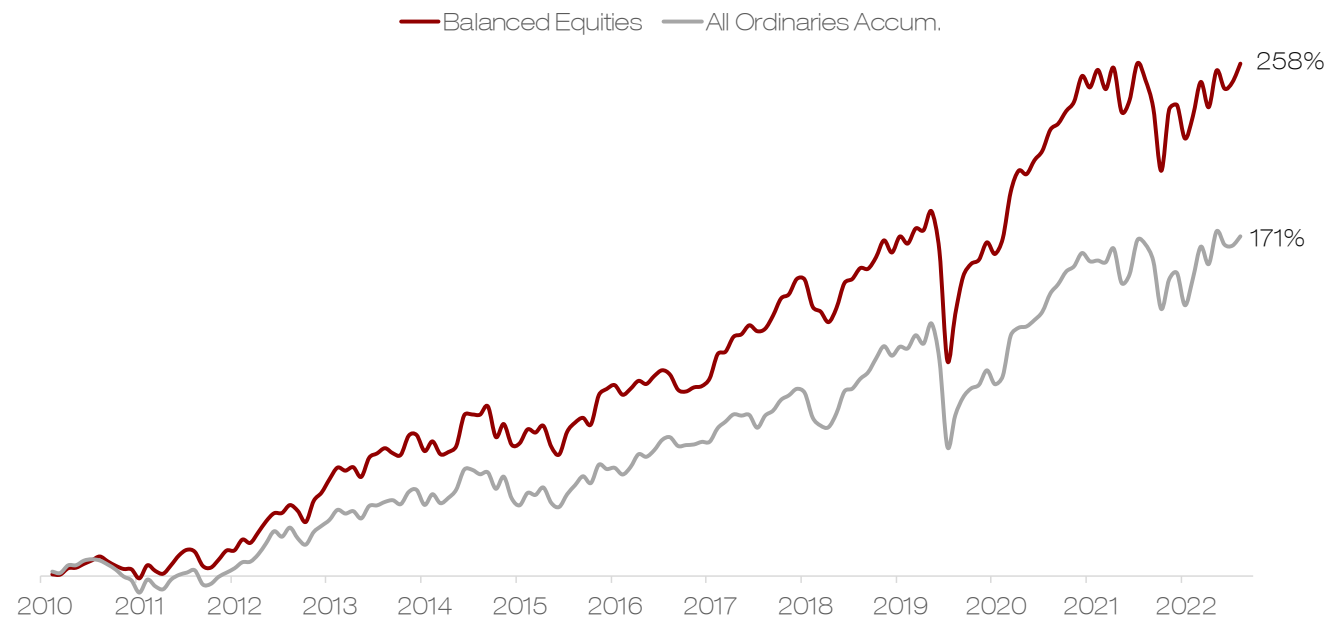
Endeavor Asset Management

# Balanced Equities

April 2023

| Performance* | Month | Quarter | One Yr | 2 Yr pa. | 3 Yr pa. | 5 Yr pa. | 10 Yr pa. | 12 Yr pa. | Inception |
|---|---|---|---|---|---|---|---|---|---|
| Balanced Equities | 2.7% | 1.0% | 2.3% | 5.0% | 15.6% | 9.8% | 10.2% | 10.3% | 258% |
| All Ordinaries Accum. | 1.8% | -0.9% | 1.5% | 5.8% | 14.4% | 8.4% | 8.1% | 8.0% | 171% |
| Outperformance | 0.9% | 1.9% | 0.8% | -0.8% | 1.1% | 1.3% | 2.1% | 2.3% | 87% |




## Top Contibutors

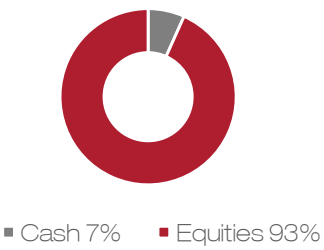
Nanosonics
Newcrest Mining
Reliance Worldwide Corporation
Ora Banda
CSL Limited

## Top Holdings

### ASX 200

BHP Group Limited
CSL Limited
Worley Limited
Wesfarmers
Telstra Corporation.

## Cash Weighting




## Bottom Contibutors

BHP Group Limited
Polynovo Limited
Block
Imdex Limited
Synertec Corp

## Ex 200

Clover Corporation
Polynovo Limited
Solvar Limited
Imdex Limited
Synertec Corp

## 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

In April, the Endeavor Balanced Equities Portfolio returned 2.7% after fees compared to the All Ordinaries Accumulation Index 1.8%.

**This financial year the portfolio is up 17.8%** compared to the benchmark 15.6%. The three year return is 15.6% p.a. compared to the benchmark 14.4%.

The portfolio has returned 258% since inception compared to the benchmark 171%.

## Macro

Australian equities rallied in April on the back of stronger consumer sentiment and what appeared to be a more stable interest rate environment. The RBA paused temporarily and the market priced in rate cuts towards the end of this year. Unemployment remained tight at 3.5%.

Tech and Industrials performed well, while Materials was the outlier weak sector. Small cap stocks outperformed large caps, following a period of significant underperformance.

International markets also rallied following increased confidence that inflation was declining, and positive earnings from mega tech companies. Economic data showed that global growth remained remarkably resilient in the face of higher interest rates. The Purchasing Managers Index in the US, Eurozone, and UK exceeded expectations, and China's first-quarter GDP growth was also stronger than anticipated.

## Portfolio

**We remain defensively positioned with a high cash weighting**. We are predominately positioned in reasonably priced, high-quality industrials. We have capacity to increase our weighting in smaller companies.

We are underweight financials since we believe the big four banks have passed their peak net interest margins, and they are now seeing low growth, increased competition, and housing/recession risks. We are also underweight real estate since the property market will take time to digest higher interest rates.

**We are overweight high-quality companies operating in the health care, energy, technology, and industrial sectors.**

## Entries and Exits

During the month, we were active in managing weightings as part of our normal process. We completely exited one company, The Lottery Corporation (TLC.ASX) due to valuation. We didn't enter into any new positions during the month.

## Contributors and Detractors

In April the main contributors to performance were Nanosonics (+12%), Reliance Worldwide (+11%), Ora Branda (+21%), Newcrest Mining (+8%) and CSL (+4%).

**Nanosonics** closed the month up 12% in April, repeating the 12% gain in March. As a reminder, Nanosonics is an Australian healthcare company specializing in the development and commercialization of infection prevention and control solutions. Their core product, Trophon, is an innovative ultrasound probe disinfection system, which addresses the growing demand for high-level disinfection in healthcare settings. The company has potential for significant growth as it expands it product portfolio and enter new regions.

**Reliance Worldwide**, a global provider of water control systems and plumbing solutions, reported a 10% increase in sales for the nine month period ended March 2023. The share price increased 11%. The company operates through well-established brands like SharkBite, John Guest, and HoldRite, catering to residential and commercial customers across diverse sectors. The sales growth is steady, and earnings growth is expected to be supported by several cost out initiatives which are already underway.

**Ora Banda** closed the month at 14.5c/sh which was a 30% increase on our entry point in the prior month. As we mentioned last month, OBM is a gold turnaround story and we believe that new CEO Luke Creagh, formerly of Northern Star, is the right person to execute the plan.

The bottom detractors to performance were BHP (-6%), SQ2 (-11%), Imdex (-8%), Polynovo (-9%) and Synertec (-7%).

**BHP** faced headwinds during the month mainly due to a sluggish iron ore price. Nevertheless, the company's acquisition of OZ Minerals, a copper producer, marks a significant step in expanding its revenue streams with the promising base metals business, particularly given copper's vital role in the EV revolution.

**Polynovo** pulled back 9% due to concerns around their international growth strategy and overall growth profile. While this may be the case, we understand that sales will always be lumpy and Polynovo has a large opportunity to expand into new jurisdictions.

**Block** declined further this month off the back of commentary we made last month about a short report that was released to the market in March. SQ2 released strong first-quarter results, indicating improved efficiency within the business. Cash App continues to grow robustly, with a 49% increase in the quarter compared to the same period last year and a promising outlook. Across the business, Block achieved reductions in operating expenses, resulting in improved EBITDA.

**Imdex** reported a solid trading update in May, which was overshadowed by Fortescue cancelling their contract to use the Blast Dog tool. The stock declined 8% in April on no news, but possibly due to rumours about the Blast Dog contract. Despite this setback, we believe Imdex's fundamentals remain intact, and the company is well-positioned to benefit from the ongoing demand for mining technology and services.

**Synertec** saw profit taking after the recent rally, and also a pullback due to speculation the company might raise money to support their growth. Following the pullback, they raised $8 million at $0.22 per share, in which we participated. The company faces an exciting commercialisation opportunity for their Powerhouse solar and battery technology. We think the capital raise was logical, since the company needs to order parts in advance to satisfy the expected demand.

## Outlook

We will continue to monitor global economic indicators and policy changes, particularly those related to interest rates and inflation, as these factors have a significant impact on both bond and equity markets.

Our current overweight positions in high-quality companies within the healthcare, energy, technology, and industrial sectors reflect our belief in their long-term growth potential, while our underweight positions serve as a cautious stance amid potential headwinds. **Our goal is to maintain a balance between capitalising on growth opportunities and preserving capital.**

This may include increasing our exposure to smaller companies with strong fundamentals, adjusting our sector allocations based on changing market conditions, and being proactive in managing our cash weighting to ensure optimal risk-adjusted returns for our clients

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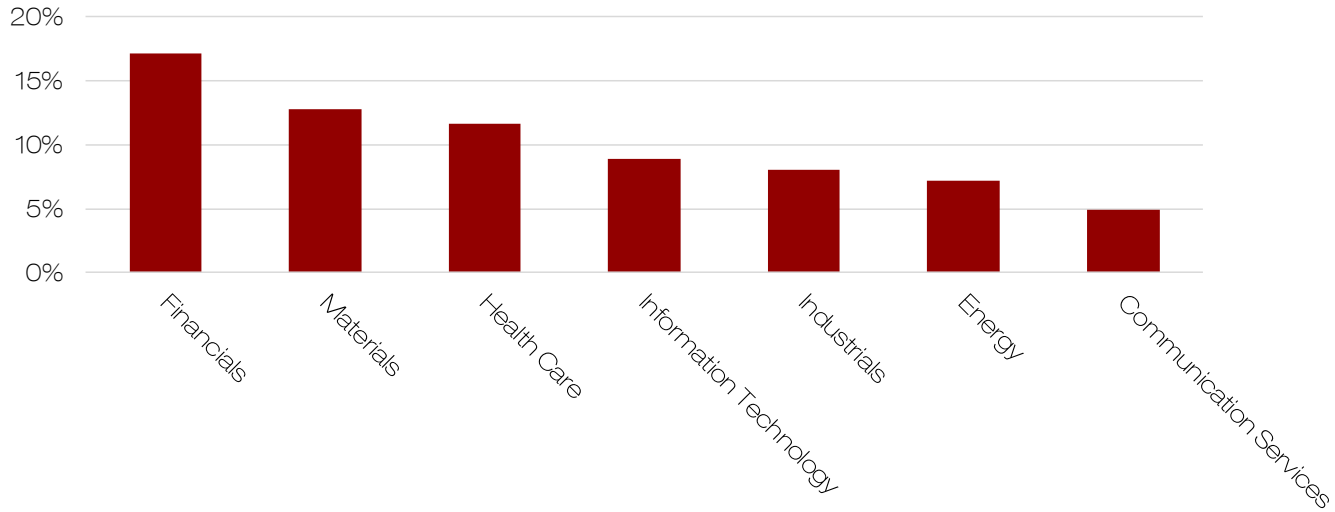
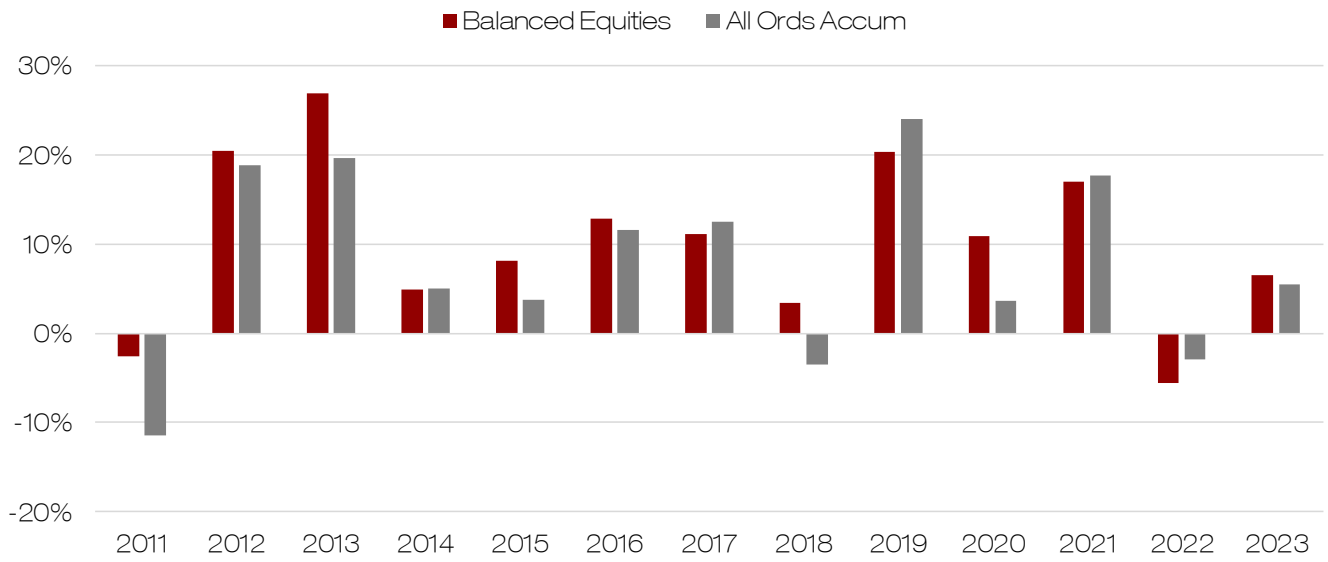
# Portfolio Factsheet

## 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