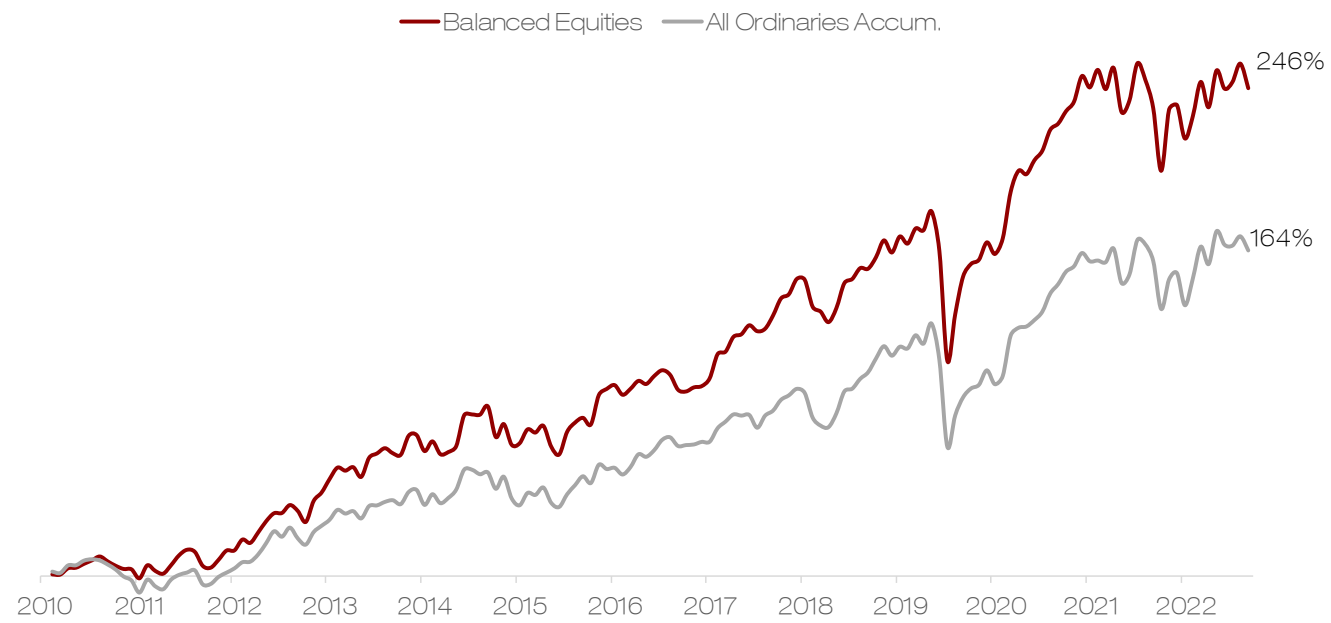
Endeavor Asset Management

Balanced Equities

May 2023

Performance*	Month	Quarter	One Yr	2 Yr pa.	3 Yr pa.	5 Yr pa.	10 Yr pa.	12 Yr pa.	Inception
Balanced Equities	-3.5%	0.1%	3.0%	2.7%	11.3%	8.4%	10.0%	10.2%	246%
All Ordinaries Accum.	-2.6%	-1.1%	2.0%	3.4%	11.6%	7.6%	8.3%	7.9%	164%
Outperformance	-0.8%	1.1%	0.9%	-0.7%	-0.3%	0.8%	1.7%	2.3%	81%



Top Contibutors

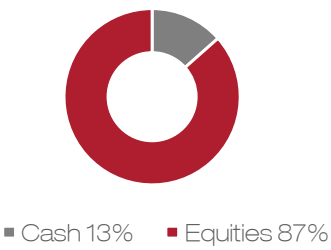
Worley Limited
Xero Ltd
Life360 Inc.
Aurizon Holdings Ltd
CSL Limited

Top Holdings

ASX 200

CSL Limited
Worley Limited
Wesfarmers
Telstra Corporation.
BHP Group Limited

Cash Weighting



Bottom Contibutors

Newcrest Mining
Nanosonics
Solvar Limited
Wesfarmers
Imdex Limited

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

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Portfolio Commentary

The **Balanced Equities Portfolio has returned +13.7% in FY23 so far**. Outperforming the benchmark which is up +12.6%.

For the last five years the portfolio has returned +8.4% p.a. after fees compared to the All Ordinaries Accumulation +7.6% p.a.

The portfolio has returned 246% (10.3% p.a.) since inception compared to the benchmark 164% (8.0% p.a.)

Market and Macro

Generally equities were softer in May, but there was a clear divergence between countries. Mega tech companies continue to drive the United States markets higher, led by optimism surrounding the recent breakthroughs in artificial intelligence technology.

Japan's equity market surged to a 33 year high. Meanwhile slowing Chinese growth impacted European and Australian markets. More recently in June we have seen the Chinese start stimulus measures which is driving resources and global growth expectations higher.

There is an ongoing debate about whether we are entering a recession. Meanwhile equities have already recorded recession like drawdowns over the last 18 months. While we believe a recession is probable, we are now seeing signs that the sell off may have been an overreaction. A lot of share prices are recouping their losses as it now looks more likely that central banks are successfully reducing inflation without impacting the labour market.

We remain optimistic about our investment portfolio generating good returns over the remainder of the calendar year.

Entries and Exits

During the month we entered CSR and Independence Group. We exited Beach Energy, Block, and Reliance Worldwide Corporation. We entered Life360 which quickly rallied to our valuation target.

Contributors and Detractors

In May, the main contributors to performance were Xero (+18%), Worley (+8%) and Life360 (+34%).

Cloud-based accounting software provider **Xero** (XRO.ASX) posted a strong set of FY23 results which saw shares rise 18% during the month. Both Subscribers and average revenue per user (ARPU) beat consensus with the positive momentum expected to continue into the new financial year. New CEO, Sukhinder Cassidy, displayed promising managerial traits ideal for the next phase of growth. She emphasised a focus on free cash flow generation and guided to operating margin expansion. XRO trades a reasonable valuation given its significant sales and profit growth potential, especially if they are successful in the United States.

Energy services specialist **Worley** (WOR.ASX) was a top contributor in May with its share price increasing 8% over the month. The company posted a stream of positive news flow during the month, which included an upbeat investor day and new contract wins. Worley's unique combination of broad service offerings, strong execution track record, and global presence gives it a competitive edge. The company is also well-positioned to benefit from the growing trend towards green energy, which should lead to increased earnings and share price appreciation over time.

Security platform provider **Life360** (360.ASX) was a strong performer during May with shares lifting 34%. The company posted a positive trading update that saw improved profitability come through following an organisational restructure. We have since exited the stock based on a valuation after the quick share price rally. We continue to follow the story, waiting for another compelling entry point.

Portfolio detractors for the month included **Newcrest** (-11%), **Nanosonics** (-12%), **Solvar** (-16%) and **Imdex** (-11%).

Gold producer **Newcrest** (NCM.ASX) declined 11% during the month. The gold price spiked to multi-year highs early in the month, it then declined 5% from its peak to the end of May. This led to a weaker NCM share price. Despite this, Newmont's (NEM) proposed acquisition of Newcrest at a premium took the next step, with the intention now binding. The deal is expected to close in the second half of 2023. NCM remains one of the few senior gold producers that has a long-term growth story based on its current gold and copper resource war chest. The company has a number of high-quality assets, including the Telfer mine in Western Australia and the Cadia Valley mine in New South Wales. NCM is well-positioned to generate strong cash flow and return value to shareholders.

Shares in infection prevention specialists **Nanosonics** (NAN.ASX) declined during May. The market was spooked by the departure of the CFO Grant McGregor, who played a key role in driving the company to profitability. However, we believe that the company still has a strong management team in place, and we are intrigued to meet his replacement. We are also optimistic about the upcoming product release (CORIS), which has the potential to be a significant commercial success. Overall, we believe that Nanosonics is a well-managed company with a bright future. We are confident that the company will be able to weather the recent storm and continue to grow its business.

Imdex (IMD.ASX) was down 11% in May on subdued exploration activity as drilling programs were curtailed by miners to conserve cash, following a more difficult period to raise capital. This could be short lived given the fundamentals of the key commodities that Imdex service remain attractive for exploration, and capital raisings have strengthened more recently. We remain focused on the longer-term opportunity for Imdex, being the global leader in exploration technology and, following the recent Devico acquisition, is well placed to continue to grow market share and expand into new markets. Imdex now trades on a FY24e P/E of 13x, which is 23% below its 5-year average.

The **Wesfarmers** (WES.ASX) investor day was not as upbeat as Worley's, with WES highlighting challenging conditions for consumer-facing businesses. While these conditions are unfavourable for the Bunnings and apparel segments, the potential leverage in the more defensive pharmacies segment is perhaps understated by consensus. We are attracted to the company due to potential value in the lithium division which will start to generate cash flow over the next 12 months.

Outlook

The global economy continues to face a number of headwinds, including rising interest rates, inflation, geopolitical tensions and commercial property pressures. However, we are cautiously optimistic about the future of our investment portfolio.

We believe that the long-term growth drivers of the economy, such as technological innovation, population growth, and rising incomes, are still in place. We are also confident in the ability of the companies in our portfolio to navigate the current economic challenges and continue to grow their businesses.

As a result, we are maintaining our overweight positions in high-quality companies within the healthcare, energy, technology, and industrial sectors. We believe that these companies are well-positioned to weather the current economic storm and emerge stronger on the other side.

We will continue to monitor the global economic environment and make adjustments to our portfolio as needed. However, we believe that the Balanced Equities Portfolio is well-positioned to achieve long-term success.

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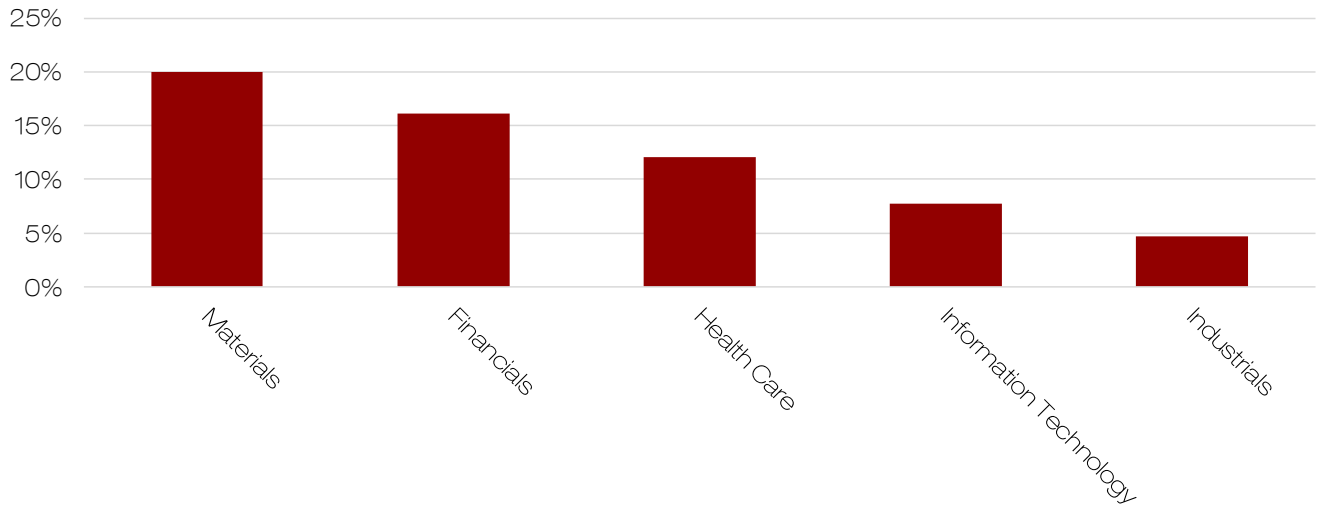
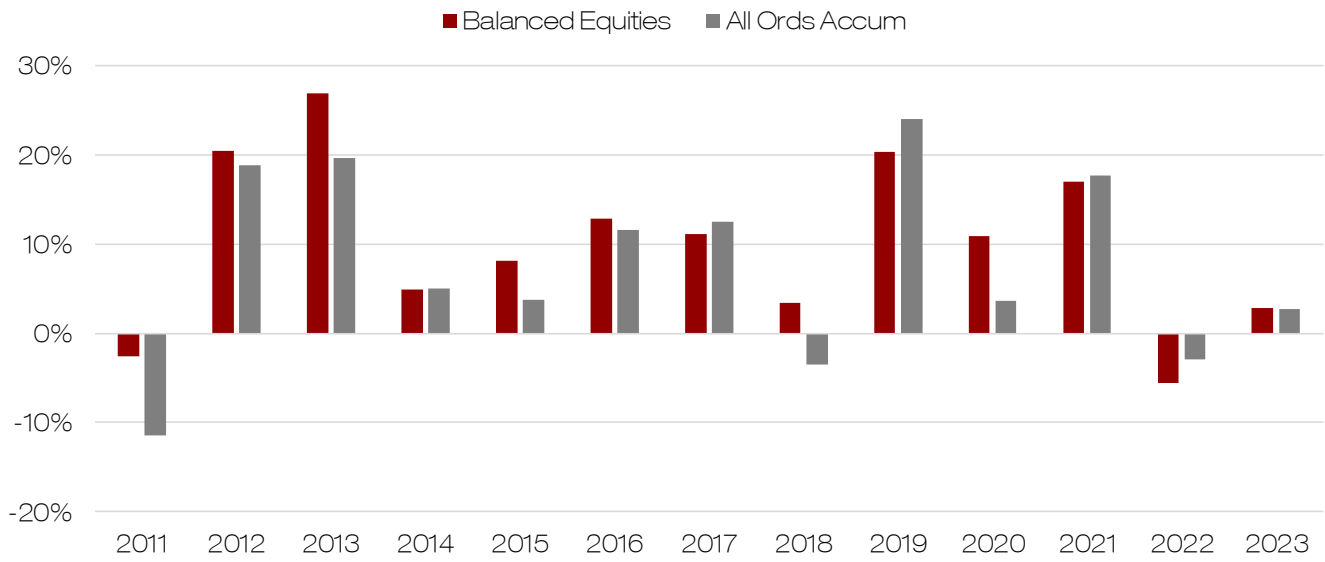
Portfolio Factsheet

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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