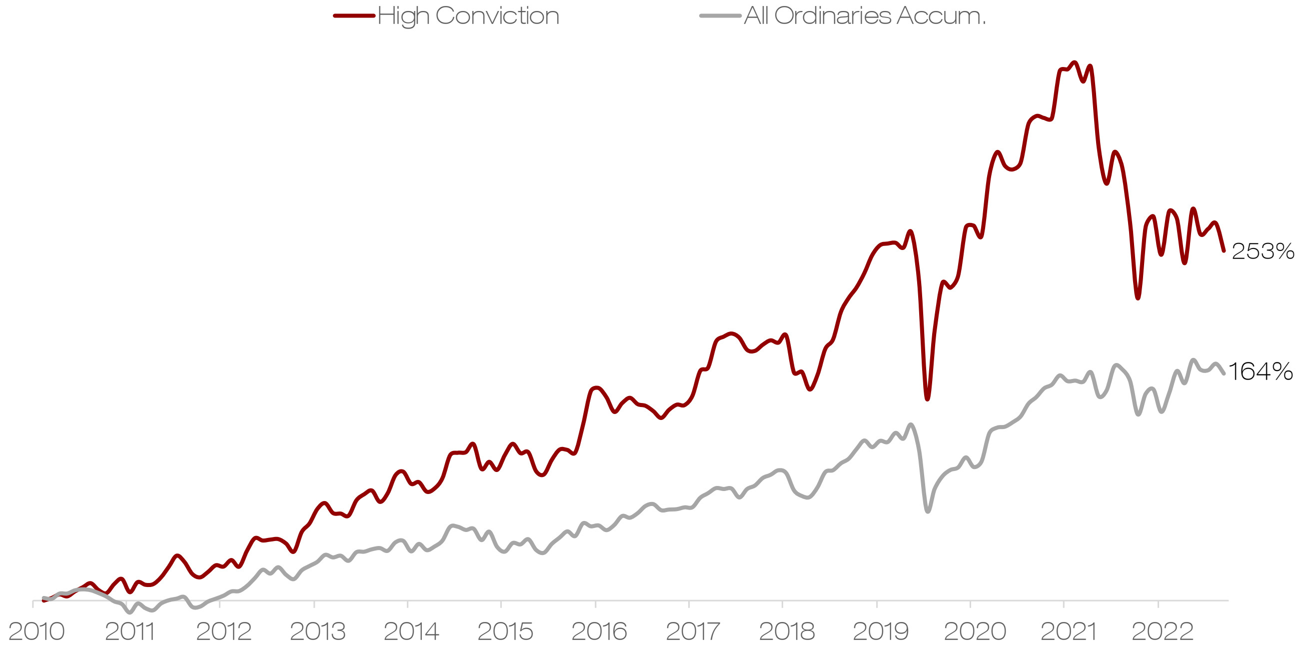
Endeavor Asset Management

High Conviction

May 2023

Performance	Month	Quarter	One Yr	2 Yr pa.	3 Yr pa.	5 Yr pa.	10 Yr pa.	12 Yr pa.	Inception
High Conviction	-5.3%	-3.3%	-5.5%	-11.5%	2.3%	4.7%	9.6%	10.4%	253%
All Ordinaries Accum.	-2.6%	-1.1%	2.0%	3.4%	11.6%	7.6%	8.3%	7.9%	164%
Outperformance	-2.7%	-2.2%	-7.5%	-14.9%	-9.3%	-2.9%	1.3%	2.5%	89%



Portfolio Factsheet

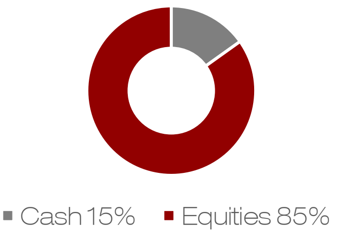
Top Contibutors

Wisetech Global Ltd
Xero Ltd
Pilbara Min Ltd

Top Holdings

Wisetech Global Ltd
Imdex Limited
Solvar Limited
Altium Limited
Symbio Holdings Ltd

Cash Weighting



Bottom Contibutors

Solvar Limited
Lovisa Holdings 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

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Portfolio Commentary

Performance

The Endeavor High Conviction Equities Portfolio returned -5.3% in May (net of fees) compared to the All Ordinaries Accumulation Index (the benchmark) -2.6%.

The financial year to date return is +10.8% (net of fees) compared to the All Ordinaries Accumulation Index +12.6% and the Small Ordinaries Accumulation Index +8.4%. The portfolio has been primarily positioned in smaller companies outside of the ASX100.

The 1 year return is -5.5% (net of fees) compared to the benchmark +2% and the Small Ordinaries Accumulation Index -5.8%. The 3 year return is +2.3% (net of fees) compared to the benchmark +11.6% and the Small Ordinaries Accumulation Index +4.4%.

Market Commentary

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.

Meanwhile slowing Chinese growth impacted European and Australian markets. More recently in June we have seen the Chinese start stimulus measures which are 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. Whilst a recession is probable, we are now seeing signs that the sell off in parts of the equity market may have been an overreaction. It now looks more likely that central banks are successfully reducing inflation without impacting the labour market, which is integral to a soft landing.

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

Portfolio Positioning

We continue to expect challenging times ahead for the consumer with higher living expenses and mortgage costs. We maintain a cautious stance toward companies exposed to lower consumer spending and economic recession.

The portfolio is strategically positioned in companies that can grow independently of the economy, essentially those resilient to recessionary earnings downgrades. We focus on best-in-class companies without overexposure to specific sectors. With a preference for small-cap companies (those outside the ASX100), we find the valuations and risk-reward in this market segment to be the most attractive in years.

Our investment criteria emphasise a sustainable competitive advantage, high barriers to entry, high return on invested capital, strong organic earnings growth prospects, and compelling valuations. We believe these factors are essential for share price performance over time and as long as our investment thesis continues to stack up, fundamentals will prevail.

Contributors

The key contributors in May came from larger capitalised technology companies Wisetech (+9%) and Xero (+18%), both ASX100 companies.

Core holding global logistics software provider **Wisetech** (WTC.ASX) continued to move higher, up 9% in May. Wisetech has been one of our best contributors to the portfolio this year, up 50% so far this calendar year. Our investment criteria of a clear competitive advantage with high barriers to entry in a large addressable market is playing out well with this investment.

Accounting software provider **Xero** (XRO.ASX) rallied 18% in May following a stronger than anticipated earnings and free cash flow result. The new CEO's relentless focus on cost efficiency and free cash flow that was part of the basis to our initial investment thesis is now resulting in an upgrade to earnings expectations and valuation by the market.

Detractors

Detractors were widespread in May with general weakness in the market setting in following the RBA's interest rate hike that came as a surprise to the market. Share prices for some of our investments are being pushed around by the market during times of low liquidity. This can change quite quickly on fundamental news flow which we eagerly await. Fundamentally nothing material has changed with these investments. Weaker 'noise' may impact share prices in the short term but we have faith that the underlying fundamentals will prevail over time.

Notable detractors for the month were Solvar (-16%), Lovisa (-22%), and Imdex (-11%).

Vehicle finance lender **Solvar** (SVR.ASX), previously known as Money3, was down 16% in May. Solvar announced that ASIC alleged it had breached responsible customer lending obligations in relation to five consumer loans written during 2019-2021. ASIC is seeking an improvement in policies and procedures which don't appear overly onerous. Solvar has been a key detractor for the High Conviction portfolio over the past 18 months, as investors shy away on concerns about the potential for rising bad debts in a higher interest rate environment. Ironically Solvar's market position has strengthened in recent times as competitors run into constrained lending capacity. Not so Solvar, which has plenty of financing capacity available. Solvar's current valuation metrics are compelling at a PER of only 7x and an attractive dividend yield of 10% fully franked, a 50% difference to historic trading metrics.

Fast fashion jewellery retailer **Lovisa** (LOV.ASX) was down 22% in May as investors became concerned about the potential impact of a drop in consumer spend. Lovisa is often a target of sellers when Australian consumers get the wobbles, despite history showing that sales are not particularly sensitive to economic conditions. While Lovisa is not immune to the economic cycle, it is somewhat protected by the uniqueness of its offering (fast fashion jewellery), customer (girls / young women) and the low value items. A global store rollout on impressive return on invested capital metrics and ability to keep winning market share keeps our investment case in check.

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.

Outlook

Equity markets have been challenging over the past 18 months in the face of continued pressure on valuations caused by the fastest pace of rising interest rates in decades. The reset in valuations, particularly evident in smaller companies, is creating enticing buying opportunities. We anticipate future returns will predominantly be driven by earnings trends and company-specific value drivers, rather than the valuation concerns that impacted the market when interest rates were charging higher.

Companies that deliver on positive fundamental drivers should be rewarded in this market particularly given that there isn't much optimism priced in at the moment. We look forward to a number of our investments delivering positive fundamental news flow in the near term. We remain committed to our investment process and the fundamental drivers of the companies we invest in.

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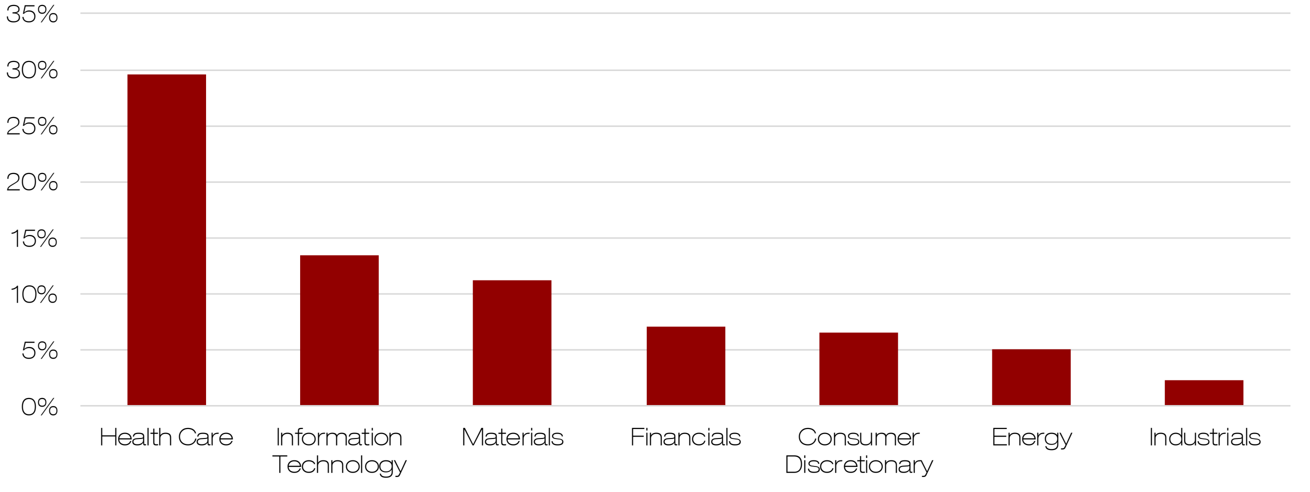
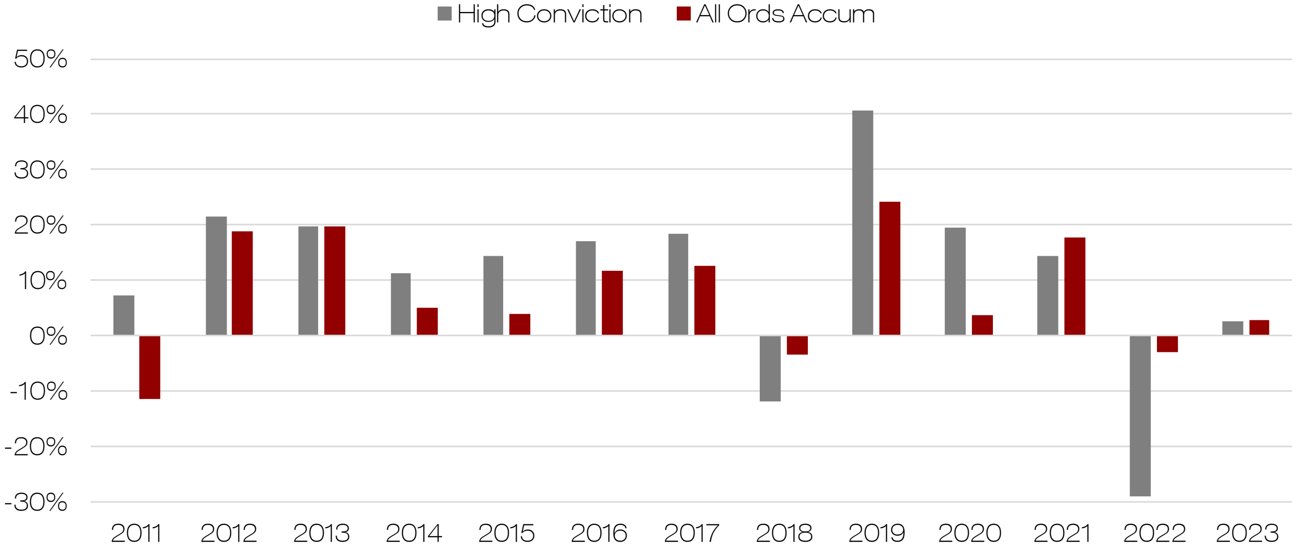
Portfolio Factsheet

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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