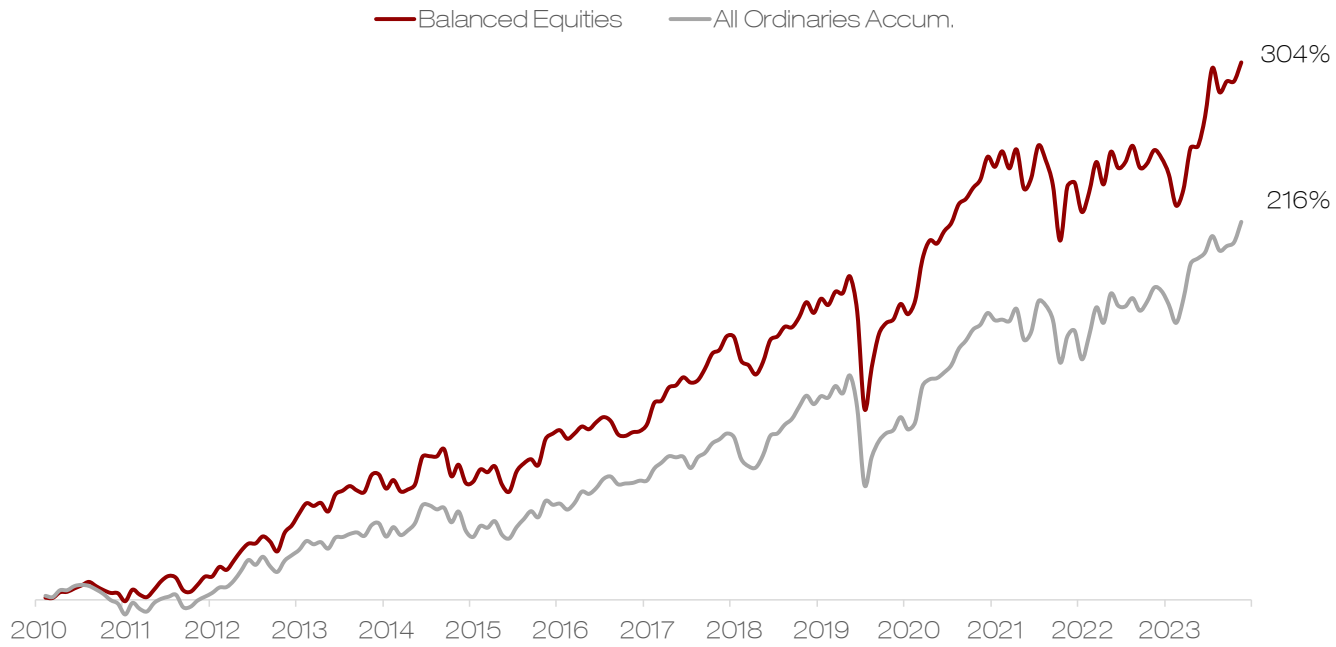
Endeavor Asset Management

Balanced Equities

August 2024

Performance*	Month	Quarter	One Yr	2 Yr pa.	3 Yr pa.	5 Yr pa.	10 Yr pa.	12 Yr pa.	Inception
Balanced Equities	-0.3%	2.4%	15.2%	9.5%	4.7%	9.0%	9.0%	11.2%	304%
All Ordinaries Accum.	0.4%	5.0%	14.7%	11.8%	6.3%	8.4%	8.2%	9.9%	216%
Outperformance	-0.7%	-2.6%	0.4%	-2.3%	-1.6%	0.6%	0.8%	1.3%	88%



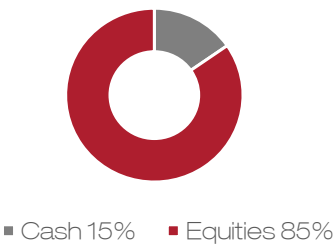
Top Contibutors

Life360 Inc.
Charter Hall Group
ResMed Inc.
Smart Parking Limited
Solvar Limited

Top Holdings ASX 200

BHP Group Limited
CSL Limited
Macquarie Group Ltd
Premier Investments
Worley Limited

Cash Weighting



Bottom Contibutors

EML Payments Ltd
Whitehaven Coal
Polynovo Limited
Neuren Pharmaceut.
Webjet Limited

Ex 200

Smart Parking Limited
Life360 Inc.
Superloop
EML Payments Ltd
Solvar Limited

Portfolio Characteristics

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 ("Portfolio") returned –0.3% in August. compared to the All Ordinaries Accumulation Index's ("the Benchmark") +0.4% gain.

For the last twelve years, the Portfolio has returned 11.2% p.a. after fees, compared to the All Ordinaries Accumulation Index's 9.9% p.a. The Portfolio has returned 304% (10.6% p.a.) since inception, compared to the Benchmark's 216% (8.6% p.a.)

The Market

After increasing 2.7% in July, the Portfolio's -0.3% return in August was primarily due to underperformance in a small group of stocks.

This year's reporting season brought sharp reactions to both positive and negative results. Corporate Australia demonstrated resilience, but profit margins have returned to long-term averages. Inflationary pressures, particularly in wages, continued to challenge profit growth.

Cyclical sectors such as steel, gold, media, energy, and mining struggled, while banks benefitted from widening net interest margins. Despite this, concerns around declining asset quality keep us underweight in banks, especially given their elevated valuations. High quality consumer discretionary companies exceeded expectations in August, demonstrating strong performance.

Entries and Exits

We bought **Charter Hall Group** (CHC) through July in conjunction with one other real estate exposed business. We believed the expectations surrounding the broader property market and in particular, office real estate, were overly pessimistic as interest rates stabilise (and decline in time). CHC presented a very strong – triple positive result – FY24 EPS above guidance and consensus, upgraded FY25 DPS guidance and better than expected FY25 EPS guidance of circa 79cps (implies ~4.2% growth YoY). The share price increased 14.3% in August off the back of the result and the possibility of CHC being included in the EPRA NAREIT Index, we sold into this short-term share price boost. We continue to monitor the valuation closely and may look to re-enter at a more compelling valuation.

We entered **Premier Investments** (PMV), a well managed fashion retailer conglomerate chaired by successful Australian businessman Solomon Lew. During reporting season, results from JB Hi-Fi, Universal Stores, Breville, Myer highlighted the gap between the low expectations of the market and reality, that was not as bad as feared. PMV has one the best management teams on the ASX and is our preferred retail exposure.

We also exited **Imdex** over the previous two months due to a stretched valuation caused by the weakening commodities outlook.

The Balanced Portfolio holds a 9.3% cash level at the end of August 2024 (down 6.1% from July 2024).

The Portfolio

Our top contributors were 360, CHC, RMD, SPZ and SVR. Our bottom contributors were EML, WHC, PNV, NEU and WEB.

Parking technologies company **Smart Parking** (SPZ) reported a strong set of FY24 results highlighted by an impressive 28% growth in underlying EBITDA, which drove an 8% rise in its share price over the month. The company added more than 300 parking sites throughout the year, with contributions from all key regions. Following the release, we met with management to dig into the FY25 outlook. We expect the continuation of key themes, including profitable growth and disciplined site expansion into new regions. We increased our weighting in SPZ, making it the top ex-200 holding in the Balanced Portfolio, reflecting our confidence in the company's high growth potential. SPZ is trading at an FY25e EV/EBITDA of 11x, with profit expected to grow by approximately 30% per annum through to FY28e.

Medical equipment company **ResMed Inc** (RMD) saw its share price increase by 10% following a result that delivered an expanded gross margin of 3.3% YoY to 59.1% due to cost optimisation, scale benefits and favourable product sales mix. Expectations are for the gross margin to improve towards 60% in FY25. Management aspires to become a digital health business that can leverage its data analytics on consumer wearables and big pharmaceutical weight-loss drug trends. We expect the earnings multiple to expand further as the market's concern around GLP-1 anti-obesity drugs continues to reduce (e.g. from the current FY25 P/E ratio of 25x to the ~30x average over the last 5 years).

Technology company **Life360** (360) increased 16% in August. The quarterly earnings revealed 20% annual growth in revenue and an expanding user base for the company's location-sharing safety app. As of the end of June, Life360 had 71 million monthly active users, $340 million in annualised revenue (Q2), and 13% EBITDA margins. The company's ambitious goals point to significant growth ahead, with targets of over 150 million monthly active users, more than $1 billion in revenue, and EBITDA margins exceeding 25%. Compared to FY24 consensus EBITDA, the target implies over 580% growth in EBITDA.

EML Payments (EML) pulled their forward-looking guidance at their FY24 result which had the share price on the result's day and in the following days (EML's share price was down 25% in August). The management have stated that they will reissue guidance and a more refined 'go-forward' strategy, at their AGM, following the completion of their restructuring and asset sales. We took advantage of a large sale transaction from a shareholder that we believe is closing their fund. Although residual selling and 'churn' might keep a lid on the share price until EML's AGM, we expect this to act as a catalyst to reset the market's expectations.

After a 31% rise over the three months to the end of July, wound care company **Polynovo** (PNV) took a breather with shares declining 13% in August. Polynovo confirmed its pre-released FY24 revenue performance, and the outlook pointed to continued business growth. Following the results, we spoke with management, who highlighted early success with product price increases and positive progress across the company's broad product pipeline. With competitor Integra temporarily out of the market, we expect FY25 to be another strong year for Polynovo.

Outlook

As we move into September, economic data continues to signal a softer global economy. While the RBA is holding firm on rates, we anticipate they may follow global trends and ease monetary policy if the labour market softens further.

We remain vigilant, focusing on high quality companies with strong fundamentals and resilient management teams. This approach keeps us optimistic about returns in the short, medium, and long term, even amid potential volatility.

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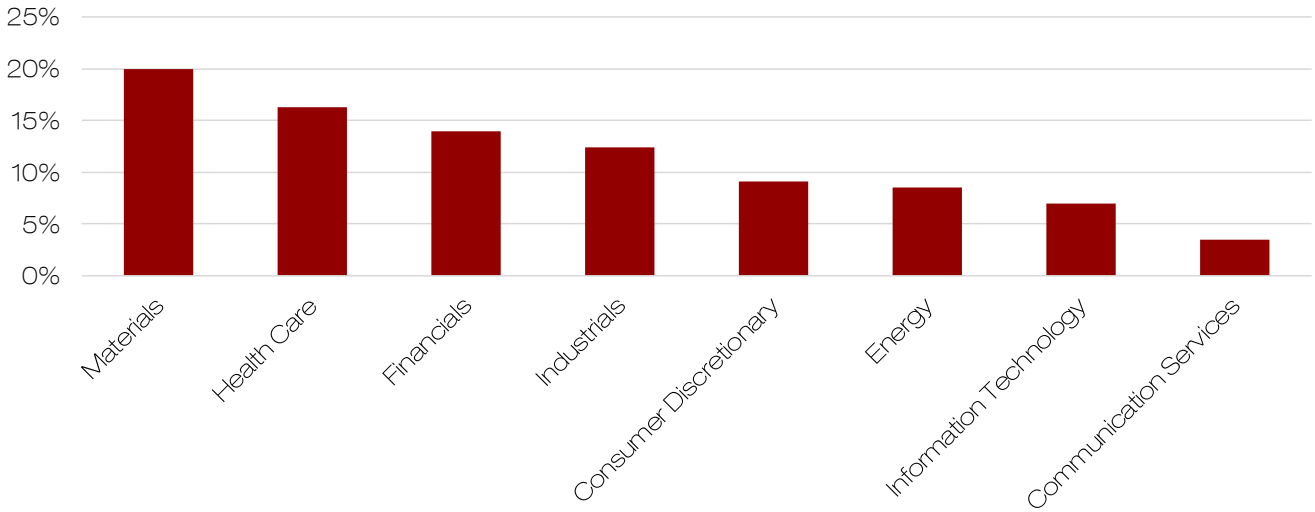
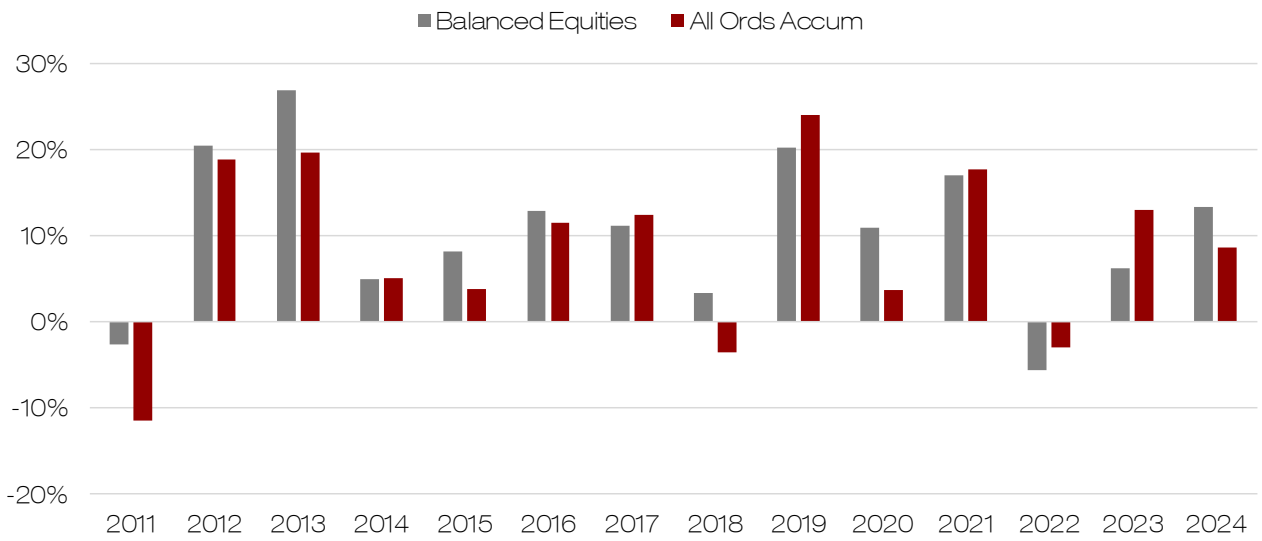
Portfolio Factsheet

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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