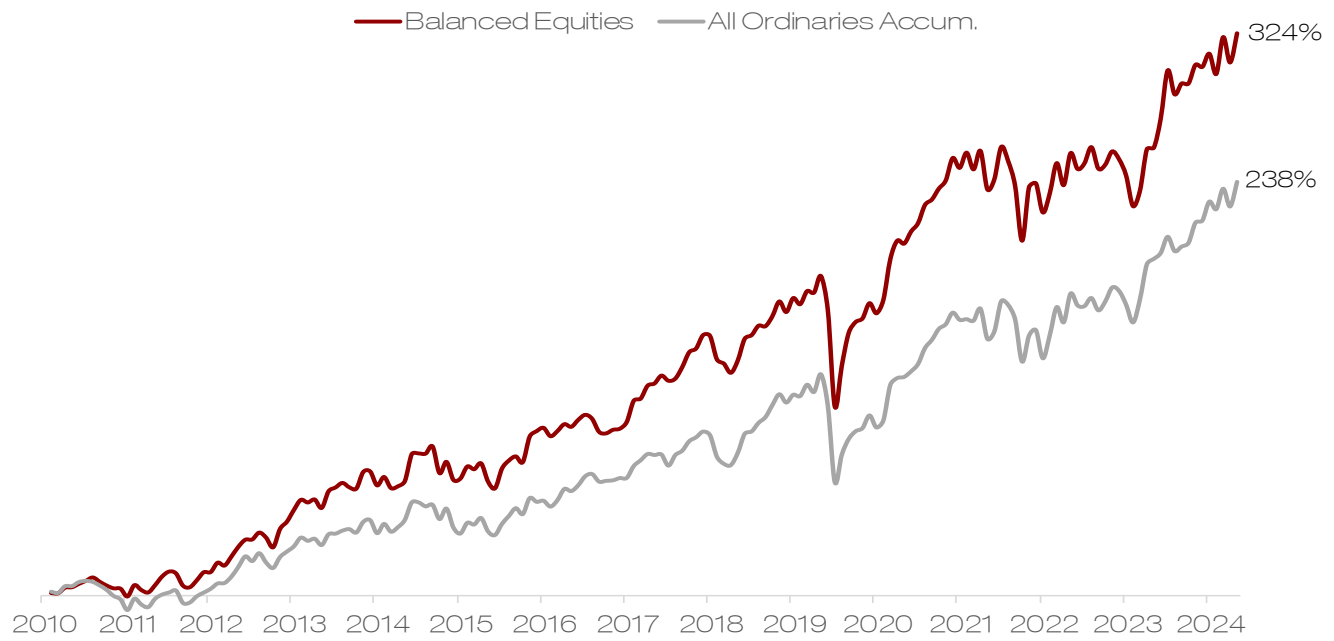
Endeavor Asset Management

# Balanced Equities

January 2025

| Performance* | Month | Quarter | 1 Yr | 3 Yr pa. | 5 Yr pa. | 10 Yr pa. | 14 Yr pa. | Inception |
|---|---|---|---|---|---|---|---|---|
| Balanced Equities | 4.2% | 5.9% | 18.5% | 8.3% | 8.4% | 9.9% | 10.5% | 324% |
| All Ordinaries Accum. | 4.4% | 4.9% | 15.1% | 10.9% | 8.3% | 8.9% | 8.9% | 238% |
| Outperformance | -0.2% | 1.0% | 3.4% | -2.6% | 0.1% | 0.9% | 1.6% | 86% |



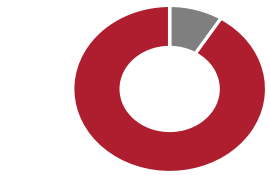

## Top Contibutors

Austal Ltd
Life360 Inc
Newmont Corporation
Webjet Ltd
Macquarie Group Ltd

## Top Holdings ASX 200

BHP Group Ltd
Block
Worley Ltd
Macquarie Group Ltd
Xero Ltd

## Cash Weighting



Cash 9%  Equities 91%

## Bottom Contibutors

Premier Investments
Telstra Corporation
Myer Holdings Limited
EML Payments Ltd
Yancoal Australia Ltd

## Ex 200

Life360 Inc
Smart Parking Ltd
EML Payments Ltd
Superloop
Austal Ltd

## Portfolio Characteristics

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. Past performance is not an indicator of future performance.

# Portfolio Commentary

## Performance Summary

The Balanced Equities Portfolio returned +4.2% after fees in January 2025 compared to the ASX All Ordinaries Accumulation Index's) return of +4.4%. Over the past 12 months, the Balanced Equities Portfolio has returned +18.5% compared to the ASX All Ordinaries Accumulation Index's return of +15.1%. The portfolio has returned +324% (+10.6%) after fees since inception compared to the ASX All Ordinaries Accumulation Index's return of +238% (+8.9%).

## Market Overview

Markets kicked off the year with plenty of action as political and economic shifts drove investor sentiment. In the United States, the inauguration of President Trump ushered in a pro business agenda focused on growth and deregulation. Optimism is growing as companies expand operations, leading to productivity gains and improved margins. However, late month tariffs on Canada, Mexico, and China introduced some uncertainty despite initial relief over trade policy.

Central banks continue to follow different paths as they balance inflation and growth. The United States Federal Reserve held rates steady, signaling a patient yet hawkish stance. In contrast, the European Central Bank and Bank of Canada eased policy to support slowing economies. Here in Australia, cooling inflation has fuelled expectations for a Reserve Bank of Australia rate cut, though timing remains uncertain.

Domestically, mixed signals emerge from consumer spending trends and a stabilised housing market; retail spending was strong in November due to heavy discounting, but a pullback is expected in December. We continue to monitor how these factors could impact sectors within our portfolio.

## Top Contributors: ASB, 360, NEM, WEB and MQG

**Life360** (360) had a strong month in January, helped by an upgrade from UBS to a Buy. The upgrade was driven by faster than expected growth in advertising revenue and strong user trends. Early estimates suggest that expanding into video, carousel, and off site advertising could deliver an additional 5 to 25 per cent upside in revenue by 2028.

Advertiser checks indicate that incremental operating margins could improve by up to 10 percentage points over the next few years. Management is targeting ad monetisation levels similar to those seen in companies such as Pinterest and Snap, potentially increasing ad revenue to more than six times current levels. We expect earnings to accelerate further, supported by an anticipated forward EPS growth rate in the region of 15 to 20 per cent.

Global B2B travel business, **Web Travel Group** (WEB) was up +11.3% in January on the back of a more resilient international travel market than expected. Overseas peers reported healthy underlying trends in geographies such as Europe and stable booking trends in the USA (previously expected to be a YoY decline). We recently increased our position in early January as we saw early signs of these improving conditions. We expect this trend to continue and are confident of WEB making progress on achieving its 50% segment EBITDA margin target. Additionally, the second largest web beds competitor is due to IPO in Spain in mid-Feb which we believe will bring more interest in WEB given the peer is expected to list on multiples that are in line with WEB despite WEB growing faster, at a better margin and no debt.

Defence ship-builder **Austal** (ASB) rallied 24%. Our investment in Austal dates back to September last year, following the announcement of a significant US$450 million contract from General Dynamics. This contract is set to fund the construction of a facility dedicated to producing submarine modules, a critical step in accelerating production cadence. Notably, this agreement effectively grants Austal substantial infrastructure funding from the U.S. government, enhancing its long-term operational capacity. Following this announcement, Austal's market capitalization rose by approximately $200 million, reaching $1 billion, a move we viewed as undervaluing the impact of the contract. The contract equates to an A$670 million infrastructure windfall, alongside a tangible boost to production capabilities. Recognising this opportunity, we initiated a position at $2.84 per share.

The U.S. Navy and other defence agencies are currently grappling with shipbuilding constraints, particularly in submarine production, which remains behind schedule. U.S. regulations prohibit the construction of military vessels overseas, placing greater reliance on domestic shipbuilders such as Huntington Ingalls, Austal, and General Dynamics Electric Boat. These firms are poised to benefit as the U.S. government prioritises increased naval production capacity. The demand for an accelerated shipbuilding cadence has been well demonstrated, and we foresee a scenario in which Austal benefits from sustained order growth, stronger revenue, and expanding margins. This shift should drive a meaningful uplift in earnings, leading to a potential re-rating of ASB shares as earnings quality improves. Currently, Austal is trading at 15x consensus FY26 EBIT and shares are up 35% since our initial investment.

## Bottom Contributors: PMV, TLS, EML and YAL

**Premier Investments** (PMV) declined in January after issuing its first half FY25 guidance, with mid-point revenue forecast at approximately $860 million - a 2.2 per cent decline year on year. Despite an anticipated 20% drop in earnings to $160-$165 million, the underlying strength of the portfolio is clear, particularly in the standout performance of Peter Alexander.

The current challenges at Smiggle, PMV's highest margin business, present an opportunity for a turnaround that we believe can be unlocked through strategic leadership changes. Recent structural adjustments – granting greater operational independence to both Peter Alexander and Smiggle while integrating lower-margin apparel brands with Myer, along with the distribution of Myer shares to shareholders – reinforce PMV's focus on streamlining operations and enhancing shareholder value.

At a 15x P/E multiple, we remain confident in PMV's long term prospects, with Peter Alexander's robust growth trajectory and the market's low expectations for a Smiggle recovery presenting compelling potential upside for investors.

## Significant Entries: SDR

We began buying a new high quality technology business in January named **SiteMinder** (SDR). SDR is a hotel technology company that services ~44,500 properties in over 150 countries. SDR operates two hotel management platforms within the hotel/accommodation market, the first one is targeted at small hotel operators of less than 20 rooms, whilst the second platform is target at medium-large hotel operators with more than 20 rooms. The core of SDR's technology platform enables hotel operators to manage rooms, rates and room availability across more than 400 booking channels (e.g. Booking.com, Flight Centre, wholesalers, etc). Additionally, SDR has complimented its core hotel management software with offerings such as a hotel website builder, intelligence and performance reporting, payments capabilities and a white-label booking engine.

We believe the total addressable market for SDR is greater than 1 million properties globally, meaning that SDR is still significantly underpenetrated in its core market (~4%). This leads us to believe that with SDR's track record, innovative product suite and addressable market, the business can deliver greater than 20% revenue CAGR through to FY29. Beginning in FY26, we believe that a lot of this revenue growth from the core and ancillary offering, will begin to drop down to NPAT as the business generates attractive incremental operating margins of 40-50%, which will culminate in attractive FCF.

## Outlook

The upcoming half year results in February will provide key insights into how companies have been performing. With inflation trends, interest rate expectations, and geopolitical developments shaping sentiment, investors will be looking for clarity on earnings resilience and forward guidance.

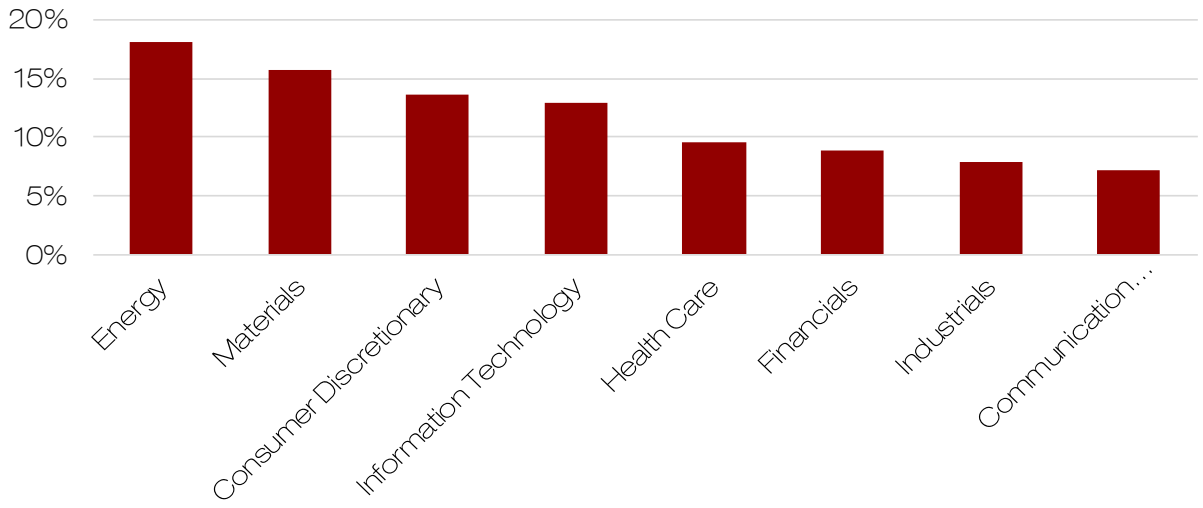
While economic conditions remain mixed, corporate performance has been strong in many sectors, particularly those quality companies benefiting from structural growth trends. However, markets will continue to face unexpected challenges, whether from policy shifts, supply chain disruptions, or global economic uncertainty. We continue to focus on companies with strong fundamentals and pricing power which should be best positioned to weather volatility and capitalise on opportunities.

As always, we remain focused on high quality businesses with strong competitive advantages, solid balance sheets, and compelling growth potential. The broader macro backdrop will continue to evolve, but our disciplined investment approach ensures we are well positioned to navigate uncertainty and deliver strong long term returns.

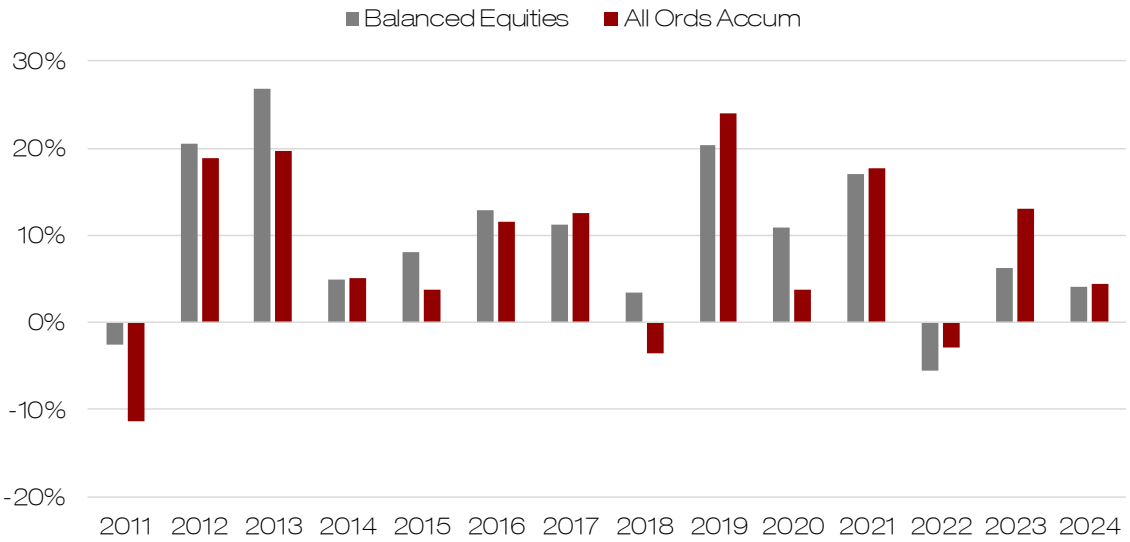
*Note: Performance of the strategy group is representative of individual client portfolios, although performance can differ due to inherent differences between clients' portfolios such as initial entry timing, legacy holdings or requested stock exclusions. Performance measured is after fees, taxes and franking credits. Monthly performance figures include an accrual for fees charged quarterly. Top holdings and contributors are listed in alphabetical order. Past performance is not an indicator of future performance.

# 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

*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. Past performance is not an indicator of future performance.