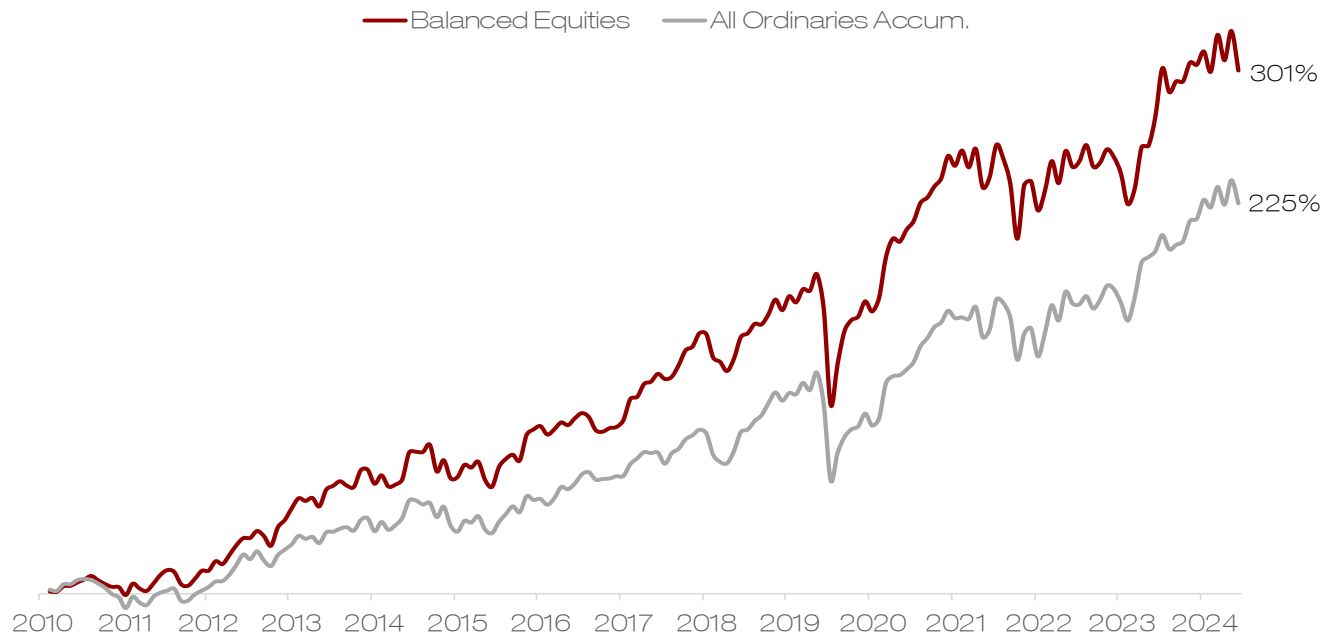
Endeavor Asset Management

Balanced Equities

February 2025

Performance*	Month	Quarter	1 Yr	3 Yr pa.	5 Yr pa.	10 Yr pa.	14 Yr pa.	Inception
Balanced Equities	-5.4%	-4.9%	7.0%	5.7%	8.7%	8.3%	10.0%	301%
All Ordinaries Accum.	-4.0%	-2.8%	9.3%	8.8%	9.2%	7.8%	8.9%	225%
Outperformance	-1.4%	-2.1%	-2.2%	-3.1%	-0.5%	0.5%	1.0%	76%



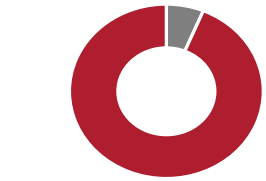
Top Contibutors

Light & Wonder Inc
EML Payments Ltd
Telstra Corporation
Worley Ltd
Austal Ltd

Top Holdings ASX 200

BHP Group Ltd
Light & Wonder Inc
Worley Ltd
Macquarie Group Ltd
Webjet Ltd

Cash Weighting



Cash 6% Equities 94%

Bottom Contibutors

Appen Limited
Block
Siteminder Ltd
Fortescue Metals Group Ltd
Magellan Financial Group Limited

Ex 200

Life360 Inc
Smart Parking Ltd
EML Payments Ltd
Superloop
Solvar Ltd

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

Performance Summary

The Balanced Equities Portfolio returned -5.4% after fees in February 2025 compared to the ASX All Ordinaries Accumulation Index's) return of -4.0%. The portfolio has returned +301% (+10.1%) after fees since inception compared to the ASX All Ordinaries Accumulation Index's return of +225% (+8.5%).

Market Overview

Tariff uncertainty and a sharp reversal in U.S. growth expectations following weaker economic data triggered a broad sell off in February. Japanese equities dropped 6.1%, the Magnificent 7 declined 7.1%, the Nasdaq fell 3.9%, and the Russell 2000 was down 5.6%. China was the standout performer, rising 11.5%, a positive leading indicator for Australia.

Locally, defensive sectors such as Utilities and Consumer Staples held up well, while Technology, Healthcare, Property, and Financials faced significant pressure. The RBA cut rates by 25bp to 4.1%, citing stable inflation and solid job growth. Property prices softened, but they are expected to find support from further rate cuts.

Top Contributors: LNW, TLS, EML, WOR

Worley (WOR) delivered a strong first half result, with EBITA margins exceeding consensus expectations and guidance reaffirmed. This saw the share price rise 5% over the month. Additionally, the company announced a $500 million share buyback, a clear signal of management's confidence in its future growth trajectory. Our recent meeting with management reinforced our optimism, particularly around its expansion in the Middle East and the United States, where the company is seeing strong demand for engineering services. Competitive dynamics remain favourable, with some of WOR's peers facing financial constraints, allowing WOR to strengthen its backlog and take market share. Trading at 14x FY26 P/E, the stock presents meaningful upside potential, while also offering a 4% fully franked dividend, providing an attractive income stream for investors.

Telstra (TLS) posted a robust first-half FY25 performance, with underlying EBITDA rising 6% year-over-year to A$4,248 million, surpassing market expectations by 1%. Revenue growth was modest at 1% year-over-year, but disciplined cost management played a key role in the earnings beat. A notable positive development was the unexpected announcement of a A$750 million share buyback. Looking ahead, Telstra's midpoint FY25 EBITDA guidance points to a 3-6% growth range for the full year, compared to 4% growth in FY24.

Despite trading ex-dividend during the month, TLS shares gained 5% in February, and shareholders are set to receive their 9.5 cents per share dividend later this month, translating to a 4.6% annualized fully franked yield.We see significant potential for further margin expansion through cost-cutting initiatives, including leveraging AI to replace offshore call center staff. More details on these efficiency measures are expected in the company's strategic update anticipated at the end of FY25.

Light & Wonder (LNW) delivered a strong February result, reporting NPATA of $127 million, 5% above consensus, with improved operations and 853 premium leased machines added to its fleet. The share price surged 22.6%, driven by the strong earnings and an improving outlook. LNW also announced plans to explore a dual ASX listing or primary ASX listing, which could help narrow its 7x P/E valuation gap to Aristocrat (ALL). We continue to view LNW as a core holding in the Endeavor Growth Equities Portfolio, aligning with our quality investment philosophy.

EML Payments (EML) increased 17.6% off the back of a cleaner 1H25 result, reaffirmed FY25 guidance and improving outlook. The market was encouraged by further detail on the proposed strategy to achieve its FY28 goals, focus on existing and new product verticals. We believe the stock remains very cheap and expect it to re-rate further as earnings quality improves and EML begins to execute on its building contract pipeline of $65 million by mid-2025.

Bottom Contributors: APX, XYZ, SDR, FMG, MFG

Block Inc. (XYZ) shares fell post 2024 earnings as investor concerns overshadowed reasonable results. Gross profit rose 18% and EBITDA increased 69% to $3.03 billion, highlighting strong efficiency. However, investors had expected better Square momentum and clearer credit risk visibility, leading to a sell off.

Block anticipates accelerated growth in 2H25, focusing on expanding Square into a full commerce platform. Key initiatives, such as Afterpay's integration with Cash App Card, aim to boost spending. While confident in execution, investor caution remains around credit risks and sustained growth. At 12x underlying P/E and 30% expected EPS growth, Block's valuation is not expensive. Given its strategy and improving profitability, we increased our position, seeing an attractive risk reward despite near term concerns.

SiteMinder (SDR) fell in February after first half revenue missed expectations due to discounting to attract larger hotel clients. The market is now watching for success from new product launches. SDR reaffirmed its $5–10 million Smart Products forecast for 2H25 and remains focused on 30% growth by year end. With a strong competitive position, we see long term upside and increased our position on the weakness.

Significant Entries: ZIP, APX, MFG, NEU, CU6. Significant Exits: CSL, MYR, ASB, RMD, APX

We have exited our positions in two large cap healthcare stocks, **ResMed** (RMD) and **CSL** (CSL). In 2023, ResMed shares experienced a sharp sell off due to concerns surrounding weight loss drugs, a reaction we believed was exaggerated by the market. We re-entered ResMed in November 2023 at $24.30 per share and added to our position at approximately $28 per share. Over the next 12 months, as market fears eased, ResMed shares steadily appreciated. We exited our position over the past two months at an average price of approximately $39.50 per share.

Our investment in CSL, while providing some returns, underperformed relative to expectations. While it delivered a steady dividend, challenges within its pipeline led to a reduction in future growth expectations and a decline in its share price. We elected to exit the stock during February.

Appen (APX), was by far our worst performer in February following a disappointing outlook despite industry tailwinds and management reaffirming on the conference call that they expect continued revenue growth to come from their AI customers for LLM based work. With the limited revenue visibility and mixed messaging from management, we elected to exit the stock.

Outlook

In the US, government policies have resulted in increased volatility, causing investors to move to the sidelines for the time being. While we believe these policies will ultimately lead to a more productive economy, the short term impact of reduced government spending and tariffs has reduced growth expectations. If the market continues to decline, this could set up well for a rally into the second half of the year as rate cuts take effect and lower bond yields support equity valuations.

Amid this environment, we are prioritising resilience by holding a relatively high cash weighting and selectively adding to high quality growth stocks at attractive valuations. We have reduced positions in businesses vulnerable to economic slowdowns and those delivering disappointing results, consolidating into the highest quality names.

Market volatility has already helped lower bond yields, aligning with Trump's push for rate cuts to ease refinancing of US government debt due over the next six months. Equities are unwinding post election exuberance, but economic fundamentals remain stable with solid job growth and controlled inflation.

Australia is in a relatively stronger position, with stable growth, a resilient labour market, and monetary policy already easing. Also leading indicators for the Chinese economy have turned positive. While we expect sentiment in the US to improve over time, we remain cautious and focused on managing risk, ensuring our portfolio is positioned to adapt to a range of potential outcomes.

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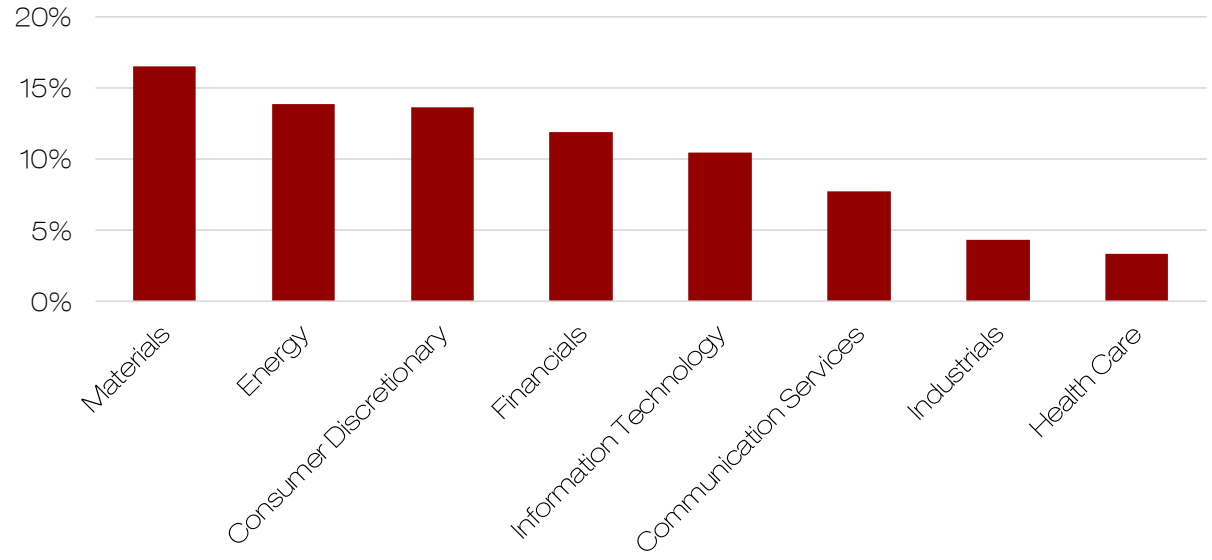
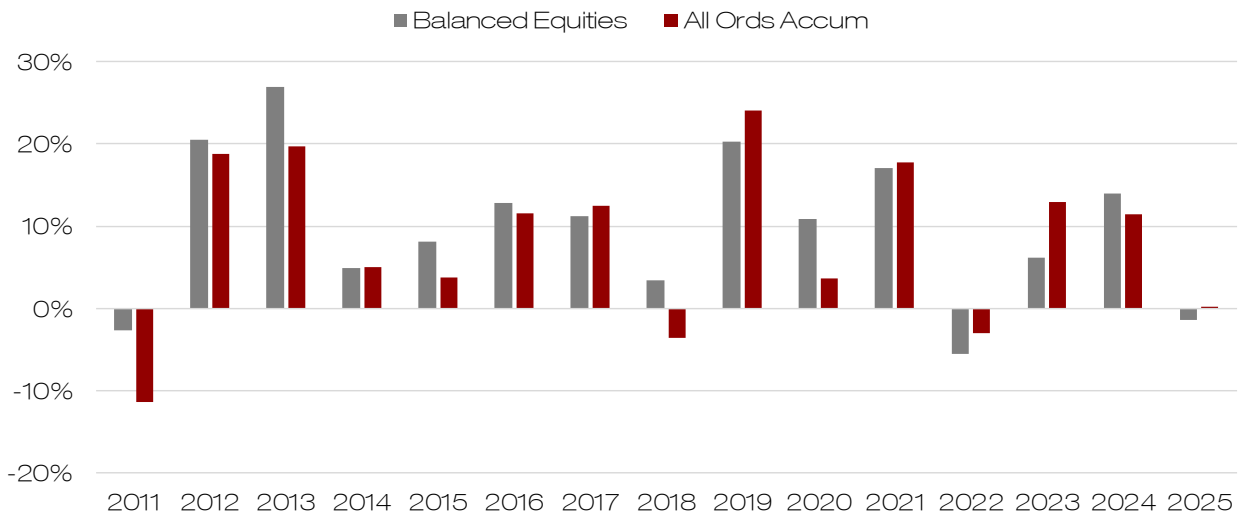
Portfolio Factsheet

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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