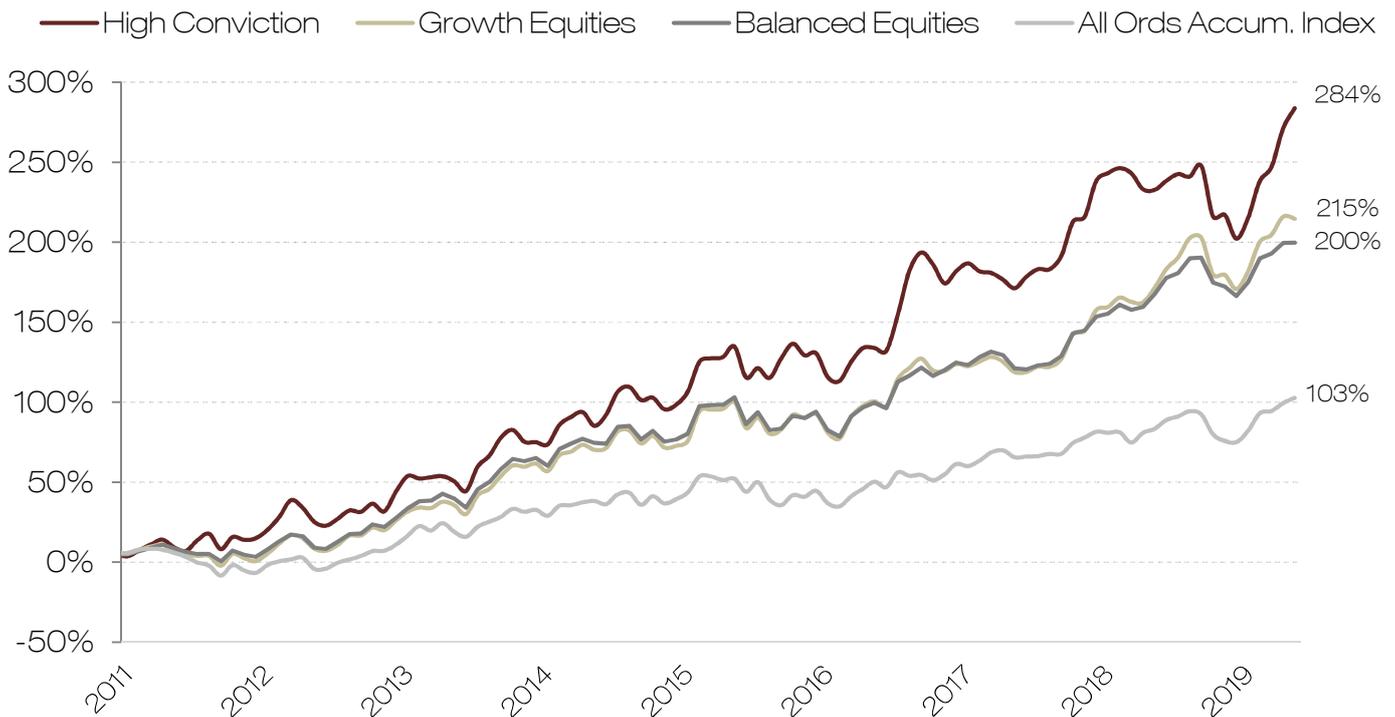


## May 2019 Summary

Performance	Month	Quarter	One Yr	2 Yr p.a.	3 Yr p.a.	5 Yr p.a.	8 Yr p.a.	Inception
Growth Equities	-0.4%	4.8%	15.8%	19.9%	16.2%	13.1%	14.4%	214.7%
Balanced Equities	0.0%	3.3%	12.0%	16.4%	14.5%	11.4%	13.5%	199.6%
High Conviction	3.4%	13.5%	15.3%	18.9%	17.9%	15.7%	17.0%	283.7%
All Ordinaries Accum	1.7%	5.0%	10.5%	10.7%	10.5%	8.0%	8.5%	102.7%



## Portfolio Top Holdings

### Growth Equities

Alphabetical

#### ASX 200

A2Milk  
Commonwealth Bank  
NAB  
Rio Tinto  
Westpac Bank

#### Ex 200

Decmil Group  
Index Limited  
Lifestyle Communities  
Medical Developments  
Money3 Corporation

### Balanced Equities

Alphabetical

#### ASX 200

Commonwealth Bank  
NAB  
Telstra Corporation  
Transurban Group  
Westpac Bank

#### Ex 200

Decmil Group  
Index Limited  
Lifestyle Communities  
Medical Developments  
Money3 Corporation

### High Conviction

Alphabetical

Index Limited  
Kidman Resources  
Lifestyle Communities  
Medical Developments  
Polynovo Limited

### Next Pages

Portfolio Review  
Performance Contribution  
Cash Weightings  
Portfolio Characteristics  
Investment Philosophy

# Portfolio Review

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The High Conviction portfolio delivered +3.4%, Growth -0.4% and Balanced 0% for the month of May, compared to the All Ordinaries Accumulation Index +1.7%. The rolling year return for the High Conviction is +15.3%, Growth +15.8%, Balanced portfolio +12% compared to the All Ordinaries Accumulation Index +10.5%.

As part of our investment process we like to visit the assets of our investments and activity in May included travelling to Shanghai and Hong Kong along with investor conferences in Melbourne.

In Shanghai, we met with a prospective partner of one of our investments, HNA Group, a Chinese conglomerate that recently bid for AHG Group (AHG.ASX). HNA Group is the second largest shareholder in Virgin Australia (VHA.ASX) and has operations in numerous industries equating to over US\$100b in revenue for the group. In this meeting we learnt more about the export opportunities for Australian businesses, especially in fresh food and logistics. We also met with Fruitday, an exciting fresh fruit retailer in Shanghai and attended a trade conference to meet with the management and sales team from one of our smaller investments.

A supportive thematic is one of our five investment criteria requirements and it's important we assess every investment in relation to the global market. Key takeaways from the Goldman Sachs Technet Conference in Hong Kong were the rise of artificial intelligence, e-sports, 'winner take all' platforms and the digital influence in emerging economies. The rise of the middle class in China is a long term trend which has great implications for Australian industries. A recent example can be seen in the infant formula market, which has resonated with the Chinese consumer. Australia is in a great position to export goods (e.g infant formula, milk, livestock), resources and services (e.g healthcare, schooling, finance, technology, property) to China, especially as the consumers level of wealth and sophistication increases.

Contributors to the performance in May, which are discussed in more detail below, were **Evolution** (held in Growth and Balanced portfolios), **Lifestyle Communities** (held across all portfolios), **Kidman Resources** (held in High Conviction and Growth) and once again **Polynovo** (held in High Conviction and Growth). Detractors included **Reliance Worldwide** and **Mayne Pharma** (both held in Growth and Balanced).

Lithium developer **Kidman Resources** (\$760m market capitalisation) was up 45% in May on a cash bid takeover from Wesfarmers. We recently invested in Kidman for the High Conviction portfolio ~\$1.30 per share based the attractive valuation of Kidman's world class hard rock lithium resource Mount. The asset is lithium hydroxide, which is desirable for electric vehicles, with a long mine life and highly cash generative margins (PFS estimate 27% IRR). The investment case was supported by Kidman's well credentialed JV partner, SQM and offtake agreements with Tesla, Mitsui, LG Chemicals.

Gold producer **Evolution** (\$6.5b market capitalisation) was up 21% in May, rebounding following general weakness in the gold sector in the prior month. We met Evolution management in April and importantly, operations are tracking to expectations. Management reinforced their focus on return on invested capital for future acquisitions, a key metric we like to see.

**Polynovo** (\$790m market capitalisation) was up 16% in May, consolidating on the 38% gain in the prior month. Polynovo's NovoSorb treatment for healing deep wounds and burns is gaining traction in the USA as the new standard of care for acute wounds such as burns and trauma. Our recent trip to the USA gave us the opportunity to speak to surgeons and the incumbent competitor which supported our view that Polynovo's treatment has a superior competitive advantage to the legacy treatment which has been around for more than two decades.

**Lifestyle Communities** (\$630m market capitalisation) was up 17% in May, due to the newly elected Liberal government supporting first home buyers which coincided with APRA lowering the minimum interest serviceability buffer and the RBA moving to an easing bias.

ASX200 companies **Reliance Worldwide** (\$2.9b market capitalisation) and **Mayne Pharma** (\$900m market capitalisation) were notable detractors for Growth and Balanced, down 25% and 20% respectively during the month. Both companies downgraded markets earnings expectations for FY19 and we have since exited both positions. Our investment process initially drew us to **Reliance** as being a market leader in push to connect pipe fittings in the US in a growing market. However, recent analysis we have carried out has questioned those views. We had initially invested in **Mayne Pharma** based on the seemingly strong pipeline of new branded and generic pharmaceutical drugs in markets which had only a handful of potential competitors. However, we have succumbed to the ongoing pricing pressure on generic pharmaceuticals which we see as an ongoing issue.

It is worth noting the portfolios have taken a more conservative stance recently, holding higher cash weightings than normal. This is due to high valuations at the present time and we will cash reinvest the capital once we see opportunities with a more compelling risk reward profile.

# May Portfolios Factsheet

## Performance Contributors

### Portfolio:

Top Contributors  
(Alphabetical):

Bottom Contributors:  
(Alphabetical):

### Growth Equities

Evolution Mining  
Lifestyle Communities  
NAB

Mayne Pharma  
Reliance Worldwide  
Webjet Limited

### Balances Equities

Evolution Mining  
Lifestyle Communities  
NAB

Mayne Pharma  
Reliance Worldwide  
Webjet Limited

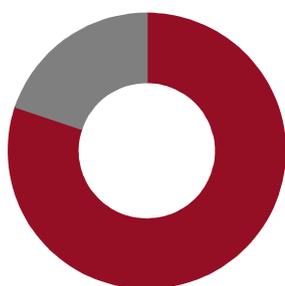
### High Conviction

Kidman Resources  
Lifestyle Communities  
Polynovo Limited

Afterpay Touch  
Altium Limited  
Medical Developments

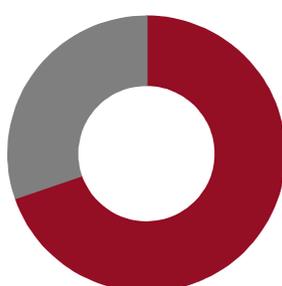
## Cash Weightings

Growth Equities



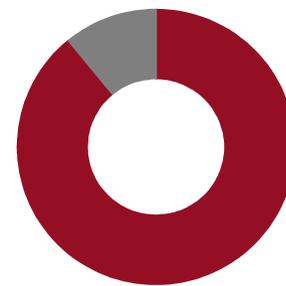
■ Equities 80% ■ Cash 20%

Balanced Equities



■ Equities 70% ■ Cash 30%

High Conviction



■ Equities 89% ■ Cash 11%

## Portfolio Characteristics

### Portfolio:

Risk Profile:

ASX200 Weighting:

Ex200 Weighting:

Number of Holdings:

Cash Constraint:

Benchmark:

### Growth Equities

Moderate / High

75% Limit

25% Limit

20 - 35 ASX listed equities

Unconstrained

All Ords Accum. Index

### Balanced Equities

Low / Moderate

85% Limit

15% Limit

20 - 35 ASX listed equities

Unconstrained

All Ords Accum. Index

### High Conviction

High

Unconstrained

Unconstrained

20 - 25 ASX listed equities

Unconstrained

All Ords Accum. Index

## 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 investment 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: Endeavor Portfolios were initiated on 1<sup>st</sup> October 2010. Although the performance of the strategy group is representative of individual client portfolios, performance can differ due to inherent differences between clients' portfolios. For example, the initial timing of investments, legacy holdings or individual client requirements such as stock exclusions can alter performance. Performance measured is before fees, brokerage, and after franking credits. Top holdings and contributors are listed in alphabetical order.