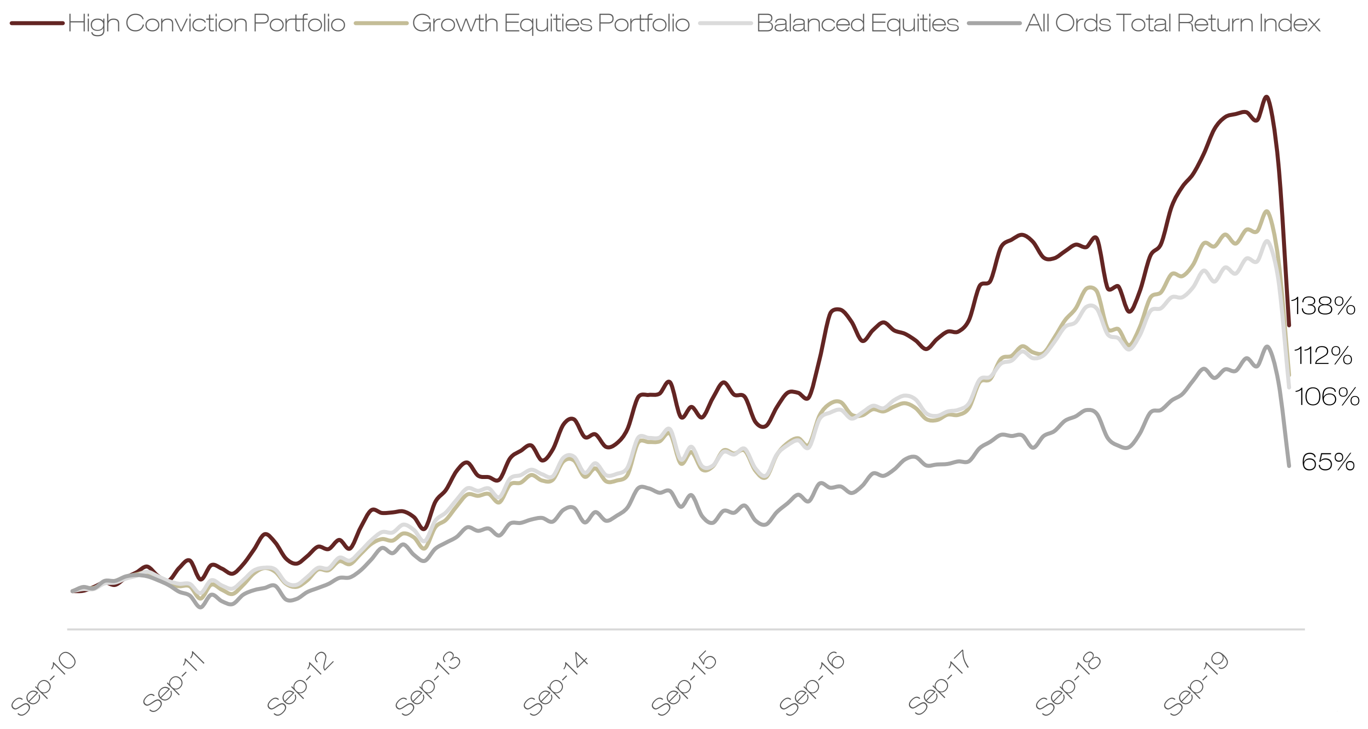
Endeavor Asset Management

March 2020 Summary

Performance*	Month	Quarter	One Yr	2 Yr p.a.	3 Yr p.a.	5 Yr p.a.	9 Yr p.a.	Inception
Growth Equities	-22.0%	-26.1%	-16.9%	-2.7%	2.4%	3.6%	7.7%	112%
High Conviction	-26.1%	-30.9%	-15.1%	-8.0%	0.6%	3.4%	9.0%	138%
Balanced Equities	-21.3%	-24.2%	-16.7%	-3.5%	0.7%	2.8%	7.4%	106%
All Ords Total Return	-20.9%	-23.9%	-15.0%	-2.8%	-0.7%	1.5%	4.8%	65%



Portfolio Top Holdings

Growth Equities
Alphabetical

ASX 200
IGO Limited
National Australia Bank
Rio Tinto
Telstra Corporation.
Transurban Group

Ex 200
Imdex Limited
Kogan.Com Ltd
Lifestyle Communities
Medical Developments
Money3 Corporation

Balanced Equities
Alphabetical

ASX 200
Cochlear Limited
IGO Limited
National Australia Bank
Telstra Corporation.
Transurban Group

Ex 200
Cedar Woods
Imdex Limited
Kogan.Com Ltd
Lifestyle Communities
Medical Developments

High Conviction
Alphabetical

ASX
Imdex Limited
Kogan.Com Ltd
Lifestyle Communities
Medical Developments
MNF Group

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Portfolio Review

The Covid-19 pandemic brought large parts of the global economy to a standstill and after the initial shock debate has moved from "will there be a recession?" to "how deep and long will the recession be?". We don't need to wait for the economic data to observe the impact to the economy from the containment measures that were rushed into place.

We believe we will look back on this period of uncertainty as an opportunity to buy quality businesses at discounted valuations. However, we are not ignoring a scenario where economic conditions are worse than the market has priced in. Consequently, we have exited investments with stretched balance sheets or capital intensive business models reliant on sourcing funds to grow. We were quick to exit companies that were directly impacted by the pandemic such as **Webjet** and we have also reduced weightings in discretionary retailers.

It was difficult to avoid the share price declines during the unprecedented sell off in the March quarter which saw the All Ordinaries decline 21%, and this was reflected in our monthly performance. For the month of March our equity portfolios returned the following:
• Growth -22%;
• Balanced -21%; and
• High Conviction 26%

The prior twelve months the benchmark has declined 15% and the return for the portfolios is now:
• Growth -17%;
• Balanced -17%; and
• High -15%

On the longer-term time frame our portfolios have still significantly outperformed on a three and five year basis and **the performance since inception in October 2010 is now Growth 112%, Balanced 106%, High 138% compared to the All Ords 65%.**

Despite the volatility we have been able to invest in some new Companies at compelling valuations for the first time in years. **CSL**, **Xero**, **Carsales.com**, **JB Hi Fi**, **Cochlear**, **Fortescue Metals Group**, **Austal**, **Nanosonics** and **Polynovo are examples of some 'best in class' companies we added to the portfolios**. During this period, we have focused on positioning our portfolios for tougher economic conditions, and to outperform once the macroeconomic environment improves.

In the portfolios we own companies with strong balance sheets, high quality business models, strong intellectual property, high return on invested capital and market leading positions. We also own several companies that are benefiting from the current environment as consumer spending habits shift online and businesses equip themselves to work remotely.

Portfolio Positioning

Our portfolios have reflected global conditions and been subject to an aggressive sell off. Whilst some companies such as discretionary retailers were more directly affected than others, we think many of the good companies we have invested in across our portfolios were oversold and with the continued leadership of their quality management teams they will be well placed to bounce back.

Our portfolios were not exposed to some of the worst hit sectors in March, namely energy (-40%) and REITS (-32%) , although we held a relatively small weighting in consumer discretionary (-31%) through **Lovisa** and **City Chic**.

We were also exposed to the financial sector (-32%), which was the largest detractor to our portfolios in March. The worst six detractors for both Growth and Balanced were all from the financial sector, with a combined detraction to performance of 10.8% for Growth and 10.1% for Balanced.

The financial companies held in the Growth and Balanced portfolios included **Challenger** and **Westpac** (since exited), as well as **NAB** and **Macquarie Group** (still holding). The weakness in the financial sector also impacted our High Conviction portfolio, with the two largest detractors for this portfolio being **FlexiGroup** (since exited) and **Money3,** a combined 6.4% negative contribution in March. As the storm was unfolding we did decide to reduce our portfolio exposure to the financial sector exiting **McMillan Shakespeare**, **Westpac**, **Challenger** (all held in Growth and Balanced), **FlexiGroup** (held in Growth and High) and **Afterpay** (held across all portfolios) during the month.

We are continuing to review these companies as they are in a strong position to recover strongly post the crisis.

During this period of market selling in March, we also took the opportunity to add high quality businesses that were expensive in the past. These included acquiring healthcare companies **CSL** and **Cochlear** to Growth and Balanced, **Nanosonics** to High Conviction, and accounting software provider **Xero** across all portfolios.

Balance sheets of our companies have been a major focus; we are wary of companies that need to raise capital in order to survive the next six months, although we are open to some opportunistic capital raisings in quality companies that pass our investment criteria. We have already started to see several discounted capital raisings in the market as companies position themselves for more economic uncertainty.

The current portfolios are positioned with a higher weighting in "defensive" businesses 40%-60% (up from 30%-50% heading into the economic shutdown), and "impacted" businesses 30%-40% (down from 40%-60% heading into the economic shutdown). The term 'defensive' refers to companies that are showing minimal impact (with benefits in some cases) from the current shutdown in economic activity, such as **Kogan**, **MNF Group**, **Austal**, **Altium**, and **Polynovo**. The term 'impacted' refers to companies we hold that have been impacted by the economic shutdown but are well positioned to see it through and are expected to provide strong leverage to the upside for the portfolio when this plays out. Examples of the impacted companies held in the portfolios include **Money3**, **Lovisa**, **City Chic**, **Transurban**, and **NAB**. We believe these companies are well managed and have strong balance sheets to support their working capital requirements during these times.

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Portfolio Review

The Growth and Balanced portfolios are skewed towards the more resilient sectors; Information Technology, Healthcare, and Telecommunications. The Growth and Balanced portfoios weightings to the financial sector has been reduced, with this sector being exposed to an economic slowdown.

We are confident that the long term investment thesis for our remaining holdings in the financial sector, such as National Australia Bank and Macquarie Group, remains intact.

The High Conviction portfolio mainly comprises of companies that have their own specialised offering / intellectual property, a clear competitive advantage, strong balance sheets and quality management teams. We think that the companies we are invested are predominantly resilient to a prolonged economic downturn and we have consistently mentioned before in out newsletters, we attempt to avoid companies in our High Conviction portfolio that are at the mercy of overall economic activity. Apart from the financials (FlexiGroup and Money3), another notable detractor during the month for the High Conviction portfolio was construction contractor Decmil. Decmil has two disputes with debtors regarding owed money, and as a consequence Decmil's balance sheet has been tested. We exited this investment as the stretched balance sheet increased the company's risk profile.

<u>Company Specific Commentary</u>

After watching Xero for several years, we were finally able to invest during the recent pullback at a discount to our valuation. Xero is a best in class growth company which has driven change in the accounting industry with its 'cloud first' approach. It has a large addressable market with modest market share in many markets and the app ecosystem brings genuine monetisation potential. The business has attractive unit economics which have been trending higher. Churn is very low (~1%), gross margin very high (86% in 1H20) and average revenue per user has been trending slightly higher. The core software is business critical and at $30/month it is less susceptible to SME hardship than bigger ticket items such as wages or non-essential opex and capex.

Healthcare company Nanosonics, a well regarded disinfectant equipment provider for ultrasound probes to prevent infection, is a new addition to the portfolios. We have previously owned Nanosonics and we took the opportunity on the price pullback in March to add it back based on valuation. Nanosonics ticks a lot of boxes we look for in a company – global expansion opportunities, clear competitive advantage with its disinfectant technology, high level of recurring earnings, strong return on capital, strong management team, and strong focus reinvesting in the business on R&D for new technology.

CSL, Australia's largest company, was added to the Growth and Balanced portfolios in March. CSL's leading treatment of rare and serious diseases and provider of influenza vaccines is well placed as a defensive investment as well as a possible benefactor to the unfolding Covid-19, with demand for influenza vaccinations expected to grow and involvement in potential hyperimmune treatment therapies.

Australian naval ship builder Austal is a new inclusion to the portfolios. Austal is one of the largest ship builders in Australia for defence vessels (patrol boats) and produces 15% of US defence surface vessels. Austal is the lowest cost producer and fastest ship builder in the US. Austal's key intellectual property is unique aluminium vessels for military capability. Despite Austal's share price being off 30% from pre Covid highs, the current operations and strong outlook for defence vessel contracts remains unchanged. Austal shouldn't be impacted by the Covid19 economic shut down, and may even benefit from government stimulus spending in defence vessel projects. Defence is seen as an important long term strategy for governments, so spending on this is unlikely to change. Following the share price pullback, we think the market is undervaluing the strong earnings growth outlook supported by large defence vessel contracts and we have added Austal to the portfolios.

Automotive lender Money3 impacted the portfolios performance as the market swiftly priced in a recession and a subsequent increase in default rates. Whilst Money3 is exposed to a higher risk of bad debts in these times, Money3 has a history of working with customers that are unemployed to get the best outcome. Money3's customer base has been supported by government fiscal policies and we expect consumers to opt to continue to service loans, possibly at a slower rate, rather than default. Money3's balance sheet is in a strong position compared to competitors which may be a telling factor through this period of Covid-19 shutdown. Money3 now trades below book value. At this stage we are optimistic that the business will make it through the current crisis and has the potential to rebound strongly once there is realisation that bad debts are not an issue. That said, Money3 is the highest risk holding we have in our portfolio and we are watching the situation closely.

The two positive contributors to the month were Kogan.com and MNF Group which are both experiencing a tailwind in the Covid-19 macro-economic environment. Kogan experienced an increase in demand due to a shift from in-store to online shopping and MNF facilitates the back-end phone services for video conferencing such as Zoom Video Conferencing and Microsoft Teams, both of which are seeing a surge in demand. We added to both existing holdings during the month.

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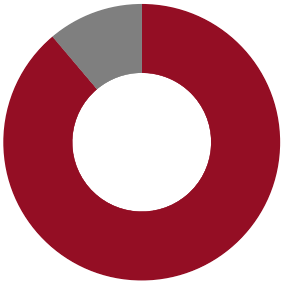
March Portfolios Factsheet

Performance Contributors

Portfolio:	Growth Equities	Balanced Equities	High Conviction
Top Contributors (Alphabetical):	Kogan.Com Ltd MNF Group Rio Tinto	Kogan.Com Ltd Rio Tinto	Audinate Group Kogan.Com Ltd MNF Group
Bottom Contributors: (Alphabetical):	Challenger Limited FlexiGroup Limited National Australia Bank	Challenger Limited Commonwealth Bank National Australia Bank	Decmil Group FlexiGroup Limited Money3 Corporation

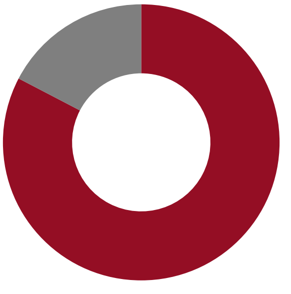
Cash Weightings

Growth Equities



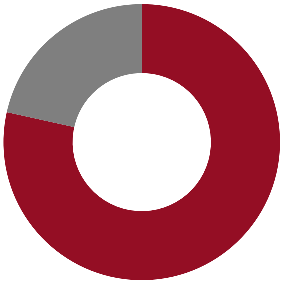
■ Equities 89% ■ Cash 11%

Balanced Equities



■ Equities 83% ■ Cash 17%

High Conviction



■ Equities 78% ■ Cash 22%

Portfolio Characteristics

Portfolio:	Growth Equities	Balanced Equities	High Conviction
Risk Profile:	Moderate / High	Low / Moderate	High
ASX200 Weighting:	75% Limit	85% Limit	Unconstrained
Ex200 Weighting:	25% Limit	15% Limit	Unconstrained
Number of Holdings:	20 - 35 ASX listed equities	20 - 35 ASX listed equities	20 - 25 ASX listed equities
Cash Constraint:	Unconstrained	Unconstrained	Unconstrained
Benchmark:	All Ords Accum. Index	All Ords Accum. Index	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

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