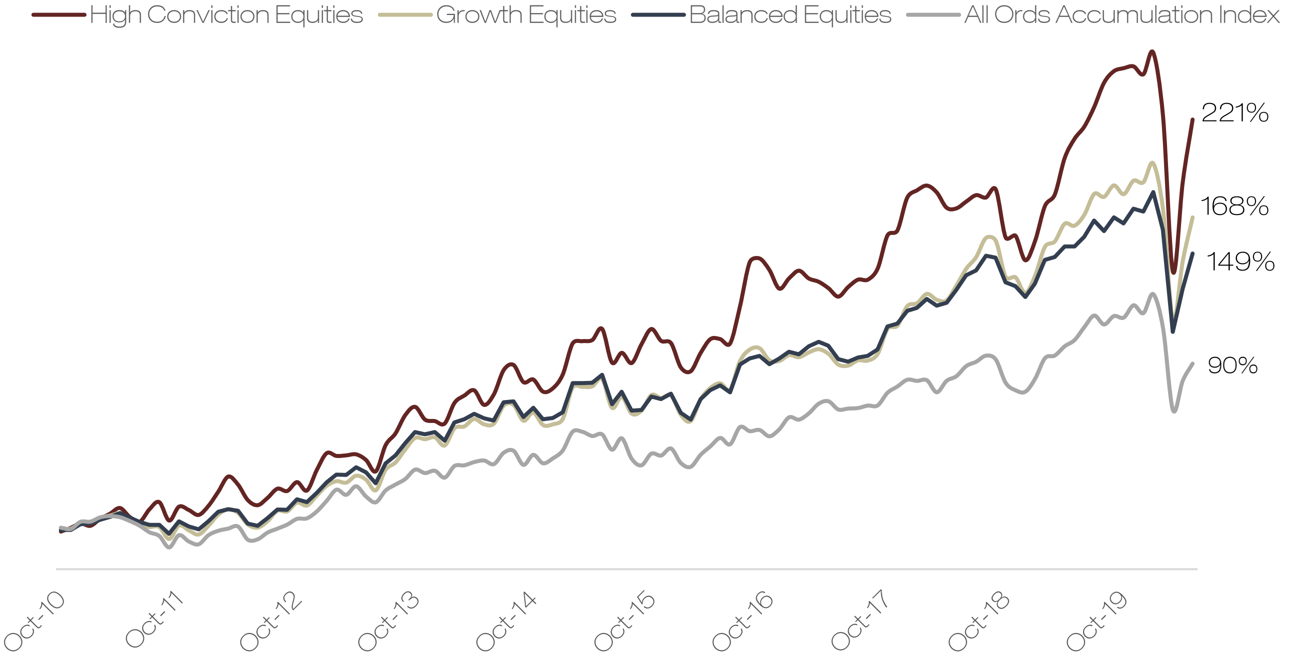
Endeavor Asset Management

Endeavor ASSET MANAGEMENT

May 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	9.5%	-1.5%	1.7%	7.6%	12.3%	8.1%	10.8%	168%
High Conviction	11.6%	-0.4%	3.3%	8.4%	12.4%	9.0%	12.9%	221%
Balanced Equities	8.2%	-4.8%	-1.5%	4.2%	9.0%	6.2%	9.8%	149%
All Ords Total Return	5.0%	-9.0%	-6.2%	1.8%	4.7%	4.6%	6.7%	90%



Portfolio Top Holdings

Growth Equities
Alphabetical

ASX 200
- CSL Limited
- Macquarie Group
- National Australia Bank
- Telstra Corporation.
- Transurban Group

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

Balanced Equities
Alphabetical

ASX 200
- Austal Limited
- CSL Limited
- Lifestyle Communities
- Macquarie Group
- National Australia Bank

Ex 200
- Cedar Woods
- Kogan.Com Ltd
- Lifestyle Communities
- Medical Developments
- Money3 Corporation

High Conviction
Alphabetical

ASX
- Kogan.Com Ltd
- Lifestyle Communities
- Macquarie Group
- Medical Developments
- Money3 Corporation

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*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.

Portfolio Review

The rebound in equities continued into May as investors focused on how countries would relax lockdown measures and the implications for the global economy. We saw Australia gradually re-open along with US states, the UK and European countries. The market rallied higher as infection rates continued to decline and countries re-opened. Investors were also buoyed by initial signs of success in human trials of vaccines against Covid-19.

In May, the Balanced Equities portfolio was +8.2%, Growth Equities +9.5% and High Conviction +11.6% after fees, all portfolios outperforming the ASX Total Return which increased 5%. The performance in May was generated by a broad number of companies in the portfolios as more rational pricing returned to the market. The rolling 12 month return is -1.5% for Balanced, +1.7% for Growth, +3.3% for High conviction, all portfolios outperforming the ASX Total Return which declined 6.2%.

We mentioned in the March newsletter that *"we believe we will look back on this period of uncertainty as an opportunity to buy quality businesses at discounted valuations"* and this is proving to be the case.

During the decline we took the opportunity to add quality businesses such as CSL, Cochlear, Nanosonics, JB Hi-Fi, Fortescue, Carsales.com, Qantas and Austal to the portfolios. We also increased our exposure to long-term investments including Macquarie, Transurban, Altium, Kogan.com, MNF Group & Polynovo. These investments in February and March have continued to benefit the portfolios in recent times.

In May, we increased our National Australia Bank ($61b market capitalisation) weighting in Growth around Balanced around $15.7/sh and Macquarie Bank at $109/sh in Growth, Balanced and High Conviction portfolios. The decision was made following due diligence on the leading indicators for the earnings drivers of both businesses which we believed to be tracking ahead of expectations. NAB closed the month 13.5% higher than our purchase price and Macquarie closed roughly inline.

Online retailers Kogan ($1b market capitalisation) and City Chic ($540m market capitalisation) rallied 46% and 37% respectively in May.

In the April newsletter we discussed our view that Covid-19 was a black swan event which accelerated disruptive trends with the shift to online a clear winner.

The shift to online shopping accelerated in May and in our view the online volume growth has not peaked yet. E-commerce is 9% of total retail sales in Australia and Kogan is only 2% of online sales, demonstrating the significant opportunity ahead as consumers spend a higher proportion online. Kogan is also seeing repeat purchases from new customers which is early validation of the strategy to increase marketing spend during this uncertain period. Kogan has a high return on capital, improving returns through marketplace, new verticals and is operating in an industry with structural tailwinds. While we have been trimming our position into share price strength, it remains a core holding with an attractive long-term risk reward profile.

Following the coronavirus outbreak the RBA acted swiftly, cutting rates to 0.25% and the Federal Government complimented the rate cute with a substantial and well targeted stimulus package which sustained business cash flow, boosted business investment and helped to support employment. Since then, we have seen Australian banks cut fixed rates to record lows which is supporting the lower end (<$1m) property market and flowing through to core holding Lifestyle Communities ($1b market capitalisation) which rallied 26% in May.

We added residential property developer Cedar Woods Properties ($440m market capitalisation) to the Balanced and Growth portfolios during May and the share price is up approximately 25% since our investment. Cedar Woods issued a third quarter update in April after it became clear that Covid-19 would impact settlements and the stock was sold off heavily. We think Cedar Woods will be more resilient than feared and the business is possibly recovering quicker than the market is expecting. We purchased CWP below cost price of the assets on the balance sheet and on a 'normal' year, which may be several years away, CWP will pay over an 8% fully franked yield on our purchase price.

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Portfolio Review

Aerial imagery provider **Nearmap** ($1b market capitalisation) was a new addition across all portfolio during the month. We have watched the business over many years but were unable to buy it on a valuation basis. The market aggressively sold off the share price during the Covid panic, despite the business largely being unaffected. This prompted us to redo our investment case and ultimately make our first investment in the company.

After our investment, Nearmap reconfirmed annual contract value guidance in late May which was positively received by the market. This guidance represents a 22% 2H20 annualised contract value growth rate through what was a tough economic period. Nearmap is well positioned to continue growing annual contract value by 20% per annum, having a large and growing addressable market opportunity for aerial imagery, supported by leading camera technology that enables efficient capture of images. Nearmap has a competitive advantage in the processing of the images which enables a scaled and fast delivery to customers such as insurance companies and solar install companies. This competitive advantage along with having a scalable subscription based (recurring revenue) business model and significant management ownership, are attributes we are attracted to.

Biodegradable polymer provider **Polynovo** ($1.8b market capitalisation) rallied 26% in May. Polynovo has an acute wound care product, BTM (Biodegradable Temporising Matrix), which is well positioned to replace the incumbent, Integra Life Sciences, as the dermal template of choice. BTM's synthetic base offers increased clinical efficacy at a lower cost, providing surgeons a compelling alternative to Integra's biologics-based products which is widely recognised to be susceptible to infections and subsequent skin graft failure. This has been supported by feedback we have obtained from leading surgeons in the US.

We think the current valuation for Polynovo is supported by significant market share in chronic wound and large burns (burns, trauma, reconstruction and limb salvage) in the USA alone.

The real upside to current valuation (and why it is in the portfolio) is the likelihood of BTM being used in the much larger hernia market. The Hernia product development (a more durable version of BTM) is on track for market entry into the US in mid 2021. The key competing product in the Hernia resorbable market is "Phasix Mesh" by BARD Davol Inc which is inferior to Polynovo's hernia product because the mesh can cause the patient ongoing pain with movement and is susceptible to infection.

The only notable detractor was healthcare company CSL ($125b market capitalisation) which was down 10% in May. 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 with demand for influenza vaccinations expected to grow along with CSL's potential hyperimmune treatment therapies.

During the month we exited enterprise software provider, **Bravura Solutions** ($1.2b market capitalisation) and nickel and gold producer **Independence Group** ($3b market capitalisation) based on valuations that exceeded our internal estimates.

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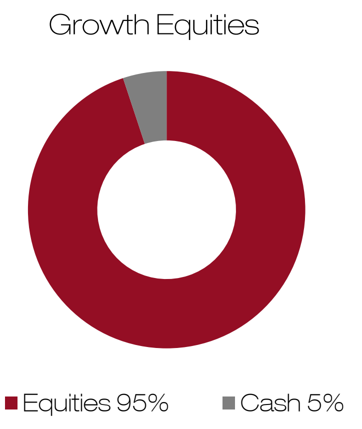
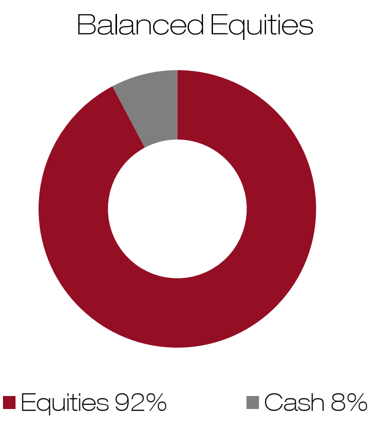
May Portfolios' Factsheet

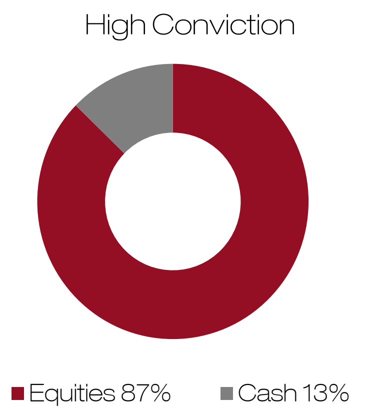
Performance Contributors

Portfolio:	Growth Equities	Balanced Equities	High Conviction
Top Contributors (Alphabetical):	Kogan.Com Ltd Lifestyle Communities Polynovo Limited	Lifestyle Communities Kogan.Com Ltd Saracen Mineral	Polynovo Limited City Chic MNF Group
Bottom Contributors: (Alphabetical):	Coles Group Commonwealth Bank. Qantas Airways	Austal Limited Bravura Solution Coles Group	Swick Mining IGO Limited Nanosonics Limited

Cash Weightings







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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