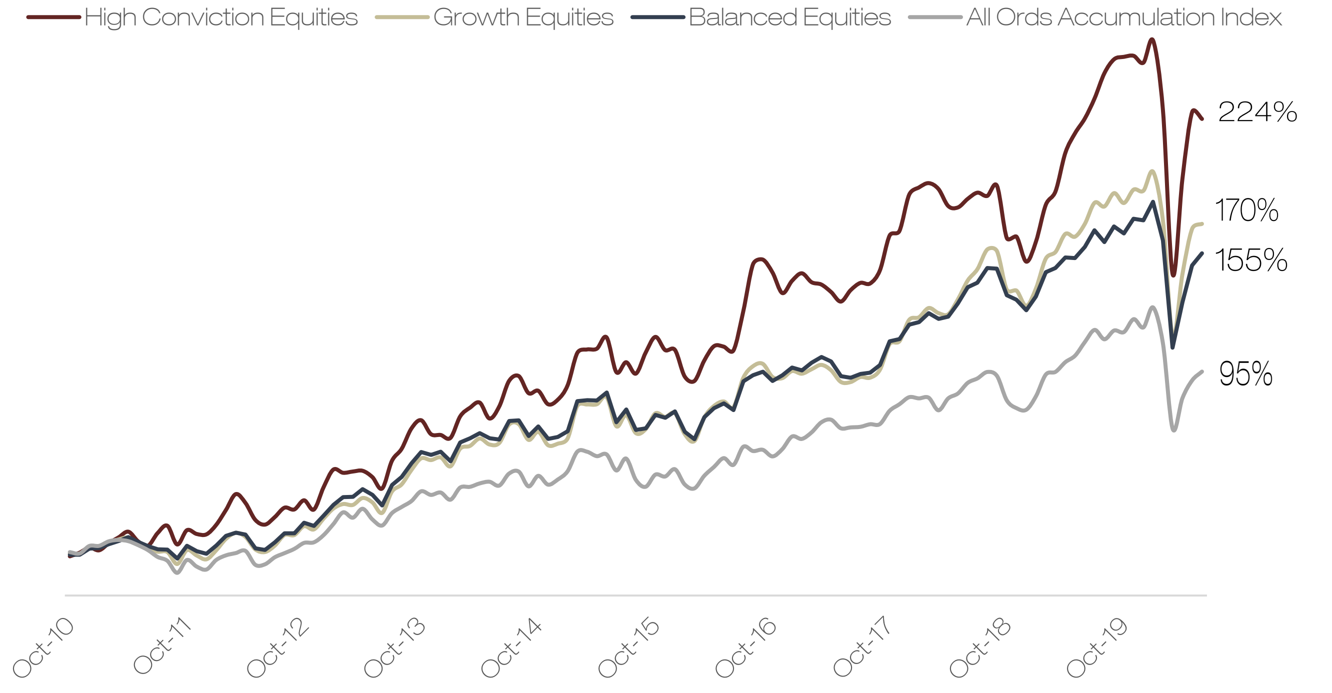
Endeavor Asset Management

June 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	0.9%	27.1%	0.0%	5.8%	12.6%	10.2%	11.2%	170%
High Conviction	-1.1%	32.6%	-0.1%	7.0%	11.1%	10.8%	13.3%	224%
Balanced Equities	2.5%	23.3%	-1.3%	3.6%	10.0%	8.6%	10.3%	155%
All Ords Total Return	2.3%	17.8%	-7.2%	1.5%	5.4%	6.2%	7.3%	95%



Portfolio Top Holdings

Growth Equities
Alphabetical

ASX 200
- ANZ Bank
- Austal Limited
- Macquarie Group
- National Australia Bank
- Saracen Mineral

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

Balanced Equities
Alphabetical

ASX 200
- Commonwealth Bank
- Macquarie Group
- National Australia Bank
- Saracen Mineral
- Telstra Corp

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

High Conviction
Alphabetical

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

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Portfolio Review

The rebound in equity markets continued as central banks and governments stimulated economies while they began to reopen. Economic data showed signs of a sharp rebound from the lockdown lows and central banks around the globe made it clear that they are willing to use all the tools they have at their disposal to keep borrowing costs low. We saw the RBA target a three-year government bond yield of 25 basis points and commence a program of buying bonds to achieve the target and address market dysfunction.

The Growth Balanced and High Conviction portfolios increased 27%, 23% and 33% respectively for the June quarter, all outperforming the All Ordinaries Accumulation index which increased 18%.

The liquidity crunch that some were fearing in February and March was avoided due to the swift and decisive action by governments around the globe and we are reminded of the quote that 'central bank support is a feature, not a bug'. Their role is to support economies when required and the Australian government and the RBA should be applauded for how they have navigated the crisis so far.

However, clearly some risks remain. The virus has not been fully contained, nor is there a vaccine yet. We have seen new cases rise in countries that have re-opened and central banks cannot prevent struggling businesses with solvency concerns from failing and impacting consumer sentiment. Despite the risk around new virus cases, equities markets continued to rally. The Australian share market increased 17.8% for the quarter, US equities were up 20% and emerging market equities were up 18%.

As long term investors we are all living through the constant noise in the media, which can often sound like a logical reason to sell equities and impact long term performance. Some of the many examples since the GFC, include the 'fiscal cliff', 'taper tantrum', US government shutdown, Ebola, China debt worries, Brexit, yield curve inversion (causing a 20% sell off in Dec 2018), the trade war, North Korea nuclear threat, and the list goes on. Now we can add 'how will economies survive after government stimulus' to the list.

During this period since October 2010, the Australian share market is up 124% and Endeavor's portfolios are up between 154% and 221% after fees. While you can never dismiss macro concerns and the Covid crisis has been unprecedented in its speed and impact to economies, **the key learning is to invest in great businesses, with good balance sheets and excellent business models that are resilient during a crisis and able to grow strongly as we came out of it.**

After a tumultuous financial year, the portfolios were roughly flat after fees (Balanced -1%, Growth 0%, High 0%), outperforming the All Ordinaries Accumulation Index which closed down 7%. While the absolute performance isn't worth celebrating, the many calls to companies and clients, while tracking a whirlpool of data in an effort to protect our clients portfolios and wealth during a volatile period, resulted in our performance for ninth financial year being well above the benchmark (the tally is now 9/10 years of outperformance for High and 7/10 for Growth and Balanced).

During the quickest crash in history which started in late February and lasted only a month, we took the opportunity to add some exciting new investments into the **portfolios at compelling valuations. Examples include Xero, Nanosonics, Carsales.com, JB-Hi-Fi, Fortescue Metals Group, Austal, CSL & Cochlear**. We also increased weightings in existing positions **Polynovo, Kogan, MNF Group, Altium, Transurban and Macquarie Group** during this period which resulted in a relatively low cash weighting until last month. After taking profits in **JB HiFi, Mayne Pharma and Costa Group**; primarily due to valuation, we currently hold a cash balance of approximately 15% in the three portfolios. We will discuss the recent investments, performance, and portfolio positioning in the paragraphs below.

Around 80% of our investments are not being materially impacted by Covid lock downs. The remaining 20% have been impacted by Covid lock downs and are currently trading circa 30% below pre Covid share price levels. These companies have not had any capital destruction, that is they have not needed to raise capital that has permanently diluted shareholders. Nor do we envisage they will need to raise capital. As such we see these companies recovering to pre Covid levels in time as lock downs ease.

One of the first companies we purchased during the Covid pullback was **Kogan.com** at roughly $3.90/sh. There has been a pull forward of disruptive trends due to the Covid lockdowns, fast tracking expected market share gains from years to months. Current holding Kogan has been a major beneficiary of this shift in consumer purchasing. Kogan was once again the notable contributor across portfolios in June, rallying 31%, and has nearly quadrupled since the pre Covid level end of February.

Xero is a business that we have monitored for several years and we were finally able to invest in March at $63/sh in High and $72/sh in growth when it was trading at a discount to our DCF valuation for the first time in over three years. Xero is a best in class growth company with a large addressable market and modest market share in markets outside of New Zealand.

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The business has attractive unit economics with only 1% churn, 86% gross margins and average revenue per user trending higher. The software is business critical and at $30/month it is less susceptible to SME hardship than wages or non-essential open and capex. Xero closed the month at $90/sh.

Carsales.com was a new entry in the March quarter at an average price of $14.50 for the Growth and Balanced portfolios, and it was a significant contributor to performance in the June month and quarter. We became interested in CAR after the first half result in February showed the business was performing well considering the poor macro environment. Management were able to offset revenue headwinds by effectively controlling costs and successfully growing earnings offshore. Considering Carsales.com is a market leading platform, with a near monopoly in the used car market and a top 100 ASX listed company, the valuation of 30x P/E at the time was reasonable. But it was not compelling until the share price sold off 50% in the March crisis. In June, management provided a market update that showed revenue, EBITDA, margins and NPAT were all tracking ahead of analysts' expectations and the share price closed at $17.7/sh, up over 20% on our purchase price.

Aerial imagery provider Nearmap ($1b market capitalisation) was a new addition across all portfolios during the quarter with an average entry price of approximately $1.60/sh in Growth and Balanced and $1.75/sh in High Conviction. The share price closed the month at $2.25/sh. 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 as a capital raise was expected, despite the business cutting costs aggressively and being largely unaffected. This sell off 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, along with cost reductions which were positively received by the market. The 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.

Long term holding Macquarie Group, sold off 40% in March which represented compelling value at 12x FY21 earnings. We took the view that extraordinary government support would ensure the deep recession was also likely to be quick. Additionally, declining cash rates and bond yields globally were increasing the value of the infrastructure division whilst the share price was declining. Compared to the GFC, the businesses balance sheet strength, funding and liquidity metrics were all far superior with less mark to market risk in the asset book. We increased our weighting in MQG around $100/sh for the Growth and Balanced portfolios and made an initial entry in High Conviction at $105/sh since the long term growth outlook remained strong, supported by diverse businesses and the unique entrepreneurial model. The declining AUD also supported the investment case at the time. Macquarie closed the month of June at $119/sh.

Acute non-opioid pain relief provider Medical Developments ($450m market capitalisation) rebounded strongly +31% in the June quarter, but is still approximately 30% below its pre Covid level, due to a delay in timing of expected approvals for Penthrox pain relief treatment in the large markets of the US and China. Medical Developments has been a core long term holding and a delay in timing of approvals in these key markets due to circumstances outside of the company's control does not alter our investment case. In October 2019, Penthrox was included in European Society Emergency Medicine guidelines as first line treatment for moderate to severe Trauma pain following studies demonstrating superiority of Penthrox over current standard of care drugs. This supports our investment thesis for the long-term adoption of Penthrox not only in Europe but globally which is the key value driver for the company.

Gold producer Saracen ($6b market capitalisation) was a new addition to the Growth and Balanced portfolios during the quarter and is up ~50% since entry price. Saracen has an impressive growth profile primarily due to its recent acquisition of the Super Pit mine in Western Australia which has the potential of unlocking considerable value under the new JV owners.

Fast fashion jewellery retailer Lovisa was the main detractor to portfolios in June, with brick and mortar retailers under pressure from Covid lock downs. We remain confident that Lovisa's the long term roll out opportunity has not been significantly impacted and we are patient enough to see through the short term challenges posed by Covid.

In the March newsletter, we mentioned that "we believe we will look back on this period of uncertainty as an opportunity to buy quality businesses at discounted valuations" and we still believe that to be the case. We are confident that our process of investing in companies with good balance sheets, great management, high quality business models, strong intellectual property, superior return on invested capital and market leading positions will continue to deliver over the long term.

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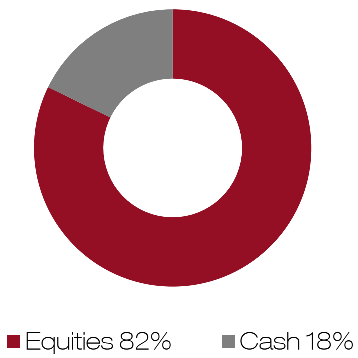
June Portfolios' Factsheet

Performance Contributors

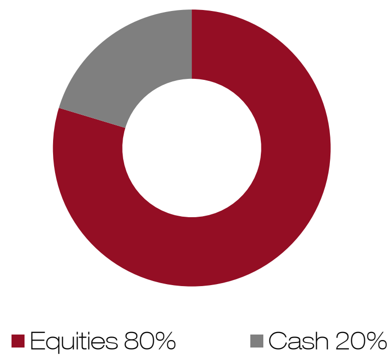
Portfolio:	Growth Equities	Balanced Equities	High Conviction
Top Contributors (Alphabetical):	Kogan.Com Ltd	Kogan.Com Ltd	MNF Group
	Macquarie Group	Macquarie Group	Pwr Holdings
	National Australia Bank	National Australia Bank	Xero Ltd
Bottom Contributors: (Alphabetical):	Medical Developments	Altium Limited	Money3 Corporation
	Money3 Corporation	Medical Developments	Altium Limited
	Polynovo Limited	Telstra Corp	Polynovo Limited

Cash Weightings

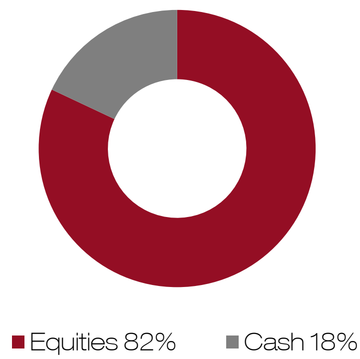
Growth Equities



Balanced Equities



High Conviction



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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