Navegar Australian Equity Large Cap Portfolio Update - March Qtr. 2025

Portfolio performance

	1 mth (%)	3 mth (%)	6 mth (%)	12 mth (%)	Since Inception (%)
Portfolio Total Return	-3.3	-2.3	-2.5	2.6	5.6
Benchmark*	-3.4	-2.8	-3.6	2.8	7.4

Source: BT. Performance history from 1 September 2018. Net of fund manager fees

* The Benchmark is the performance of the S&P/ASX 200 TR AUD

Market review

The first quarter of 2025 saw a significant swing in investor sentiment. Optimism early in the year, driven by expectations of continued US market strength, quickly faded as escalating trade tensions and rising recession fears unsettled investors. After a strong start in January and early February, markets turned risk-averse, leading to steep declines in US shares and broad weakness across most developed markets, including Australia. In contrast, bond markets held up relatively well, buoyed by expectations of potential central bank rate cuts and sustained demand for safe-haven assets.

Australian shares declined over the March quarter, with the S&P/ASX 200 Index down -2.8%. Losses were broad-based, with technology companies coming under pressure as investors continued to rotate out of higher-growth sectors into defensive areas such as utilities and consumer staples. Smaller companies also underperformed, with the S&P/ASX Small Ordinaries Index falling -2.0%, reflecting their higher sensitivity to shifts in global growth and trade sentiment.

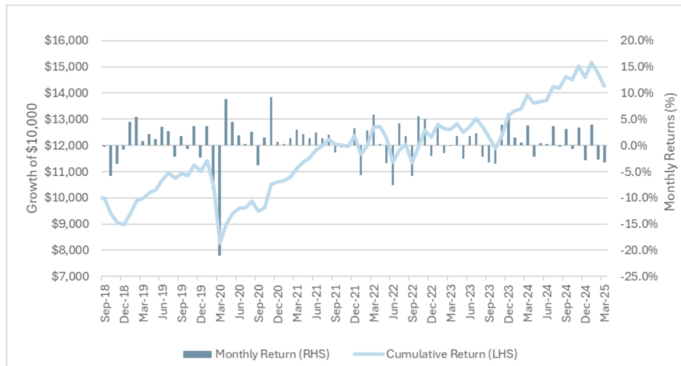
International shares also faced significant headwinds, with the MSCI All Country World Index falling -2.0% (-2.1% hedged). US shares were among the hardest hit, particularly in the technology and consumer sectors, as rising tariff announcements and weaker consumer data weighed on confidence. Targeted government stimulus in Europe provided some support for investor confidence and resulted in a strong quarter for European shares. Emerging markets outperformed developed markets. The MSCI Emerging Markets Index delivered positive returns of +2.3%, helped by strength in the Chinese market, which was buoyed by government stimulus. Smaller global companies struggled, with the MSCI World ex Australia Small Cap Index falling -4.4%, as investors pulled back from riskier, less liquid parts of the market.

Real assets were a bright spot. Global infrastructure posted strong gains, with the FTSE Global Core Infrastructure 50/50 (Hedged) Index rising +4.1%, supported by investor demand for defensive sectors such as utilities and transport. Global property performed solidly, with the FTSE EPRA Nareit Developed Index up +0.7%.

Fixed interest markets delivered strong returns and played a stabilising role in portfolios. The Bloomberg Global Aggregate Bond Hedged Index rose +1.1%, while Australian bonds outperformed, with the Bloomberg AusBond Composite 0+ Yr Index gaining +1.3%.

Government bond yields diverged — Australian 10-year yields edged higher, while US 10-year Treasury yields fell — reflecting greater concern from the US Fed about slowing growth than the risk of resurging inflation. In credit markets, investment-grade corporate bonds performed well, with the Bloomberg AusBond Credit 0+ Yr Index rising +1.5% and its global counterpart, the Bloomberg Global Aggregate Credit Hedged Index, also up +1.6%. In contrast, global high-yield bonds were more challenged, as widening credit spreads signalled growing investor caution and a demand for higher returns on riskier debt.

Cumulative performance



Source: Morningstar Direct

Portfolio Commentary

Over the March quarter, the Australian Equity Large Cap portfolio returned -2.3% outperforming its benchmark.

While the local reporting season offered few surprises in terms of results, Australian shares experienced notable price volatility, with a clear rotation away from recent outperformers and more highly rated stocks and into cheaper, more cyclical laggards. **Betashares Australia 200 ETF (-2.9%)** followed the S&P/ASX 200 Index lower. Exposure to gold miners and materials helped **Chester High Conviction (+1.9%)** outperform, while overweight healthcare positions — impacted by US trade policy concerns — detracted from **Airlie Australian Share (-3.6%).** The shift to value was a boost for long-term value strategy **Merlon Concentrated Australian Share (+1.1%).** The underperformance of **Perpetual SHARE-PLUS Long-Short (-6.0%)** was driven by weak stock selection within materials and greater exposure to more volatile sectors like consumer discretionary, along with limited participation in relatively resilient areas like financials, utilities and consumer staples

Performance contributors

LEADING CONTRIBUTORS

	3 Months
Chester High Conviction I	0.38%
Merlon Concentrated Australian Share I	0.22%
BT Platform Cash	0.01%

LEADING DETRACTORS

	3 Months
Perpetual SHARE-PLUS Long-Short S	-0.83%
BetaShares Australia 200 ETF	-0.71%
Airlie Australian Share	-0.70%

Portfolio structure

Fund	Weight %
BetaShares Australia 200 ETF	25.00%
Perpetual Share Plus Long Short S	14.00%
Airlie Australian Share	20.00%
Merlon Concentrated Australian Share Class I	19.75%
Chester High Conviction Class I	20.00%
Platform Cash	1.25%

Portfolio changes

During the March quarter, the following changes were made to the portfolio.

Fund Increases

Fund	Action
Merlon Concentrated Australian Share Class I	New Position
Chester High Conviction Class I	New Position

Fund Decreases

Fund	Action
BetaShares Australia 200 ETF	Reduced
State Street Australian Equity	Removed
Chester High Conviction	Removed

We introduced **Merlon Concentrated Australian Share**, a high-conviction manager that brings a differentiated style to the portfolio and complements the existing manager lineup. To make room for this addition, we exited **State Street Australian Equity** — a low beta strategy that has tended to drag on performance in more constructive market environments.

With Australia's growth outlook remaining uncertain and valuations for banks and some industrials appearing stretched relative to global peers, we remain cautious on passive strategies with heavy bank exposure. As a result, we reduced our passive allocation by trimming the **Betashares Australia 200 ETF**.

Additionally, we implemented a straight unit class switch within **Chester High Conviction**, to reduce fees.

Portfolio objective

To deliver outperformance of the benchmark over rolling three-year periods, net of indirect fees.

Benchmark: S&P/ASX 200 (TR) Index

Investment Philosophy

The guiding principles underpinning the portfolio management process are:

- **Evidence-based investing** — We are investors, not speculators. Making investment decisions based on fundamental analysis and empirical evidence rather than short-term noise delivers better long-term investment outcomes.
- **Valuation is important** — Markets can experience inefficiency and mispricing. The entry price of an investment is a key determinant of long-term returns and the risk of financial loss.
- **Risk management is multi-dimensional** — We invest in an environment of uncertainty where economic, geo-political and market developments can materially change the investment landscape. We seek to create portfolios that are robust to a range of environmental scenarios and assess risk from a broad set of metrics that consider liquidity, country, sector, style, credit, environmental, social and governance risks.
- **Diversification** — Diversification is spreading investments across fund managers within different asset classes. Diversification cannot eliminate the risk of loss, but it is a powerful tool for managing risk.
- **Simplicity and transparency** — The security of our investors' wealth is paramount. We will only invest in the highest quality underlying fund managers and securities and will not accept overly complex or opaque investments.
- **Fees and taxes matter** — We only allocate fees to active fund managers where we believe — with a high degree of conviction — investors will benefit from paying a higher fee. Where appropriate, we will also utilise low-cost passive fund managers. We also consider the tax consequences of underlying portfolio strategies.

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