Navegar Australian Equity Mid and Small Cap Portfolio Update - March Qtr. 2025

Portfolio performance

	1 mth (%)	3 mth (%)	6 mth (%)	12 mth (%)	Since Inception (%)
Portfolio Total Return	-4.0	-0.2	-1.4	1.3	4.7
Benchmark*	-3.6	-2.5	-3.3	0.7	5.7

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

* The Benchmark is the performance of the S&P/ASX Mid-Small Cap Index

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.

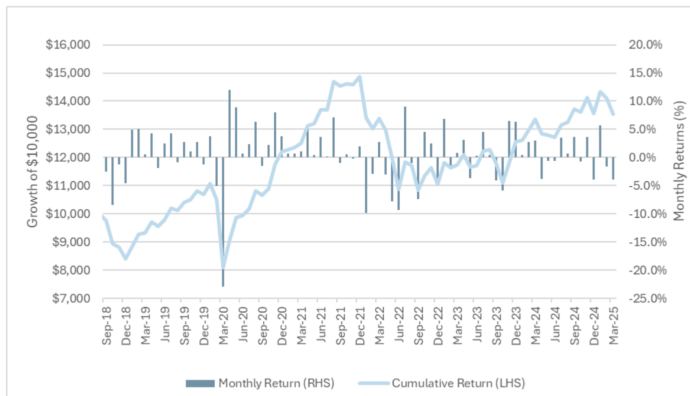
International shares also faced significant headwinds, with the MSCI All Country World Index falling -2.0% (-2.1% hedged). US shares were among the hardest hit, particularly in the technology and consumer sectors, as rising tariff announcements and weaker consumer data weighed on confidence. Targeted 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 Mid and Small Cap portfolio returned -0.2%, outperforming its benchmark.

While the local reporting season delivered few surprises on earnings, Australian shares saw notable price volatility, driven by a clear rotation out of recent outperformers and highly rated stocks, and into cheaper, more cyclical laggards. **First Sentier Australian MidCap** (**–3.9%**) underperformed in the March quarter, as gains from gold mining and energy stocks were offset by weaker results in growth-oriented sectors such as consumer discretionary, information technology, and communication services. **Yarra Australian Smaller Companies** (**+2.6%**) outperformed its small-cap peers, supported by strong contributions from several large active positions, particularly in gold miners. **Eley Griffiths Group Mid Cap** (**–0.8%**) also outperformed its benchmark, with active positions in industrials and consumer staples helping to cushion the impact of broader market weakness. Despite cautious sentiment and stretched small-cap valuations, **Ausbil Australian SmallCap** (**–0.1%**) held up relatively well, posting a modest decline and outperforming its small-cap peer group.

Performance contributors

LEADING CONTRIBUTORS

	3 Months
Yarra Australian Smaller Companies	0.76%
BT Platform Cash	0.01%

LEADING DETRACTORS

	3 Months
First Sentier Australian MidCap Fd	-0.75%
Eley Griffiths Group Mid Cap B	-0.16%
Ausbil Australian SmallCap	-0.04%

Portfolio structure

Fund	Weight %
Ausbil Australian SmallCap	30.00%
First Sentier Australian MidCap	19.75%
Eley Griffiths Group Mid Cap B Dis AUD	20.00%
Yarra Australian Smaller Companies Fund	29.00%
Platform Cash	1.25%

Portfolio changes

During the March quarter, no portfolio changes were made.

Portfolio objective

To deliver outperformance of the benchmark over rolling five year periods, net of indirect fees

Benchmark: S&P/ASX Mid-Small Cap 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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