

Navegar Conviction Australian Equity Portfolio Update June Quarter 2025

Portfolio performance

	1 mth (%)	3 mth (%)	6 mth (%)	1 year (%)	3 year (% p.a.)	5 year (% p.a.)	Since Inception (% p.a.)
Portfolio Total Return	1.50%	9.72%	6.16%	16.03%	13.84%	12.91%	9.50%
Benchmark*	1.42%	9.48%	6.36%	13.74%	13.35%	11.77%	9.01%
Excess Return	0.08%	0.24%	-0.20%	2.29%	0.49%	1.14%	0.48%

Performance returns track the value of a notional portfolio and are calculated pre-fee. The performance information shown may differ from the performance of an individual investor's portfolio due to differences in portfolio construction or fees. Investors should contact their platform provider for applicable fee rates. Past performance is not a reliable indicator of future performance.

*Benchmark is the S&P/ASX 300 TR Index AUD

Inception date 14 March 2018.

Market review

The second quarter began with the shock of the Trump Administration's "Liberation Day" tariffs and a swift 7.5% plunge in the S&P/ASX 300.

However the recovery was equally as sharp, coming in response to a watering-down of the initial tariff programme, ongoing negotiations over trade, and an increasing sense of confidence that the economic impact of tariffs would not drive the US into recession.

The S&P/ASX 300 regained its previous February highs in June, and returned 9.5% for the quarter.

June was largely dominated by geopolitical headlines as Israel launched attacks on Iran, followed by US involvement, culminating in a cease-fire by the month's end.

The market largely shrugged off the conflict; oil prices spiked towards US\$75 a barrel, but declined again on de-escalation.

In Australia, March quarter GDP data was weaker than consensus, but still reflects a slowing economy, rather than one facing recession. Inflation remains near the lower end of the RBA's target band and underpins expectations of two-to-three more rate cuts in 2025.

Information Technology (+26.9%) did best, helped by well-received results from Xero (XRO, +16.2%), Life360 (360, +62.4%) and Technology One (TNE, +47.5%) as well as broader strength in the global technology sector on the back of positive results and commentary from US tech stocks.

Financials (+15.7%) also outperformed. There was divergence within banks, with Commonwealth Bank (CBA, +22.4%) and National Australia Bank (NAB, +18.5%) outperforming Westpac (+9.9%) and ANZ (ANZ, +3.2%). The insurers also did well, led by Insurance Australia (IAG, +17.1%)

Materials (-0.4%) was the only sector to lose ground, as concerns over the impact of trade disruption to China – and the world more broadly – weighed on several key commodity prices. Iron ore fell -8.9%, dragging on BHP (BHP, -3.8%) and Rio Tinto (RIO, -7.2%). The gold sector continued to do well.

Utilities (+2.0%) lagged the market as sentiment approved, with AGL Energy (AGL, -7.5%) the weakest performer in the sector.

Cumulative performance



Performance returns are calculated pre-fee. Since Inception 14/03/2018.

Past performance is not a reliable indicator of future performance.

Portfolio commentary and outlook

The Portfolio model was a touch ahead of the benchmark index in the June quarter.

There was a good mix of positive contributors, including growth (Technology One, NextDC, Xero), defensives (Telstra, Metcash) and cyclical (Qantas).

There was some underperformance of stocks with sensitivity to the US consumer, including Treasury Wine, Aristocrat Leisure and Amcor.

CSL (CSL) detracted given near-term uncertainties around pricing in the US, although we believe it is well positioned to weather this. Xero (XRO) underperformed as it raised capital to fund an acquisition, however this is widely seen as a strong strategic move.

Newsflow around tariffs and trade deals is likely to dominate near-term market sentiment.

Macro data and corporate anecdotes suggest that the US economy, while decelerating, is proving reasonably resilient. Most economists expect Q4 CY2025 GDP to fall to a range of 1%-2%.

There are signs that households have been managing budgets carefully and that many companies – including some of the larger retailers – are looking to absorb the impact of tariffs via supply chains rather than passing the cost on to consumers.

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This is all bolstering the view that the economy can cope with the impact of tariffs better than many feared.

It is also important in supporting the equity market. The consensus expectation is for the June quarter S&P 500 earnings to grow 4% year-on-year, versus the 12% growth seen in the March quarter, with softness in the commodity and cyclical sectors expected to contribute to lower growth. Concerns over a tariff-driven margin compression for FY26 guidance is the largest risk around reporting season.

Slower, but positive, economic growth and earnings suggests that equity markets can remain well supported, but are likely to consolidate in coming months as we wait on trade deals and clarity on the economic effects of tariffs.

The Fed has scope to cut rates, given the slowing economy, however they are looking to keep their powder dry given uncertainty over the impact of tariffs on the economy and inflation.

In the Australian market, aggregate earnings-per-share for the S&P/ASX 300 are expected to be modestly negative for FY25, dragged down by the resource sector.

However this is expected to swing back to positive territory in FY26 helped by improved returns from resources and mid-single digits gains from industrials ex-banks.

This earnings support is important for local markets, given that the index has returned to the upper end of its historical valuation range, making it harder for continued re-rating to drive returns.

The outlook for the domestic economy continues to look reasonable, helped by limited direct exposure to tariffs, continued government spending, and signals from the RBA that they are looking to cut rates further before the end of the year. The market continues to price close to three further cuts in 2025.

Performance contributors

Best 5 Performers (3 months)

Code	Name	Value Added
TNE	Technology One Limited	0.60%
QAN	Qantas Airways Limited	0.28%
XRO	Xero Limited	0.24%
TLS	Telstra Group Limited	0.23%
NXT	Nextdc Limited	0.23%

Underweight positions are in *italics*.

Worst 5 Performers (3 months)

Code	Name	Value Added
TWE	Treasury Wine Estates Limited	-0.46%
CSL	CSL Limited	-0.42%
CBA	<i>Commonwealth Bank of Australia</i>	-0.36%
WES	<i>Wesfarmers Limited (not held)</i>	-0.28%
RIO	Rio Tinto Limited	-0.18%

Underweight positions are in *italics*.

Best contributors to performance (3 months)

Overweight Technology One (TNE, +47.5%)

TNE delivered a strong 1H25 result, beating revenue and earnings estimates. Management upgraded guidance from 12-16% to 13-17% profit before tax (PBT) growth as they continue to migrate from a historical target of 10-15% to 15-20% annual growth. However, guidance still looks conservative based on a very strong 1H, in our view. The Rule of 40 measure continues to improve, with revenue growth plus free cash flow margin at 45.5% for the last twelve months. Overweight Metcash (MTS, +15.7%)

Overweight Qantas (QAN, +18.7%)

Qantas had sold off in April on concerns over the risk of US recession and global contagion dragging on travel demand – despite the ongoing strength in domestic airline demand. It rebounded in May as these concerns receded, coupled with positive market commentary around QAN, noting the benefits of rationality and resilient demand in the domestic airlines industry as well as the tailwind of lower oil prices.

Overweight Xero (XRO, +16.2%)

XRO delivered a good result with management demonstrating solid execution and the ability to invest within a well-defined capital allocation framework. Headline numbers were mixed; revenue met expectations, subscriptions and cash flow beat expectations, while EBITDA was a small miss. However the market picked up on some positive signals, such as investment in the International market starting to pay off with accelerating growth in net subscriber additions.

Worst contributors to performance (3 months)

Overweight Treasury Wine Estates (TWE, -19.9%)

Concerns about the potential impact of tariffs upon US consumer spending have weighed on TWE. In addition, data suggests that it is losing some share in the US luxury wine market. It also announced that its distributor in California was leaving that state, prompting concerns about the disruption involved in transferring to a new one. The company has faced a number of headwinds over the year-to-date, however we believe that the share price reaction overstates the risks. Management announced a share buyback towards the end of the quarter.

Overweight CSL (CSL, -3.9%)

CSL remained soft, with a degree of uncertainty persisting around the pricing outlook for the US. We continue to see this risk as overdone, given flexibility in supply chains and a strong competitive position. From here, we believe that CSL's return on capital will recover, driven by lower capex and higher margins in the core plasma business as the benefits of investment in new technology begin to manifest. At the same time, the company has recently announced a focus on greater efficiency and cost reduction. We believe this should support both earnings growth and a valuation re-rating.

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Underweight Commonwealth Bank (CBA, +22.4%)

Commonwealth Bank continued to benefit from flows from both domestic and international investors. We remain underweight, given that a sustained re-rating has driven valuation to a point where there is asymmetric risk to the downside, in our view. However we are mindful that there appear to be few catalysts for a material and sustained de-rating. As a result we are looking to manage the thematic risk of this position via exposure to other financials such as the insurers. The detractor from CBA had some offset from the overweight in National Australia Bank and underweight in ANZ within the banking sector.

Securities added / Sold to Zero during the quarter

Security name

Buy new position in Insurance Australia Group (IAG).

Buy a new position in Challenger (CGF)

Sell to zero in James Hardie (JHX)

Sell to zero in Pro Medicus

Portfolio objective

The Portfolio objective is to deliver outperformance relative to the benchmark over a rolling three year period with a primary focus on capital growth.

Benchmark: S&P/ASX 300 (TR) Index AUD

Investment Philosophy

Navegar seeks to deliver outperformance of the benchmark over rolling three-year periods by:

- Robust investment profiles tailored to meet client objectives
- A diversified approach to portfolio construction, with a strong focus on risk
- Skilled active management at a reasonable cost to add value over and above the index to varying degrees in asset sectors
- Blending strategies with low correlations and non-directional strategies to achieve true diversification.

Portfolio structure

Security Code	Security Name
CBA	Commonwealth Bank of Australia
CSL	CSL Limited
BHP	BHP Group Ltd
NAB	National Australia Bank Limited
TLS	Telstra Group Limited
XRO	Xero Limited
QBE	QBE Insurance Group Limited
QAN	Qantas Airways Limited
STO	Santos Limited
WBC	Westpac Banking Corporation
ALL	Aristocrat Leisure Limited
GMG	Goodman Group
MQG	Macquarie Group, Ltd.
TNE	Technology One Limited
NST	Northern Star Resources Ltd
RIO	Rio Tinto Limited
MPL	Medibank Private Ltd.
NXT	Nextdc Limited
ANZ	ANZ Group Holdings Limited
SCG	Scentre Group
SUN	Suncorp Group Limited
RMD	Resmed Inc
BXB	Brambles Limited
DOW	Downer EDI Limited
MTS	Metcash Limited
ORI	Orica Limited
NEC	Nine Entertainment Co. Holdings Limited
SEK	Seek Limited
TWE	Treasury Wine Estates Limited
AMC	Ancor PLC
IAG	Insurance Australia Group Ltd
CGF	Challenger Limited
ORA	Orora Limited
MIN	Mineral Resources Limited

Important Information

Navegar has appointed Pandal Institutional Limited ABN 17 126 390 627 AFSL No. 316455 (“**Pandal**”) as investment manager to provide research and portfolio construction services in respect of the Portfolio. Pandal is a global investment management firm focused on delivering superior investment returns for its clients through active management.

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