Navegar Conviction Australian Equity Portfolio Update September 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	-1.10%	3.07%	13.09%	10.53%	15.00%	13.48%	9.60%
Benchmark*	-0.65%	4.99%	14.94%	10.76%	15.03%	12.88%	9.40%
Excess Return	**-0.45%**	**-1.92%**	**-1.85%**	**-0.22%**	**-0.03%**	**0.60%**	**0.20%**

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

Greater clarity on the US tariff regime, passage of the "Big Beautiful Bill," decent corporate earnings and rate cuts in the US and in Australia provided enough fuel for equities to continue grinding higher in Q3.

The S&P/ASX 300 gained 5.0%, while the S&P 500 was up 8.3%.

In the US, data painted a picture of an economy which is slowing, but not tipping into recession. The Fed cut interest rates and are expected to do so again twice more before the year's end.

Earnings season in Australia was reasonable. The outperformance of domestically-focused versus internationally-exposed companies was a key feature.

This reflects signals that Australian consumer demand is stabilising and showing signs of improvement. In contrast, global companies – and particularly industrials with Northern American exposure – struggled with a weaker cycle.

Stronger-than-expected Australian GDP data early in September dampened the market's expectations around further rate cuts. This was reinforced by inflation coming in higher than most thought.

Gold continued to surge, up 17.9% for the quarter, while there was also some strength in iron ore (+9.6%). Brent crude oil was down -1.1%.

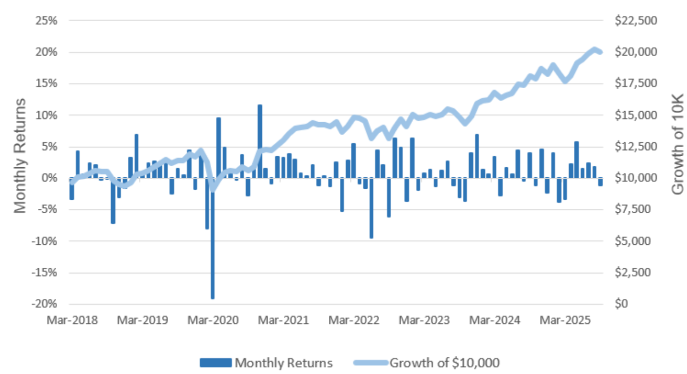
Materials (+21.2%) did best, fuelled by strong gains from gold miners Northern Star (NST, +29.9%), Evolution (EVN, +41.0%) and Newmont (NEM, +48.5%). Among the majors, BHP (BHP, +18.3%), Rio Tinto (RIO, +16.2%) and Fortescue (FMG, +26.2%) benefited from iron ore prices which remain relatively resilient. Rare earth-related names such as Lynas (LYC, +95.2%) and lithium miners like Pilbara Minerals (PLS, +88.8%) and Mineral Resources (MIN, +90.8%) also outperformed.

Utilities (+11.4%) also outperformed, largely on the back of Origin Energy (ORG, +18.7%) which delivered a well-received result.

Health Care (-9.7%) was the weakest sector. The sector has been taking its lead from the US, where uncertainty around the impact of tariffs and pricing has been a headwind, although there have been some company-specific issues at play as well. CSL (CSL, -16.3%), Cochlear (COH, -6.4%) and Sonic Healthcare (SHL, -17.8%) all gave up ground among the larger index-weights. ResMed (RMD, +4.5%) bucked the trend.

Consumer Staples (-1.4%) also underperformed, dragged down by an underwhelming result from Woolworths (WOW, -12.8%).

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

The Portfolio underperformed the benchmark in Q3. CSL, Xero, QBE Insurance and Santos all detracted – we retain conviction in these positions and see attractive upside. The underweight in Lynas Rare Earths was also a drag.

Overweights in Mineral Resources, Downer and NextDC all made positive contributions, as did the underweights in James Hardie and Woolworths. The aggregate exposure to banks via the underweight in Commonwealth Bank and overweight in National Australia Bank was also beneficial.

Performance contributors

Best 5 Performers (3 months)

Code	Name	Value Added
MIN	Mineral Resources Limited	0.64%
CBA	*Commonwealth Bank of Australia*	*0.41%*
JHX	*James Hardie Industries PLC (not held)*	*0.33%*
WOW	*Woolworths Group Ltd (not held)*	*0.25%*
DOW	Downer EDI Limited	0.20%

Underweight positions are in *italics*.

Worst 5 Performers (3 months)

Code	Name	Value Added
CSL	CSL Limited	-0.74%
XRO	Xero Limited	-0.62%
QBE	QBE Insurance Group Limited	-0.38%
STO	Santos Limited	-0.33%
LYC	*Lynas Rare Earths Limited (not held)*	*-0.26%*

Underweight positions are in *italics*.

Best contributors to performance (3 months)

Overweight Mineral Resources (MIN, +90.8%)

A rally in spodumene pricing off the back of a temporary mine closure in China buoyed MIN, along with other lithium producers. Beyond this, MIN delivered a better-than-expected FY25 result. Importantly, the company appears to be on track in ramping up its key Onslow iron ore project. Management were also much more on the front foot with respect to governance, deleveraging and operational improvements. While free cash flow this year is somewhat limited, quicker deleveraging is possible via asset sales. This remains key to derisking the business and improving equity returns.

Underweight Commonwealth Bank (CBA, -8.3%)

There was a rotation away from CBA following its strong gains in the June quarter, towards sectors which had lagged such as mining. CBA's result was largely in line with expectations, but management suggested that margins may come under pressure due to aggressive competition for deposits. Despite the pullback, we still see CBA's valuation as extended and providing little downside cushion and remain underweight. We are looking to manage this risk in the portfolio via stock selection elsewhere in banks and via the overweight in insurers.

Underweight James Hardie (JHX, -32.7%)

JHX saw a massive downgrade to its FY26 earnings expectations and a big miss at its 1Q26 result. Weaker new constructions and customer destocking now means management expect volumes to be down double-digits in FY26, versus prior guidance of a low single-digit decline. This flowed through to lower margins. FY26 guidance for its recent AZEK acquisition was also materially lower than expectations. The downgrade to FY26 EPS was in the order of 40%, exacerbated by JHX's high gearing post the AZEK deal.

Worst contributors to performance (3 months)

Overweight CSL (CSL, -16.3%)

CSL underperformed after a poorly-received earnings result in August, with further uncertainty over the impact of tariffs and pricing in the US continuing to weigh. We see CSL as relatively well placed in this regard, given it already has a material production presence in the US. Management have moved to calm market fears about the structural outlook for the key plasma market, while a new licencing deal demonstrates the more prudent approach it is taking to R&D investment. We see valuation as compelling for a company which should grow earnings in low double-digit compound annual growth rates for the next three years.

Overweight Xero (XRO, -12.4%)

XRO softened in the wake of its capital raising and announcement to purchase US company. There has been some sticker-shock on the price and it is low to mid-teens earnings dilutive in FY27. However we like the strategic rationale of the deal, which offers a meaningful opportunity in the US by improving their product market fit and customer value proposition, as well as significant scale opportunities from bringing two very complementary platforms together. We expect the earnings impact to be almost breakeven in FY28 and then accelerating accretion from FY29 onwards. Beyond this, there was some broader weakness in some software stocks on the potential threats from AI.

Overweight QBE Insurance (QBE, -10.7%)

QBE's 1H FY25 underwriting profit beat consensus by 3% but with the help of positive one-offs from reserve releases and benign catastrophe claims. Excluding these, underwriting profit would have missed by 6%. But 1H was impacted by two large claims and as a result, CY25 guidance was unchanged and out-year consensus earnings expectations reduced only by the order of 1-2%. The other focus was pricing, which decelerated in the June quarter and is now flat on a run-rate basis. While there is scope for prices to turn negative, declines are likely to be modest and are not expected to have any impact on volume growth or future margins. The share price appears to have overreacted with the stock now on a PE of 11x, versus 10-14x historically, despite returns being at the top of the long-term range.

Securities added / Sold to Zero during the quarter

Security name
Buy new position in Newmont Mining (NEM)

navegar

Portfolio structure

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

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.

Important Information

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

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