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# Navegar Conviction Australian Equity Portfolio Update
# June Quarter 2026

## 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 | -0.17% | 4.68% | 1.49% | 1.10% | 9.18% | 6.91% | 8.45% |
| Benchmark* | 0.60% | 4.14% | 2.02% | 6.16% | 10.56% | 7.58% | 8.66% |
| Excess Return | **-0.77%** | **0.53%** | **-0.53%** | **-5.06%** | **-1.38%** | **-0.68%** | **-0.21%** |

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

It was a volatile quarter for equity markets as sentiment around a potential peace deal between Iran and the US and reopening of the Strait of Hormuz ebbed and flowed.

However markets were ultimately able to sustain a rebound from the March low, due largely to two factors.

The first was that fuel prices and refining spreads did not surge to the levels that many feared given the scale of disruption to supply. The second was continued strength in the AI-related trade, which continues to underpin strong earnings growth in the US.

The S&P/ASX 300 gained 4.1% in Q2 2026. While respectable, it lagged the 14.9% gain in the S&P 500, which reflects a lack of the semiconductor and hyperscaler exposures which drove the US market.

Domestically, inflationary pressures in April data saw the RBA hike rates in May. Subsequent data saw concerns over further hikes ease and a recovery in some rate-sensitive sectors, however the RBA has been explicit in retaining a tightening bias.

Commodity prices generally eased as the effects of disruption proved more moderate than first feared. Aluminium was -10.9%, iron ore -6.7% and Brent crude oil -38.4%. Gold fell -14.1% as inflationary pressure in the US raised expectations of a rate hike and stronger US dollar. Copper (+7.6%) was resilient.

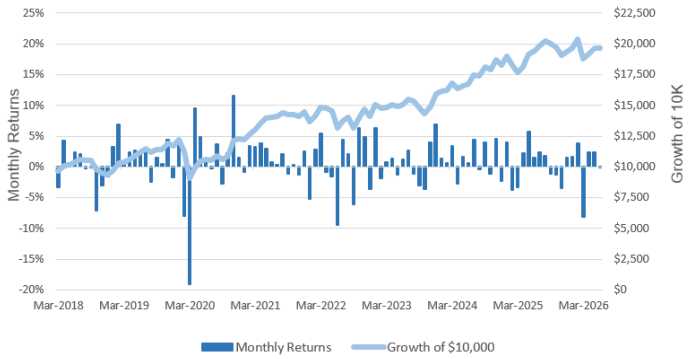
Consumer Discretionary (+18.0%) rallied as expectations around further domestic rate hikes eased in response to more moderate data. This saw gains in domestic retail exposures such as Wesfarmers (WES, +24.0%), JB Hi-fi (JBH, +11.1%) and Premier Investment (PMV, +19.3%). Elsewhere Aristocrat Leisure (ALL, +36.5%) delivered a well-received result.

Information Technology (+17.4%) also outperformed, but underlying outcomes were mixed. Software stock were mixed, with larger companies Xero (XRO, -3.9%) and Wisetech Global (WTC, -13.2%) remaining soft on concerns over the impact of AI persist. However this was swamped by strength in data centre-related companies such as NextDC (NXT, +30.9%), Megaport (MP1, +208.2%) and Weebit Nano (128.8%)

Energy (-16.7%) fell along with the oil price and refining spreads. Woodside Energy (WDS) fell -19.5%, Santos (STO) -9.4% and Ampol (ALD) -2.3%. Losses were broad-based, with the coal, gas and uranium plays all down for the quarter.

Utilities (-6.6%) were also down on a similar theme. Origin Energy (ORG) fell -11.3% and AGL Energy (AGL) -15.3%.

## Cumulative performance




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

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## Portfolio commentary

The Portfolio finished ahead of its benchmark index in Q2.

It benefited from an underweight in banks, which were softer on concerns over a slowing economy, housing market and risk of deteriorating credit quality. The resource sector benefited from some rotation away from the banks, helping the position in BHP.

Elsewhere, positions in Qantas, NextDC, Aristocrat Leisure, QBE Insurance and Goodman Group were beneficial.

The underweight in Wesfarmers detracted, as did positions in CSL, Santos, Telstra and Newmont Mining.

The market has been underpinned since the late-March low by a combination of; global economic resilience despite the Iran war, oil

We strongly recommend that potential investors read the product disclosure statement or investment statement.

prices holding lower than feared, accelerated revenue growth at Anthropic signalling that AI business models work, upgraded investment in AI from hyperscalers, and the SpaceX IPO which highlighted the acceleration of its revenues.

The combination of all these has been reflected in stronger-than-expected earnings growth in the US.

Continued market strength, the largest IPO in history at a punchy valuation, and the growing concentration of the US stock market has rekindled the debate as to whether we are near a market top.

The ten largest AI-related companies now comprise 41% of the S&P 500 and bears point to the historic precedent of equivalent levels of concentration at previous market peaks.

They also point to warning signs in longer-term valuation metrics. The Schiller P/E (the price over the average real earnings over 10 years) is near its previous high of the tech-wreck – as is the price/book ratio of the MSCI USA index.

The counter to this is that these measures do not capture the shift in earnings and returns on equity, particularly from tech sector. For example the S&P 500 is up ~9% in US dollar terms this calendar year, but 12-month forward EPS have been revised up 17%, which means the market's P/E ratio has fallen despite the rise in the index.

Returns-on-equity (ROE) for the S&P 500 have also stepped-up in the last three years to a range of 20-22% (and are currently at the high end), compared to a range of 12 to 20% over the previous 30 years. That step-up is linked to the mega-cap stocks, which are tapping into global customer bases and have strong market positions.

The key point is returns are higher and when this is mapped over the Schiller P/E is provides greater justification for current valuations than was the case in 1999.

The key call then becomes the sustainability of these returns, which goes to the current debate about returns on hyperscaler capex. Capex is leading to deteriorating cashflows at the hyperscalers, which in turn drags on returns. We note current estimates are for AI investment to be US$5.3 trillion from the four largest hyperscalers (Alphabet, Meta, Microsoft, Amazon) between 2025 to 2030 - a number that is trending higher.

The market currently believes the returns on that investment will flow through and cash flows will inflect higher from 2028.

This call is the key to the market. If this plays out it underpins earnings and valuation rating; if not, then capex budgets will have to be cut with knock-on effects to earnings and rating.

Domestically, the S&P/ASX 200's valuation multiple is falling back towards its historical mid range. The key here is whether earnings can remain resilient in the face of fuel disruption and higher rates.

Consensus still expects 13.9% EPS growth in FY26 and 9.8% in FY27. Resources continues to do much of the heavy lifting, although Industrials ex-banks are expected to deliver a still-respectable 8.5% growth in FY27. Implied mispricing remains at historical highs, underpinning our view of a market rich in alpha opportunities.

## Performance contributors

### Best 5 Performers (3 months)

| Code | Name | Value Added |
|---|---|---|
| QAN | Qantas Airways Limited | 0.64% |
| *WDS* | *Woodside Energy Group Ltd (not held)* | *0.60%* |
| NXT | Nextdc Limited | 0.44% |
| *WBC* | *Westpac Banking Corporation* | *0.41%* |
| ALL | Aristocrat Leisure Limited | 0.41% |

Underweight positions are in *italics*.

### Worst 5 Performers (3 months)

| Code | Name | Value Added |
|---|---|---|
| *WES* | *Wesfarmers Limited (not held)* | *-0.63%* |
| CSL | CSL Limited | -0.59% |
| STO | Santos Limited | -0.42% |
| TLS | Telstra Group Limited | -0.24% |
| NEM | Newmont Corporation | -0.23% |

Underweight positions are in *italics*.

## Best contributors to performance (3 months)

**Overweight Qantas (QAN, +26.9%)**

Market expectations around the surge in oil prices and reining spreads eased over the quarter as the global economy was able to absorb the impact better than expected and hopes of a peace deal rose. The company also noted disruption to international flights via the Middle East has led to strong demand for Qantas's international network, particularly to Europe and the US. Overall travel demand remains resilient, with limited impact of higher prices. The company remains optimistic on fuel supply, securing alternate fuel from the US, Mexico, and India and giving visibility on the future pipeline.

**Underweight Woodside Energy (WDS, -19.5%)**

The oil price eased off after the initial spike in response to the conflict, weighing on Woodside Energy. Woodside's Q1 production report was solid. Revenue was strong, driven by some one-off factors like thrid party sales and inventory drawdowns. All guidances were unchanged. We prefer Santos (STO) within the portfolio, as it is set to receive the benefits of improved cash flow following recent investment in growth projects.

**Overweight NextDC (NXT, +30.9%)**

NXT announced a 250 megawatt contract win at its S4 data centre in Sydney. This came alongside a large capital raising - including $1.5bn in equity – to support the roll out of this contract. The market has been concerned about NXT's balance sheet and the new debt and equity raised has resolved this issue for the moment. This is NXT's largest ever contract win, taking contracted EBITDA to >$1bn, resulting in a business which is four times larger than it is today.

## Worst contributors to performance (3 months)

**Underweight Wesfarmers (WES, +34.0%)**

WES saw a rebound in the second half of the period as concerns over rate hikes and the domestic consumer eased. It held its annual investor day in May. Messaging was consistent with the past, as the company continues its focus on reinvesting to grow each business segment organically. The company did flag some timing issues with relation to ammonia costs versus ammonium nitrate contract prices that create a short-term margin squeeze. The outcome was 1-2% negative revisions to consensus EPS.

**Overweight CSL (CSL, -18.5%)**

CSL downgraded earnings guidance for FY26 in May. Instead of NPATA growing 4-7%, they now expect earnings to be down by 4%. The market was slightly below the bottom end of guidance but needed to move down further. The new information is that they are taking some inventory out of a lower-priced channel in US for immunoglobulins - the hit to revenue is ~$300M. While a disappointing outcome, this should set up for a tighter market and a better result in FY27. Albumin, which has been dealing with a regulatory change in China, was also below expectations as the company attempts to find new channels to market. Despite some signs that the business should perform better in FY27 the market still reduced earnings by 13% in forward years with only minor growth forecast in FY27. It did see a rebound in June as part of a broad rotation back into lagging stocks and sectors.

**Overweight Santos (STO, -9.4%)**

Santos gave back recent gains as the oil price subsided from the surge following the initial stages of the Iran conflict, however the share price still remains well ahead of where its started the year. Its investor day held at the end of May was largely a re-affirmation of their stated strategy. Its two major growth projects – Barossa and Pikka – are ramping up towards stated capacity. The balance sheet is currently at the high end of the leverage range, but de-gears over the next 2-3 years whilst the company invests in high-graded and relatively high return projects. We expect a high proportion of free cash flow to come back to shareholders through this phase, supporting an attractive yield.

## Securities added / Sold to Zero during the quarter

| Security name |
|---|
| Sell to zero in Insurance Australia Group (IAG) |
| Buy new position in Evolution Mining (EVN) |
| Sell to zero in Brambles (BXB) |
| Buy a new position in Ampol (ALD) |
| Buy a new position in Cleanaway Waste Management (CWY) |
| Sell to zero in Northern Star Resources (NST) |

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## Portfolio structure

| Security Code | Security Name |
|---|---|
| BHP | BHP Group Ltd |
| CBA | Commonwealth Bank of Australia |
| NAB | National Australia Bank Limited |
| RIO | Rio Tinto Limited |
| TLS | Telstra Group Limited |
| CSL | CSL Limited |
| QBE | QBE Insurance Group Limited |
| QAN | Qantas Airways Limited |
| ANZ | ANZ Group Holdings Limited |
| GMG | Goodman Group |
| STO | Santos Limited |
| ALL | Aristocrat Leisure Limited |
| NXT | Nextdc Limited |
| EVN | Evolution Mining Limited |
| MQG | Macquarie Group, Ltd. |
| XRO | Xero Limited |
| MPL | Medibank Private Ltd. |
| WBC | Westpac Banking Corporation |
| NEM | Newmont Corporation |
| TNE | Technology One Limited |
| ORI | Orica Limited |
| SEK | Seek Limited |
| S32 | South32 Ltd. |
| LNW | Light & Wonder, Inc. |
| MIN | Mineral Resources Limited |
| CGF | Challenger Limited |
| DOW | Downer EDI Limited |
| ALD | Ampol Limited |
| LYC | Lynas Rare Earths Limited |
| RMD | ResMed Inc |
| AMC | Amcor PLC |
| CWY | Cleanaway Waste Management Ltd. |
| SCG | Scentre Group |
| MTS | Metcash Limited |
| NEC | Nine Entertainment Co. Holdings 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.

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## 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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