FRANKLIN TEMPLETON | ClearBridge

Australian Real Income Strategy

Andrew Chambers
Managing Director,
Portfolio Manager

Ashton Reid, CFA
Managing Director,
Portfolio Manager

Key Takeaways

- Real assets delivered mixed performance, supported by easing geopolitical tensions and stabilising long-term bond yields, which improved sentiment towards interest rate-sensitive sectors.
- The Strategy generated a solid positive return for the quarter and posted a significant dividend yield premium over its Index income return for the previous 12-month period.
- We continue to observe extremes across broader equity markets, including elevated price-to-earnings multiples, profit margins, index concentration, fund flows and momentum-driven behaviour. In this environment of persistent inflation, widening budget deficits and geopolitical risks, we believe portfolios should be positioned defensively and with a contrarian bias. Inflation-protected listed Real Assets with less transactional cash flows appear well placed as a defensive "port in the storm".

Market Overview

The global Real Asset universe (as measured by a blended 50% FTSE EPRA NAREIT Global REIT and 50% FTSE Global Core Infrastructure 50/50 Index) rose 4.0%, underperforming the broader global equity market (as measured by the MSCI All Country World Index in A$), which rose 13.6% in the June quarter.

Real assets delivered mixed performance during the June quarter, supported by easing geopolitical tensions and stabilising long-term bond yields, which improved sentiment towards interest rate-sensitive sectors.

Within listed property, retail REITs outperformed on resilient consumer spending and positive leasing momentum, while residential developers recovered from a softer start to the quarter as housing market conditions proved more resilient than expected. Data centers and property fund managers also benefited from continued structural growth themes, although data center stocks retraced some of their earlier gains in June following a strong rally. In contrast, office REITs lagged as leasing conditions remained challenging.

Infrastructure performance was mixed. Toll roads were stronger on the back of M&A. North American rail operators outperformed on lower energy prices and improving economic confidence, while utilities lagged as weaker wholesale electricity prices, favourable hydro conditions in New Zealand and political uncertainty weighed on earnings expectations and investor sentiment.

Performance Overview

In absolute terms, the ClearBridge Australian Real Income strategy was up in the second quarter 2026, and posted a significant dividend yield premium over the S&P/ASX 200 Accumulation Index income return for the previous 12-month period[1].

At the sector level, retail REITs and railroads & ports were the largest positive contributors, while multi-utilities and office REITs were the biggest detractors.

Retail REITs Scentre Group and Vicinity Centres contributed positively over the quarter as resilient retail fundamentals, positive leasing spreads and limited new supply reinforced confidence in earnings. Investors also continued to favour the sector's inflation-linked income streams and high-quality retail assets.

Canadian National Railway contributed positively over the quarter as improving operating performance, resilient freight volumes and continued productivity gains supported investor confidence. Sentiment was further supported by a long-term transportation agreement with BHP's Jansen potash project, reinforcing the company's long-term growth outlook.

Electricity and gas retailer AGL Energy underperformed as mild weather, lower market volatility and softer wholesale electricity prices weighed on earnings expectations. Sentiment was also impacted by new battery capacity being commissioned ahead of coal plant retirements, which is dampening price volatility and peak electricity earnings opportunities in the short term. Growth in data centre demand remains a future catalyst, that we expect to be a tailwind over the medium and long term.

Office landlord Dexus fell as slower office leasing conditions weighed on sentiment, while uncertainty surrounding the Melbourne Airport dispute and the subsequent strategic review of its infrastructure platform raised concerns around capital allocation and earnings.

DigiCo Infrastructure REIT detracted despite strengthening its balance sheet through the sale of its Chicago Oracle data centre, which materially reduced leverage and enhanced funding flexibility. We continue to see significant long-term value as the company executes its development pipeline.

Portfolio Positioning

We initiated a position in DigiCo Infrastructure REIT (DGT), attracted by an appealing entry point following the sale of its Chicago Oracle data centre at book value. With approximately $400 million of cash on the balance sheet, reduced leverage and long-term funding secured, DGT is well positioned to execute its growth pipeline, which we expect to drive high double-digit earnings growth through FY26–29. Key catalysts include leasing progress at SYD1 and development approval for future expansion plans.

[1] Data calculated for a ClearBridge Australian Real Income representative account in A$, gross of management fees.

We also initiated positions in U.S. manufactured housing REITs Equity LifeStyle Properties and Sun Communities. Both offer defensive exposure to the U.S. affordable housing sector, combining resilient cash flows, strong pricing power and proven dividend growth. While neither stock screens as cheap, recent valuation normalisation has improved the entry point, with upside supported by continued rental growth and a recovery in seasonal RV and marina operations.

We exited the residual position in suburban office owner Australian Unity Office Fund, which is in wind-down mode.

We exited the portfolio's position in National Storage REIT following a period of relative outperformance and the conclusion of its take-private takeover offer.

We also exited the positions in UK regulated water utilities United Utilities Group and Severn Trent due to share price strength.

Outlook

We continue to observe extremes across broader equity markets, including elevated price-to-earnings multiples, profit margins, index concentration, fund flows and momentum-driven behaviour.

In this environment of persistent inflation, widening budget deficits and geopolitical risks, we believe portfolios should be positioned defensively and with a contrarian bias. Inflation protected listed Real Assets with less transactional cash flows appear well placed as a defensive "port in the storm".

Our focus is on Real Assets with an "everyday needs" profile, characterised by strong pricing power, disciplined capital deployment and limited exposure to the economic cycle. This approach supports a diversified portfolio with resilient inflation protection and a strong outlook for revenue and dividend growth.

We also target Real Asset demand supported by three key structural megatrends: urban population growth driving demand for essential infrastructure and services; rising energy consumption and electrification increasing the need for network and grid investment; and accelerating data growth, fueled by AI and cloud adoption, supporting demand for data centers, fiber and logistics assets.

With portfolio holdings trading at a meaningful discount to our assessment of fair value, alongside improving earnings and dividend momentum, portfolio fundamentals continue to strengthen.

The portfolio offers an attractive expected next-twelve-month yield of 5.4%2, combined with the investment team's objective to grow the income above the rate of inflation, underpins an appealing total return outlook.

---

[2] Data calculated for a representative ClearBridge Real Income portfolio. Expected next 12 Months (NTM) Income is calculated using the weighted average of broker consensus forecasts of each portfolio holding – because of this, the returns quoted are estimated figures and are therefore not guaranteed and may differ materially from the figures mentioned. The figures may also be affected by inaccurate assumptions or by known or unknown risks and uncertainties. In respect of the broker consensus data the number of brokers included for each individual stock will vary depending on active coverage of that stock by a broker at any point in time. A median of brokers is typically utilised. All estimates avoid stale forecasts which are removed after a certain number of days. Before WHT.

Important information

Franklin Templeton Australia Limited (ABN 76 004 835 849) is part of Franklin Resources, Inc., and holds an Australian Financial Services Licence (AFSL No. 240827) issued pursuant to the Corporations Act 2001. The ClearBridge Australian Equities Investment Team, a division of Franklin Templeton Australia Limited, is operationally integrated under the "ClearBridge Investments" global brand, alongside ClearBridge Investments, LLC ("CBI"), and other ClearBridge entities indirectly wholly owned by Franklin Resources, Inc. Distribution of this material is issued and approved in Australia by Franklin Templeton Australia Limited.

This publication is issued for information purposes only and does not constitute investment or financial product advice. It expresses no views as to the suitability of the services or other matters described in this document as to the individual circumstances, objectives, financial situation, or needs of any recipient. You should assess whether the information is appropriate for you and consider obtaining independent taxation, legal, financial or other professional advice before making an investment decision.

Neither ClearBridge Investments, Franklin Templeton Australia, nor any other company within the Franklin Templeton group guarantees the performance of any Fund, nor do they provide any guarantee in respect of the repayment of your capital.

The document does not form the basis of, nor should it be relied upon in connection with, any subsequent contract or agreement. It does not constitute, and may not be used for the purpose of, an offer or invitation to subscribe for or otherwise acquire shares in any of the products mentioned.

Past performance is not a guide to future returns.

The distribution of specific products is restricted in certain jurisdictions, investors should be aware of these restrictions before requesting further specific information.

The views expressed are opinions of the portfolio managers as of the date of this document and are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. These opinions are not intended to be a forecast of future events, research, a guarantee of future results or investment advice.

Some of the information provided in this document has been compiled using data from a representative account. This account has been chosen on the basis it is an existing account managed by the investment team, within the strategy referred to in this document. Representative accounts for each strategy have been chosen on the basis that they are the longest running account for the strategy. This data has been provided as an illustration only, the figures should not be relied upon as an indication of future performance. The data provided for this account may be different to other accounts following the same strategy. The information should not be considered as comprehensive and additional information and disclosure should be sought.

The information provided should not be considered a recommendation to purchase or sell any particular strategy / fund / security. It should not be assumed that any of the securities discussed here were or will prove to be profitable. It is not known whether the stocks mentioned will feature in any future portfolios managed by the investment team. Any stock examples will represent a small part of a portfolio and are used purely to demonstrate our investment style.

The analysis of Environmental, Social and Governance (ESG) factors forms an important part of the investment process and helps inform investment decisions. The strategy/ies do not necessarily target particular sustainability outcomes.

Risk warnings – Investors should also be aware of the following risk factors which may be applicable to the strategy shown in this document.

- Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.
- This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.
- Income strategy charges are deducted from capital. Because of this, the level of income may be higher but the growth potential of the capital value of the investment may be reduced.