



Australian Select Opportunities Strategy



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Key Takeaways

- ▶ The Australian equity market (as measured by the S&P/ASX 200 Accumulation Index) rose 1.3% over the September quarter, despite weakening into the close.
- ▶ The Strategy significantly outperformed its benchmark over the quarter. Strong stock selection and a focus on resilient, attractively valued companies has enabled the portfolio to capitalise on market volatility and pricing dislocations.
- ▶ Australian equity market valuations and valuation dispersion remain elevated, although spreads have narrowed from the extremes seen a year ago. This continues to create opportunities for disciplined value investing and active stock selection.

Market Overview

Inflation and interest rates remained the dominant market drivers. Renewed Middle East tensions pushed oil prices sharply higher, adding to inflation concerns and driving a material rise in bond yields. In Australia, persistent inflation and persistent capacity pressures culminated in the RBA raising the cash rate by 25 basis points to 4.60% in late September.

Market leadership rotated significantly through the quarter. Health care, energy and gold-related exposures performed strongly at different points, while technology, banks, consumer discretionary and property were more sensitive to higher yields and changing risk appetite. AI and data centre investment remained an important structural theme.

The domestic growth picture was mixed. Services and business investment remained relatively resilient, while consumer sentiment weakened as higher rates, energy costs and affordability pressures weighed on households. Reporting season results were generally better than feared, although forward guidance was more cautious amid higher costs, softer demand and funding pressures.

Factor performance was volatile. Momentum reversed sharply in July before recovering in August, while valuation and profitability were the strongest factors over the quarter. Commodity exposures also benefited selectively, particularly gold, while stock-specific earnings and expectation changes remained an important driver of returns.

Performance Overview

The ClearBridge Australian Select Opportunities Strategy¹ significantly outperformed its benchmark, the S&P/ASX 200 Accumulation Index, in the third quarter of 2026. The strategy also significantly outperformed over the prior 12 months as historically wide valuation dispersion created compelling opportunities for disciplined value investing.

At the sector level, the overweight to Health Care and Energy and the underweight to Banks were the largest positive contributing sectors to the relative performance for the quarter, while the underweight to Metals & Mining and Communication Services and the overweight to Utilities were the biggest detractors.

At the stock level:

- Biopharmaceutical company **CSL** was the top contributor over the quarter, supported by improving confidence in its immunoglobulin outlook. Stronger-than-expected immunoglobulin performance, positive FY27 guidance and supportive industry trends drove a sharp rerating, which continued into September amid strong institutional demand. Plans to commence Horizon 2 clinical trials and the launch of an A\$1.15 billion share buyback provided further support.
- Australasian fuel refiner and distributor **Ampol** outperformed over the quarter as tight regional refining capacity, low inventories and disruption to global fuel markets supported elevated refining margins and stronger earnings expectations. A record result and dividend also reinforced the cash generation from the favourable refining environment.
- Oil and gas producer **Santos** benefited from higher global oil and LNG prices and improving investor confidence in its Barossa and Pikka projects.
- **Lynas Rare Earths** weakened as operational issues at Mt Weld drove lower-than-expected production and sales, while a substantial increase in the expected cost of its Malaysian heavy rare earths expansion raised execution and capital expenditure concerns. This outweighed support from higher rare earth prices and continued strategic demand for non-China supply.
- Engineering services provider **Worley** weakened as project delays stemming from the Middle East conflict weighed on earnings and the near-term outlook, outweighing positive contract wins and growth in its project backlog.
- **Corporate Travel Management** remained suspended during the quarter as it progressed the resolution of its UK customer remediation, reaching agreements covering 86% of the estimated liability. However, the shorter repayment timeframe increased near-term funding requirements and leverage, leading us to adopt a more conservative valuation.

¹ Data calculated for a ClearBridge Australian Select Opportunities representative account in A\$, gross of management fees.

Portfolio Positioning

We exited the position in private health insurer **Medibank Private**, reflecting limited valuation support and increasing earnings risks from potential downgrades and rising hospital wage costs.

We initiated a position in Australian agribusiness and grain handling company **GrainCorp**, reflecting our view that trading conditions are improving from a low base as risks increase across key grain export markets, particularly around Black Sea supply. While earnings can be volatile, we believe the company is well placed to benefit from stronger trading conditions and maintain its through-the-cycle dividend.

Outlook

While August reporting season was generally better than feared, the outlook was softer, with higher costs, weaker demand and funding pressures increasing the importance of resilient earnings and disciplined capital allocation.

The global backdrop remains supportive but increasingly challenging. Strong US activity and AI-led investment are underpinning profits, but persistent inflation, higher oil prices and rising bond yields are putting pressure on valuations. Australian valuations and margins are less stretched than in the US, although local markets remain exposed if higher rates begin to weigh on investment and earnings.

AI continues to reshape the investment landscape, although the benefits will accrue unevenly. In this environment, starting valuation, company-specific fundamentals and durable competitive advantages remain critical. We remain focused on quality businesses trading below intrinsic value, with resilient earnings, strong balance sheets and sustainable cash flows.

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