



Australian Active Insights 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 outperformed its benchmark, the S&P/ASX 200 Accumulation Index, for the quarter.
- ▶ 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 Active Insights strategy outperformed its benchmark, the S&P/ASX 200 Accumulation Index, for the quarter¹.

At the sector level, the overweight to Health Care and Energy and the underweight to Information Technology were the largest positive contributing sectors to the relative performance for the quarter, while the underweight to Metals & Mining, the overweight to Non-Bank Financials and Consumer Discretionary 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.
- Oil and gas producer **Santos** benefited from higher global oil and LNG prices and improving investor confidence in its Barossa and Pikka projects.
- Diversified miner **South32** was supported by firmer commodity prices, particularly copper, alongside strong operational delivery and higher earnings. The proposed sale of its aluminium assets to Alcoa was also viewed positively, improving the portfolio mix and reducing capital intensity.
- **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.
- Lithium producer **PLS Group** weakened as renewed pressure on lithium prices outweighed a strong FY26 result, which included record production and sales.
- Global insurer **QBE Insurance Group** weakened after a strong year-to-date rally, with profit-taking followed by a first-half result in which weaker-than-expected insurance revenue and underwriting performance outweighed growth in adjusted profit and a higher dividend.

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

Portfolio Positioning

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.

We initiated a position in plumbing products company **Reliance Worldwide**, reflecting our confidence in its ability to execute its product transition and its attractive long-term growth prospects in the US housing market.

We initiated a position in global wine producer **Treasury Wine Estates** following a prolonged period of share price weakness. We believe inventory destocking has masked the underlying strength of the business, with recent depletion data indicating trading conditions are stabilising. At current valuations, we see an attractive opportunity as earnings and cash flow recover over the medium term.

We initiated a position in large format retail landlord **BWP Group**. Higher land and construction costs have materially increased economic rents across large format retail, while BWP remains under-rented. This creates upside as vacated Bunnings sites are re-leased at higher rents, sold at premiums or redeveloped at attractive returns, alongside defensive income with inflation protection.

We also initiated positions in share registry services company **Computershare**, diversified property group **GPT Group**, consumer packaging company **Amcor**, general insurance group **Insurance Australia Group**.

We exited the positions in recruitment site **Seek**, Perth-based mining company **Deterra Royalties**, integrated energy company **Origin Energy**, lottery and keno business **Lottery Corporation**, diversified property group **Charter Hall Group**.

Outlook

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. 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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