



Australian Real Income Strategy



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Key Takeaways

- ▶ Real assets were pressured over the quarter as higher bond yields, persistent inflation and geopolitical risk weighed on rate-sensitive sectors, particularly property and infrastructure.
- ▶ The Strategy generated a negative total return for the quarter but posted a significant dividend yield premium over its Index income return for the previous 12-month period.
- ▶ Recent interest rate-driven weakness has created attractive valuation opportunities across listed Real Assets. We remain defensively positioned, favouring essential assets with inflation-linked revenues, resilient cash flows and exposure to long-term structural growth trends.

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) fell 6.6%, underperforming the broader global equity market (as measured by the MSCI All Country World Index in A\$) which rose 1.2% in the September quarter.

Data centre investment remained a key structural theme, supporting data centre REITs, while office REITs also outperformed. Industrial, residential and retail REITs were notably weaker. Utilities were comparatively resilient, supported by solid company results and growing electricity demand expectations.

Australian company reporting season was generally solid at the operating level, particularly across rental income, although higher debt costs became more evident.

Overall, A-REITs and infrastructure declined, with offshore infrastructure also pressured by rising yields.

Performance Overview

In absolute terms, the ClearBridge Australian Real Income strategy was down in the third quarter 2026, but posted a significant dividend yield premium over the S&P/ASX 200 Accumulation Index income return for the previous 12-month period¹.

At the sector level, Diversified REITs and Pipelines were the largest positive contributors, while Residential, Medical & Other REITs, and Retail REITs were the biggest detractors.

At the stock level:

- Diversified property group **Stockland** benefited from a solid FY26 result and continued progress across its residential, land lease and logistics businesses. The expansion of its capital partnerships, including a further A\$438 million logistics partnership with M&G, also supported confidence in its growth and capital recycling strategy.
- Hong Kong property group **Wharf REIC** benefited from a solid interim result, with higher underlying earnings and cash generation, alongside a material increase in its dividend payout ratio. The planned sale of Wheelock Place at a premium to book also supported the outlook for its balance sheet.
- New Zealand's telecommunications infrastructure provider **Chorus** weakened following its FY26 result, despite solid operating performance and a higher dividend, as investors remained cautious on the outlook and the stock came under pressure in a higher-rate environment.
- Rail freight operator **Aurizon Holdings** fell as its FY27 outlook pointed to lower coal earnings, reflecting reduced contracted volumes and softer yield despite broadly flat expected haulage volumes. This outweighed a solid FY26 result and the prospect of higher Network returns from its 2027 regulatory reset as interest rates rose.

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

Portfolio Positioning

We initiated a position in **Auckland International Airport** following recent share price weakness. While it currently offers a lower yield, we see attractive long-term growth from its major terminal expansion and property development pipeline, which we expect to drive higher earnings and dividends over time.

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 initiated a position in North American pipeline owner **Enbridge**, where an attractive absolute yield and reliable, growing dividend support a compelling income proposition. We expect dividend growth of around 3–4% per annum, underpinned by the completion of committed projects and strong free cash flow generation.

We initiated a position in UK water utility **Severn Trent**, which offers a highly reliable dividend with income expected to grow broadly in line with inflation. While the absolute yield is relatively modest, management has demonstrated a willingness to protect the dividend through the cycle.

We initiated a position in UK logistics property owner **Tritax Big Box REIT**, attracted by a yield of more than 5%, a discount to book value and a reliable dividend track record. Income growth is supported by an under-rented portfolio, additional floor space and emerging data centre opportunities, while improving UK industrial market conditions provide a further tailwind.

We exited the position in **Centuria Capital Group** as our assessment of the group's risk outlook deteriorated, preferring to redeploy capital towards lower-risk rental income opportunities.

We exited the position in land lease and holiday communities operator **Ingenia Communities Group**, reflecting increasing thesis drift as the business plans to pivot materially towards property development. Recurring rental income would become a smaller component of the business, while recent asset sales further reinforce this shift. Quality risks are skewed to the downside, and future growth is increasingly reliant on successful development execution.

We also exited some of the portfolio's smaller positions in **HealthCo Healthcare & Wellness REIT**, **Growthpoint Properties Australia** and **Storage King Group**.

Outlook

We continue to observe extremes across broader equity markets, including elevated valuations, profit margins, index concentration and momentum-driven behaviour. Persistent inflation, higher bond yields, widening government deficits and geopolitical uncertainty reinforce the importance of disciplined capital allocation and a contrarian investment approach.

Our focus remains on Real Assets with an “everyday needs” profile, characterised by strong pricing power, limited economic sensitivity and sustainable income. We continue to target demand supported by three structural megatrends: urban population growth driving essential infrastructure needs; electrification and rising energy consumption supporting network investment; and accelerating data growth, fuelled by AI and cloud adoption, increasing demand for data centres, fibre and logistics assets.

While markets have been quick to price in the negative effects of higher interest rates and energy costs, we believe they have been slower to recognise the potential benefits of inflation-linked pricing, higher rents and energy revenues. Dividend expectations remain resilient, with scope for upside as these benefits emerge.

With portfolio holdings trading at a meaningful discount to our assessment of fair value, alongside improving earnings and dividend momentum, portfolio fundamentals remain supportive. We remain focused on growing income above the rate of inflation, supporting an attractive total return outlook.

The portfolio offers an attractive expected next-twelve-month yield of 5.9%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.

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- 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.

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