



Australian Equity Income Strategy



Reece Birtles, CFA
Managing Director,
Portfolio Manager and
Head of Australian
Equities



Michael Slack, CFA
Managing Director,
Portfolio Manager and
Director of Australian
Equities Research

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 generated a positive return for the quarter and posted a significant franked dividend yield premium over its Index income return for the previous 12-month period.
- ▶ 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

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

At the sector level, Health Care, Energy and Metals & Mining were the largest positive contributors to the portfolio's absolute return for the quarter, while Industrials, Consumer Discretionary and Communication Services 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.
- 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.
- Lottery and keno operator **The Lottery Corporation** weakened as investors reassessed its valuation ahead of results, before a softer FY26 outcome highlighted subdued lottery revenues, higher funding costs and a more muted near-term earnings outlook. Weak jackpot conditions and pressure on discretionary spending also weighed on sentiment.
- Retailer **JB Hi-Fi** weakened following its FY26 result. While sales and earnings grew, softer fourth quarter and July trading raised concerns around FY27 earnings momentum, with ongoing consumer affordability pressures and a more subdued demand outlook weighing on sentiment.

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

Portfolio Positioning

We initiated a position in commercial explosives provider **Orica**, supported by a positive medium-term outlook for mining volumes amid firm commodity prices and new copper project development. A tightening supply-demand balance for ammonium nitrate is supporting higher recontracting prices, while recent supply issues in the US are considered relatively minor and unlikely to materially affect the medium-term outlook.

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 exited the position in retail drinks and hospitality business **Endeavour Group**, reflecting increased downside risk as earnings come under pressure from its price reduction strategy. With elevated debt levels, we see a material risk that a weaker operating environment could place pressure on the company's dividend.

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.

On a forward-looking basis, the strategy is expected to provide a franked dividend yield of 6.1% over the next 12 months, compared to the 4.6% expected franked yield for the S&P/ASX 200².

² Data calculated for a representative ClearBridge Equity Income portfolio. The 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 depend 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. Assumes zero percent tax rate and full franking benefits realised in tax return.

Important information

Franklin Templeton Australia Limited (ABN 76 004 835 849) is part of Franklin Templeton, 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 Templeton, 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.

© Franklin Templeton Australia Limited. You may only reproduce, circulate and use this document (or any part of it) with the consent of Franklin Templeton Australia Limited.