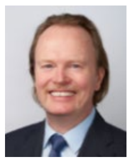
Australian Equity Income Strategy



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Key Takeaways

- The domestic Australian equities backdrop remained mixed, with subdued sentiment offset by resilient business conditions, while inflation concerns continued to shape interest rate expectations.
- The Strategy generated a solid positive return for the quarter and posted a significant franked dividend yield premium over its Index income return for the previous 12 month period.
- The Fund invests in a diversified portfolio, favouring high quality, highly franked dividend payers to reduce income shocks and grow income. The benchmark unaware portfolio construction, with low security and sector concentrations, provides greater diversification across economic sectors so no single stock dominates, and minimises the concentration risk prevalent in the Australian market.

Market Overview

The Australian equity market, as measured by the S&P/ASX 200 Accumulation Index, rose 4.0% during the June quarter.

The domestic economic backdrop remained mixed, with subdued consumer and business sentiment contrasting with relatively resilient underlying business conditions. Housing affordability challenges, the Federal Budget and strong wage outcomes through Enterprise Bargaining Agreements reinforced concerns that inflation could prove more persistent, contributing to evolving interest rate expectations. While Australian short-term bond yields moved higher during the quarter, longer-dated yields declined, reflecting a more nuanced outlook for growth and inflation.

Corporate earnings continued the re-acceleration that began in the second half of last year, although much of the improvement remained concentrated in commodity-related sectors, highlighting the relatively narrow nature of earnings growth. Continued investment in AI infrastructure remained an important market theme, supporting earnings growth and investor sentiment despite emerging concerns around elevated valuations.

Other materials and consumer discretionary were the strongest performing sectors during the quarter, while energy was the weakest as easing geopolitical tensions weighed on oil prices. Beyond sector performance, investors favoured Value, Quality and lower-volatility stocks, while Momentum lagged, reflecting a more defensive market backdrop. Softer-than-expected Chinese economic activity tempered demand expectations for commodities, while the restart of a major Chinese lithium mine reinforced concerns around ongoing lithium oversupply. Although valuation dispersion narrowed over the quarter, it remains elevated, continuing to provide opportunities for active stock selection.

Performance Overview

In absolute terms, the ClearBridge Australian Equity Income strategy was up in the second 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 period[1].

At the sector level, non-bank financials and industrials were the largest positive contributors to the portfolio's absolute return, while utilities and energy were the biggest detractors.

Financial services provider Suncorp Group and global insurer QBE Insurance Group outperformed as investors rotated into defensive, yield-sensitive financials in a higher-for-longer interest rate environment. Suncorp was further supported by resilient earnings and improving confidence in operational execution, while QBE benefited from a strong result, higher interest rates supporting investment income and confidence that insurance market conditions remain favourable.

Mining company BHP Group outperformed as improving sentiment towards copper, supported by growing investment in AI-related infrastructure and electrification, helped offset weaker iron ore prices. A solid operational update, including maintained iron ore guidance and copper production tracking towards the upper end of FY26 guidance, further supported investor confidence.

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.

Agricultural supplier and retailer Elders declined following its first-half result as higher-than-expected corporate costs drove an earnings miss and raised concerns around the company's near-term profit outlook. Elders' management remains positive on the seasonal outlook and future operating efficiencies of the business post completion of system modernisation.

Biopharmaceutical company CSL detracted over the quarter following FY26 guidance downgrades and additional non-cash impairments related to the CSL Vifor acquisition, which weighed on investor sentiment. While the stock rerated in June as investors rotated back into defensive healthcare stocks and concerns around US plasma margins eased, the recovery was insufficient to offset earlier weakness.

Portfolio Positioning

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

We initiated a position in medical diagnostics services provider Sonic Healthcare, attracted by its stable, high free cash flow profile and compelling valuation following a recent share price de-rating. The stock is trading on an attractive yield, supported by low capital intensity and a strong track record of dividend growth, with recovering diagnostic volumes expected to underpin earnings. Sonic should also be a beneficiary of AI and operational efficiencies.

We increased the position in biopharmaceutical company CSL, reflecting our view that the market is overly discounting the strength of its core immunoglobulins franchise. While recent commercial execution issues and the CSL Vifor acquisition have weighed on sentiment, we believe the company's market-leading position and resilient earnings profile support moderate long-term growth. At current valuations, together with its attractive income characteristics, we see an appealing risk-reward opportunity.

We trimmed the position in supermarket retailer Woolworths Group after a strong share price re-rating. While the company remains a high-quality business, we believe it may be difficult to deliver stronger earnings growth from here.

We trimmed the position in global toll road operator Atlas Arteria Group into share price strength following IFM's move to gain control. While we are comfortable remaining a minority shareholding given the appealing asset base but, we reduced the position given the prospect of lower liquidity and increased uncertainty around possible changes to management and strategy.

We also trimmed the portfolio’s positions in pipeline owner APA Group, mining company BHP Group, retail landlord Vicinity Centres and rail freight operator Aurizon Holdings all into share price strength.

Outlook

Australian equity market valuations and valuation dispersion remain elevated, although valuation spreads have narrowed from the extreme levels seen a year ago. Despite this moderation, the opportunity set for disciplined value investing and active stock selection remains compelling. While macroeconomic uncertainty persists, including inflation, geopolitical developments and the global growth outlook, we believe companies with real assets, pricing power and resilient earnings are well positioned to navigate the current environment.

AI continues to reshape the investment landscape, although we believe the benefits will accrue unevenly across sectors and business models. Companies with strong market positions are well placed to harness productivity gains, while elevated market volatility and valuation dispersion continue to create pricing dislocations that reinforce the case for disciplined, valuation-driven active investing. We remain focused on identifying quality businesses trading below intrinsic value, with strong balance sheets, sustainable cash flows and attractive income characteristics.

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 200[2].

[2]Source: ClearBridge, FactSet; as of 30 June 2026. 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 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. Assumes zero percent tax rate and full franking benefits realised in tax return.

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- 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.