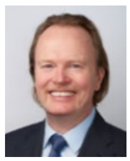
# Australian Select Opportunities Strategy



**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 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 underperformed its benchmark, partially reverting the strong absolute and relative gains of the last 12 months. Quarterly underperformance was primarily due to stocks within consumer discretionary, which offset the positive contribution from underweights in both banks and metals & mining.
- 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.

## 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**

The ClearBridge Australian Select Opportunities Strategy[1] underperformed its benchmark, the S&P/ASX 200 Accumulation Index, in the second quarter of 2026.

While the portfolio underperformed the Index over the quarter, it has significantly outperformed over the prior 12 months as historically wide valuation dispersion created compelling opportunities for disciplined value investing. Strong stock selection and a focus on resilient, attractively valued companies with pricing power enabled the portfolio to capitalise on market volatility and pricing dislocations.

At the sector level, underweights to both banks and metals & mining were the largest positive contributing sectors to the relative performance for the quarter, while consumer discretionary (underweight) and utilities were the biggest detractors to the relative performance of the portfolio.

Not holding positions in Westpac Banking Corporation and National Australia Bank contributed positively to relative performance. Investor sentiment towards the banking sector weakened amid concerns surrounding the Federal Budget, while Westpac also faced ongoing pressure from net interest margin compression and increasing competitive pressure from Macquarie.

Not holding oil and gas producer Woodside Energy Group contributed positively over the quarter as earlier support from higher oil prices and geopolitical tensions faded, with lower oil prices and easing takeover speculation weighing on the stock.

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.

Corporate Travel Management remained suspended over the quarter. Additional billing issues, delayed financial reporting and ongoing uncertainty surrounding customer remediation led us to reduce our valuation to reflect the heightened risk profile.

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

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

remains a future catalyst that we expect to be a tailwind over the medium and long term.

Not holding conglomerate Wesfarmers detracted as the market rotated towards defensive stocks and investors were attracted to the resilience of Bunnings and the group's diversified earnings base.

**Portfolio Positioning**

The portfolio experienced higher-than-normal turnover during the quarter as changing market dynamics created attractive investment opportunities. The easing of geopolitical tensions and significant shifts in valuations enabled us to initiate several new positions while exiting holdings where upside had become more limited.

We initiated a position in medical equipment company ResMed, gaming equipment and services group Light & Wonder, global wine producer Treasury Wine Estates, plumbing products company Reliance Worldwide, global travel wholesaler Web Travel Group.

We exited the positions in gaming company operator Tabcorp Holdings, engineering company Downer EDI, packaging company Orora, investment bank and financial services company Macquarie Group and supermarket retailer Woolworths Group.

**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.

## Important information

**Franklin Templeton Australia Limited (ABN 76 004 835 849) is part of Franklin Resources, 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 Resources, 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.
- The strategy may invest in derivatives (index futures) to obtain, increase or reduce exposure to underlying assets. The use of derivatives may restrict potential gains and may result in greater fluctuations of returns for the portfolio. Certain types of derivatives may become difficult to purchase or sell in such market conditions.