ClearBridge
A Franklin Templeton Company

Australian Equities Reporting Season Wrap

Expectations vs. Impact: How Earnings Got Rewarded or Punished This Reporting Season

Australian equity valuations continue to be near record highs. The gap between the most expensive and cheapest stocks remains at extreme levels, and index-driven flows continue to push up the prices (and index weights) of the largest Australian stocks.

This reporting season, even modest earnings result surprises have driven outsized rewards and punishments in terms of price reaction, highlighting new and growing risks and opportunities for long-term investors who follow both passive and active investment approaches.

In our latest reporting season wrap, we delve into how the ClearBridge Australian equities investment team is cutting through the noise to find the Australian companies where fundamental earnings generation will drive long-term capital and income returns in the coming months and years.

Key Takeaways

- **Limited earnings surprises, but outsized price reactions and downgrades**
  Even small beats or misses were heavily rewarded or punished, with limited correlation between new news, economic drivers and alpha during the season.
- **Dividends and capital management supported results**
  Special dividends, buybacks, and capital returns featured strongly, while leadership transitions in several companies coincided with downgrades and negative price moves.
- **AI an emerging theme, but early**
  Over half of companies referenced AI in results, though most focussed on pilots and traditional machine learning; generative AI adoption remains limited but could shift industry economics over time.
- **Index flows continue to distort markets**
  The prices of high index weight stocks are increasingly diverging from fundamentals, with small revisions translating into exaggerated price moves and reinforcing the concentration risk in these stocks.

- **Valuations stretched, dispersion extreme**
  The gap between expensive and cheap stocks remains near record levels, creating both risks in high-flow large caps and opportunities in undervalued companies with stronger fundamentals.
- **Implications for investors**
  For conviction-driven accumulation and income investors, mispricing presents opportunity, while risk-constrained investors may benefit from more nuanced, factor-controlled approaches. Across the board, active, disciplined stock selection remains essential to capture consistent capital growth and growing income going forward.

Analytical Review of Results and Revisions

Sales up, earnings in-line, and positive dividends results… but downgrade skew for revisions

Across our S&P/ASX 200 stocks universe, earnings per share (EPS) surprise, a measure of how the aggregate of actual results came in compared to their pre-reporting broker consensus forecast, evenly split with a near equal number of beats, misses and in-lines. One element behind this was a macro environment over the last six months that proved to be remarkably more stable than all the headlines would have suggested. Many of the companies that beat EPS expectations cited pricing power as the primary driver of their stronger earnings, whereas a large portion of the misses were dominated by company specific operational issues.

Top line revenue, or sales per share (SPS) had more of an upside surprise skew, helped along by the continued effects of inflation post-Covid. For dividends per share (DPS), we saw a more positive skew, with several companies announcing special dividends and capital returns.

Despite the generally positive results, broker consensus forecasts for earnings after the results were more typically revised downwards. Although forward sentiment surveys for Australia are showing surprisingly more green shoots compared to US and global markets, a key factor in the poorer outlook for EPS is that surveys of Australian business conditions have started to signal a slowdown, whilst consumer conditions surveys, which had been quite weak, are now improving.

Exhibit 1: Surprise (Percent of S&P/ASX 200 Companies Reporting)

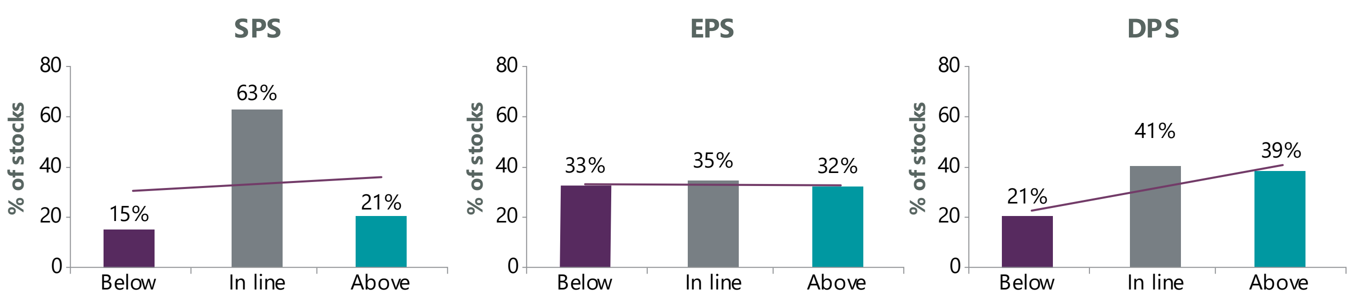
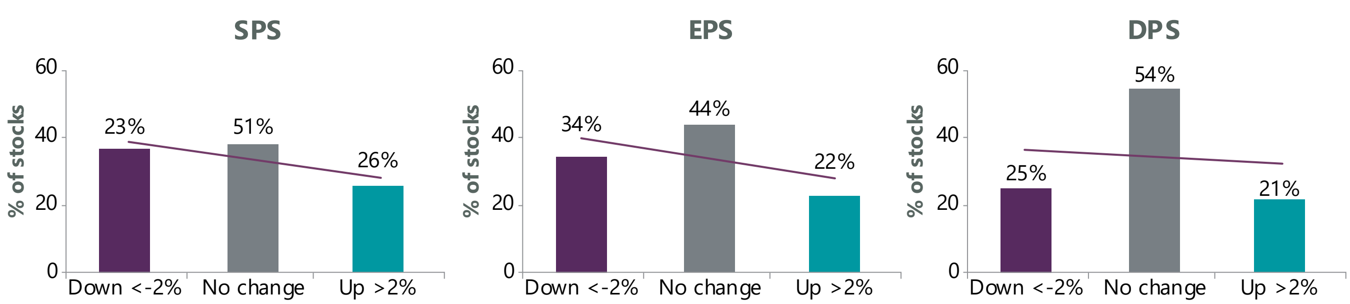


Exhibit 2: Revisions (Percent of S&P/ASX 200 Companies Revised)

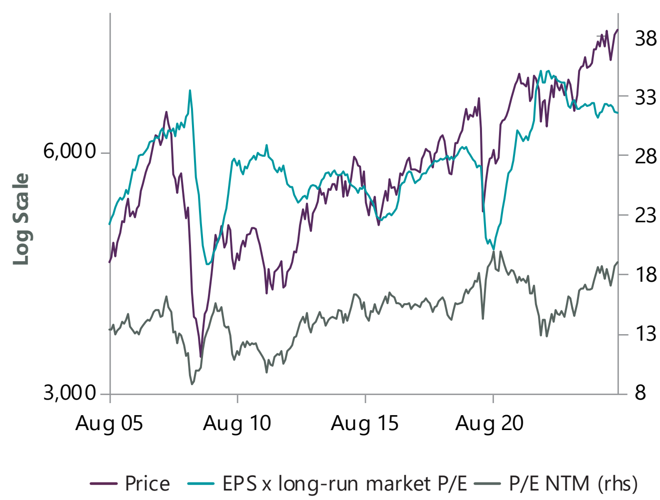


Full month returns up, but significant volatility to price reactions

For the full reporting season month, the S&P/ASX 200 Accumulation Index rose 3.1% in aggregate but saw heightened market volatility. Companies that beat expectations were generally rewarded with positive price reaction, while many who reported in-line or weaker-than-expected results faced significant declines.

On a style basis, Growth style stocks outperformed both Value and Quality stocks, as the expansion of already stretched price-to-earnings ratios was intensified by the downward revisions to EPS forecasts.

Exhibit 3: Price vs. Fundamentals: S&P/ASX



Deeper Dive on the Thematics Driving Results

Familiar revision thematics did not drive alpha

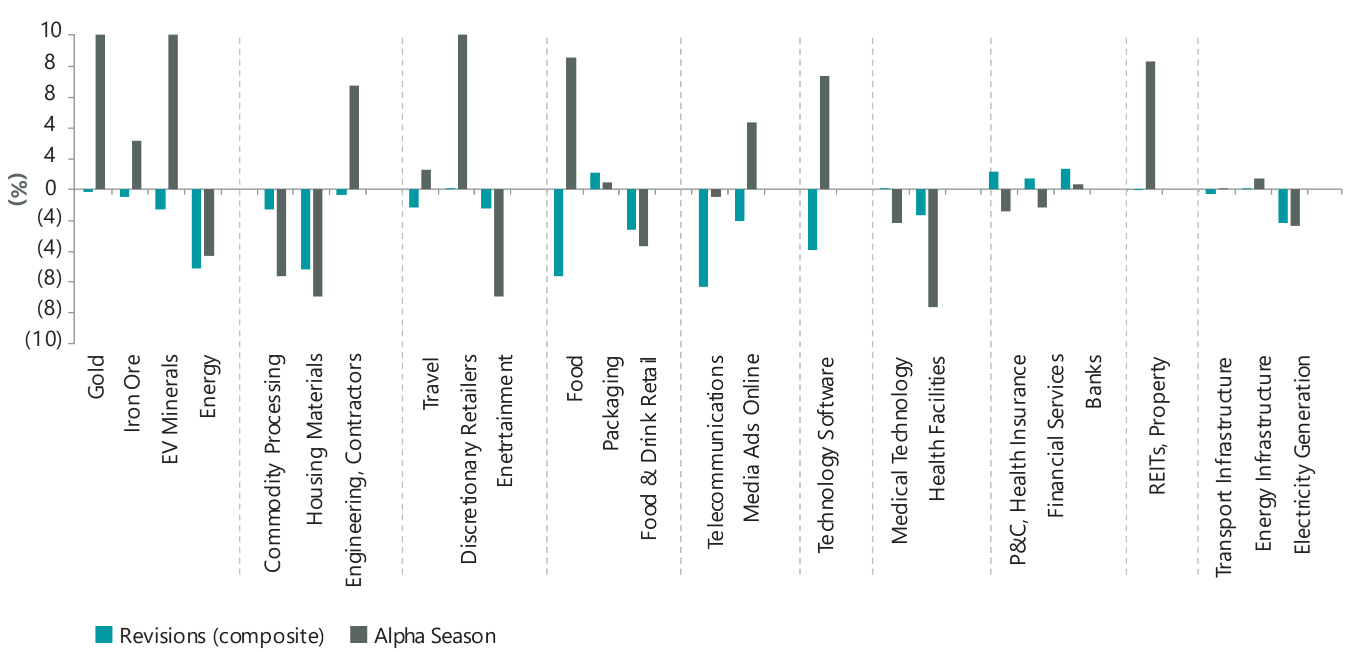
Looking at the results at a more granular level, there was scant evidence of any correlation between composite earnings revisions for the sector / industry groups and alpha over the reporting season.

As Exhibit 4 highlights, the strongest alpha contributing industry groups had no assistance from positive revisions (based on a composite of measures), with most of the green bars in negative territory. Conversely, the handful of financial and packaging industry groups that generated positive revisions trended towards negative alpha for the season, whilst food retailers and software providers generated positive alpha in the face of quite negative composite revisions.

There appears to be bigger influences contributing to alpha such as Artificial intelligence (AI) and the growing influence of passive investing, and we will specifically address these later in this paper. However, we will quickly highlight the key macro and micro thematics that help explain some of the result surprise and revisions to forecasts.

Firstly, US tariffs didn't attract the negative attribution that was feared coming into reporting season. Companies that are exposed to tariffs like Ansell were instead citing the ability to pass through price increases and/or shift production to avoid the tariffs. Stocks with

Exhibit 4: Results scorecard - S&P/ASX 200 by Industry Group



exposure to US fast moving consumer goods, such as Amcor, struggled alongside those with US residential exposures like Reliance Worldwide, Reece, and James Hardie Industries. New Zealand exposed stocks, especially builders like Fletcher Building were also weak.

Companies more exposed to the front end of the consumer cycle hinted that lower rates are already helping. Harvey Norman for example reported accelerating growth, while Stockland is seeing stronger open house visitations. Although alcohol sales and dining out are still weak, Coles Group talked about a 'thawing' of consumer hibernation and a growing willingness to entertain at home. On the back of a solid result, Coles had a standout positive price reaction compared to Woolworths Group. Wesfarmers did well with Kmart and Bunnings brands, but the business demand environment was net negative for the company, highlighting weaker SME demand for Officeworks and Bunnings Trade.

With the RBA cutting the cash rate at its August meeting by a further 25 basis points to 3.6% and flagging a "cautious outlook", markets are now pricing in a further 0.4% - 0.5% worth of cuts by mid-2026. This increased confidence in lower debt costs give further impetus to a generally positive sentiment emerging from predominantly in-line results and more positive earnings revisions from REITs versus other sectors of the market. Another driver relevant for REIT strength appears to be the poor commercial proposition for new builds today. Construction productivity has fallen, and the rents required to support a new build are materially above today's prices, meaning that replacement cost for existing buildings is very high. As a result, the market rewarded companies with strong pricing power and where their retail space demand is greater than supply, such as the retail landlords like Scentre Group and Vicinity Centres, further enhancing the outlook for future rent growth of existing property. We are seeing the opposite for office, where incentives and rent-free periods remain very high, resulting in poor profit growth in that area.

Within infrastructure and utilities sectors, toll road operators Transurban Group pointed to the project revenue boost from Melbourne toll-road construction due to finalise over the next 12 months and noted its "optimism" on achieving a resolution in New South Wales toll reform. Australia's biggest coal generator, AGL Energy, expressed confidence that its rapidly growing battery storage portfolio will more than offset the decline in its coal and gas earnings as the country's main grid transitions from baseload to renewables and flexible capacity.

Elsewhere for gold and EV minerals miners, the price driver was more macro-economic, as with gold, or potential constraints on lithium supply coming from anti-involution measures in China. Within banks, a long-expected rotation out of Commonwealth Bank of Australia (CBA) commenced toward the remaining big four and CSL suffered a significant correction having signalled the stalling of revenue growth as a driver of earnings and announcing a pivot towards more disciplined cost-control and targeted R&D to support continued, albeit slower, earnings growth.

Capital management and management change fill void

As mentioned above, management within many companies turned to buybacks and other capital management initiatives in the absence of strong underlying thematics requiring large capital deployment. Without the availability of 'off market' buybacks, and with franking credits in the wrong company's hands, we noticed more on-market buybacks than special franked dividends.

It was notable that, in the void of other strong topics, more pronounced management change was a feature, as many key personnel appeared to be ready to hand over to a new generation of leaders having guided their respective companies through the five-year post-Covid period. We found that most of the companies that announced management change also provoked downgrades and/or negative price reaction. These culprits included Inghams Group, Ebos Group, Domino's Pizza Enterprises, Reece, and Endeavour Group.

The Emergence of Artificial Intelligence in Results

Artificial intelligence potential growing in results

One notable and growing theme applicable to all companies is AI. For now, the key question we are seeing for companies is how AI can potentially lower the cost of doing business versus how it may be used to disrupt existing business models.

As an investment team, we decided to jump on the AI bandwagon, and used AI tools to analyse the transcripts of the 170 Australian companies who reported during the period. We wanted to see how many were talking about the use of AI in their businesses, and what the leaders were doing better than the laggards.

We found that over 50% of companies in the market talked about using AI, but less than 4% of those were really focussed on Generative AI. Most of the discussion was around traditional machine learning projects. The emphasis was also more on pilots and experiments, with very few citing any quantitative return on investment metrics or other financial benefits. The strongest indications of use of generative AI were in the IT, financials and consumer sectors with applications such as customer service (chat bots), marketing and documentation, even in claims processing. Examples include CBA's extensive machine learning models, Suncorp Group's claims automation, and Brambles' early-stage generative AI pilots. The more traditional machine learning applications in the industrials and utilities companies appear to be focussed on predictive maintenance, demand forecasting and supply chain management.

The "so what" our analysts are finding from this analysis is that AI is starting to shift some industry economics, with the potential to democratize scale, lower barriers to entry, and force companies to adapt commercial models. However, AI is likely to commoditise core services, and while first movers may gain temporary advantages, as tools become widely available, widespread adoption will eventually erode these benefits and erode any competitive advantages.

But is Artificial Intelligence better than 'old school' fundamental and quant?

Supplementing the analysis above, we also applied an AI large language model to look over the result transcripts to assess management guidance and sentiment on the outlook and growth prospects of each business and look for the correlations of price reaction over that period.

Usually, we have found that stocks with upgraded earnings revisions coming out of reporting season also have a positive price reaction post-result. Typically, the S&P/ASX 200 has a 0.5x relationship, where a 1% earnings upgrade is a 0.5% price reaction. We expected to see some correlation at the sentiment level as sentiment has an impact on how brokers revise their outlooks (Exhibit 5).

However, this reporting season, as with our summary of the industry-group analysis above, we found that there is close to no relationship between management sentiment in results transcripts and share price reaction (Exhibit 6).

In some cases, the model worked. It correctly identified that Coles was more positive than Woolworths, for example, but companies like to talk up their game. As a result, the AI output for a company like James Hardie was questionable due, in part, to the exuberant enthusiasm from management in their merger and

Exhibit 5: Standard Analysis on Price Reaction vs. EPS Revisions

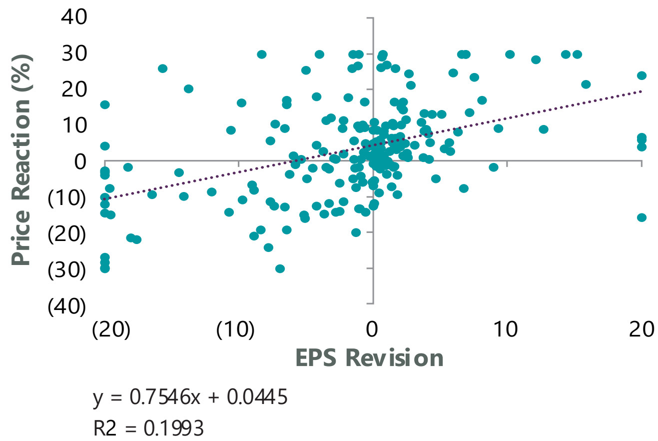
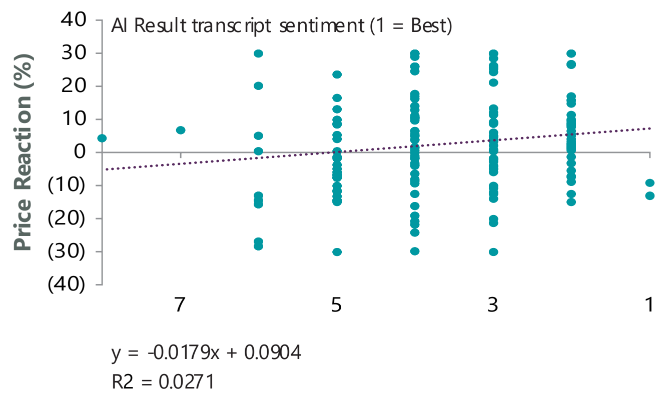


Exhibit 6: Large Language Model (LLM) Result Transcript Sentiment Analysis



outlook versus the earnings that they actually delivered. Another example where sentiment was not aligned with outcomes was WiseTech Global, who we know to habitually describe their results optimistically, but who posted earnings downgrades. On the other hand, Fletcher Building had its sentiment identified as poor because management spent more time talking about the 'bottom of cycle' conditions that they see for New Zealand but didn't identify the improving outlook from that very poor position.

It was interesting to hear the candid admission from one company we spoke to after announcing their results that they had put their results speech draft through AI before finalising and measured how it compared to prior result transcripts and share price reaction. They made sure they tailored their presentation to the market to get the best possible price reaction.

The misuse of AI learning is well and truly in place... but this analysis highlights the need for true fundamental oversight.

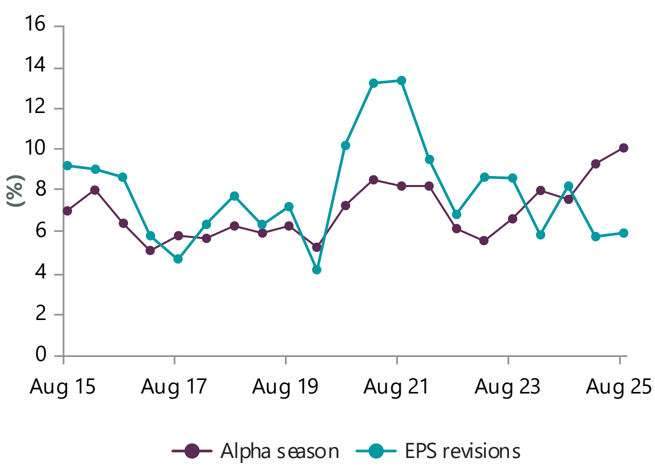
Special Analysis on the Growing Impact on Indexing

High index flow distorting price reaction and creating volatility

Volatility during the period seemed higher than normal, and we judge this by looking at both the variability (standard deviation) between the best/worst earnings changes as well as best/worst share price reactions.

Despite the downgrade skew, there was in fact not much variability in earnings changes, i.e., the good and bad spread was quite narrow. This suggests that economic conditions were reasonably stable, and no one was really blindsided (like they were during Covid). On the other hand, share price reactions, especially in the top 50, hit new records with big swings either way.

Exhibit 7: Cross-sectional Variance: S&P/ASX Top 50



To us, passive investing-induced volatility is now becoming the biggest thematic for reporting season. A concept we introduced at the last reporting season was the impact of high index flow, an increasing dominance of index-aware strategies and the falling daily stock turnover of some of Australia's largest index stocks. The willingness of investors to trade to match an index, regardless of price, is creating a persistent upward bias to price discovery for many stocks and greater volatility in these names.

Last season we discussed this in the context of the dizzying heights of CBA's share price. We have subsequently looked more closely at Wesfarmers and are seeing the same issues. The number of their shares traded over time is falling; the stock has a high index weight; and for each dollar flowing into the index, we are seeing a higher percentage of daily traded turnover being driven by that high index flow.

Exhibit 8: Turnover and Volume - Wesfarmers

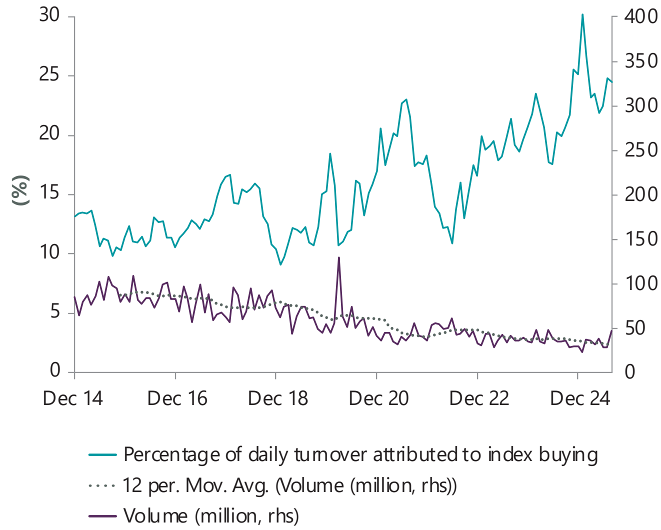
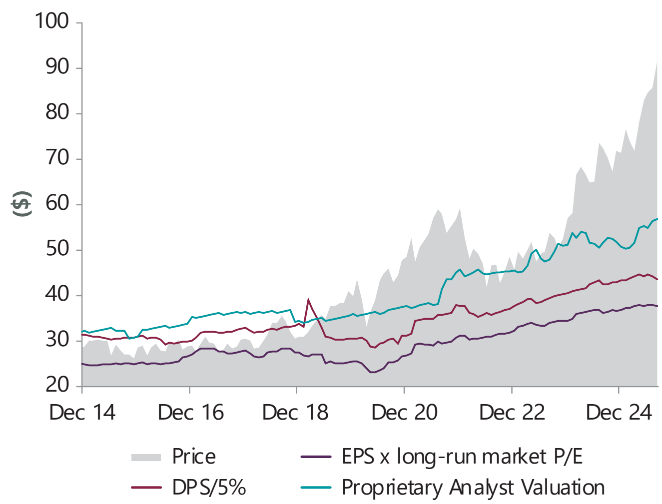


Exhibit 9: Expanded Price vs. Fundamentals Analysis - Wesfarmers



Prices Striking a Pose Far Above Fundamentals

For so many of these index flow stocks, the common consequence we are observing, is a disconnect between any concept of fundamental cash flow valuation and share prices, creating very divergent market conditions.

In Exhibit 9, we had overlaid the current share price with two simple valuation methodologies alongside our analyst's in-depth fundamental Valuation over time. In the case of Wesfarmers, we can see that price has had a massive re-rating, but relatively subdued earnings using all valuation measures. Interestingly, we noticed that the company returned capital to shareholders rather than undertaking an on-market buyback or declaring a special dividend. By eschewing the opportunity to buy their own shares, this gives a clear signal of their own view of how overvalued they are at this point.

For another example, we have shown below IPH, a stock which despite faster earnings growth than CBA, have derated significantly. The shape of the chart for CBA is looking too much like John Travolta's pose in "Staying Alive". However, can the music go on forever for high index flow stocks?

Exhibit 10: Price vs. Fundamentals - IPH

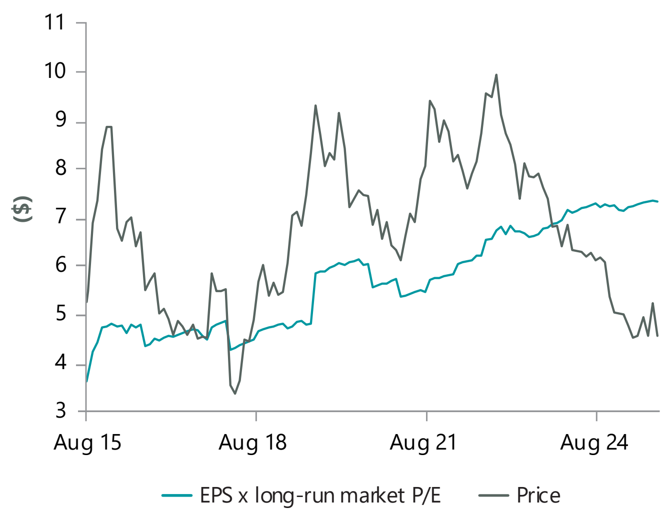
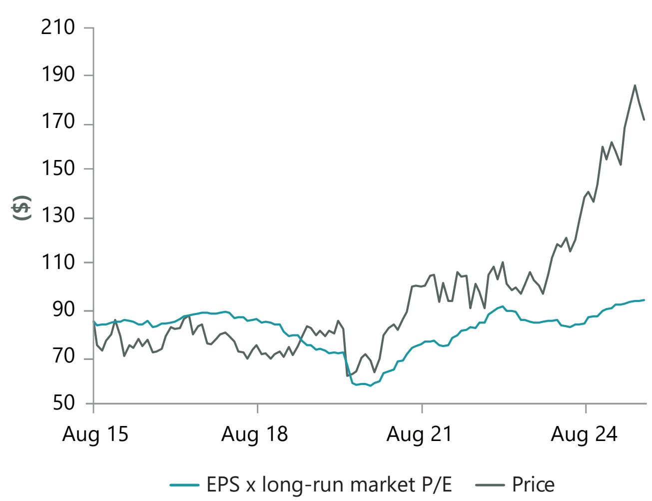


Exhibit 11: Price vs. Fundamentals - CBA

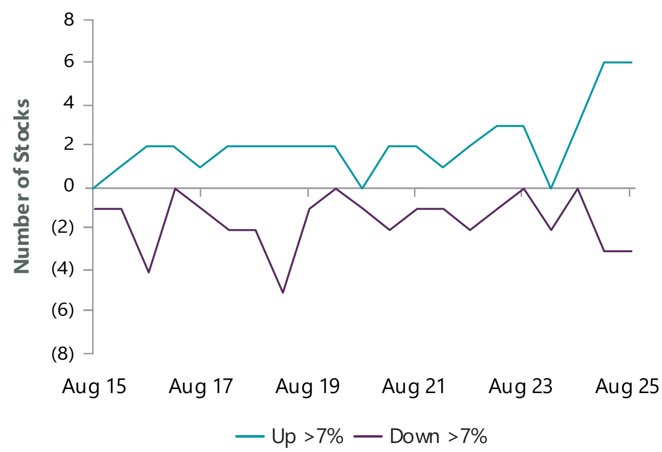


The rise of the great 'no information' index re-allocation trade

The index flow distortion is most evident when markets are quiet and there are fewer information traders, however, when the market sees new information on a stock, such as during results season, the overall volume of shares traded typically increases and the impact of pure index buying diminishes as it is overpowered by the trading based on the new information.

This typically results in small levels of information or 'news' causing large price reactions. This is what we have seen for several companies in the top 50 where their earnings were revised less than +/-2% (what we would consider 'in-line') but had big share price reactions. Compared to prior periods, this is becoming more pronounced.

Exhibit 12: 2-Day Price Reaction for Stocks with "in-line" EPS Revision - S&P/ASX Top 50



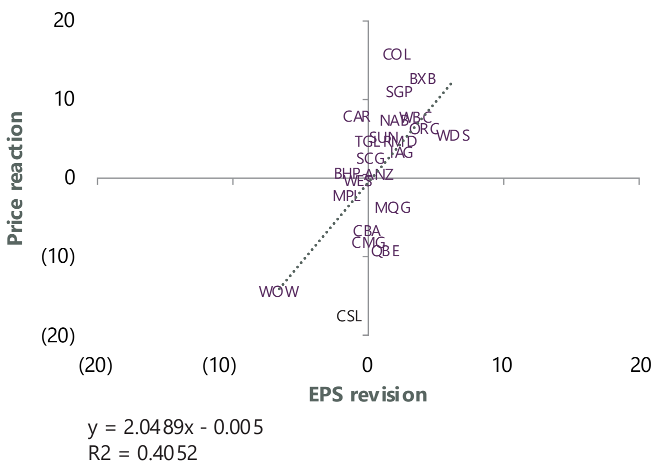
We also saw that big index weight and high index flow pressure companies like CSL, CBA and James Hardie have relatively large negative price reactions to small news. One would normally expect that given their weight, this would impact the overall return of the market and drag it down, but that wasn't the case this season as it went up 3.1% in aggregate.

In addition to the gap between price and fundamentals, another sub issue in the high passive flows thematic is that the market is now no longer acting in a traditional 'sum of the parts' manner, as when these stocks go down, investors just move their positions to other big index weight stocks like Westpac Banking Corporation (WBC), National Australia Bank, ANZ Group Holdings, Wesfarmers, and Coles, causing them to go up on little information instead.

As long-term fundamental investors, the divergence between fundamentals and share prices that this sort of indiscriminate index flow-driven market is creating is very concerning to us. The 0.5x price reaction/ EPS revision relationship that we typically see for the

S&P/ASX 200 stocks mentioned earlier jumps to a 2x relationship for the highest 25 index flow names. For very small changes in fundamentals, this is a very large price reaction.

Exhibit 13: 2-Day Price Reaction and EPS Revisions - Top 25 stocks by Index Flow



Market Outlook and Portfolio Applications

Overreaction to high index flow drives need for dedicated approach to portfolio construction

For investors who are trying to find alpha in this sort of market, we believe that there still is a benefit to focus on active fundamental insights.

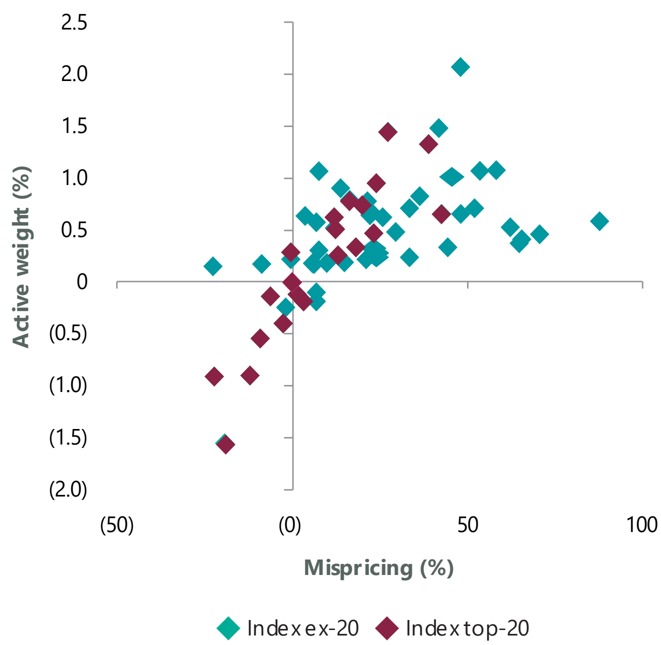
However, with many active managers who are underweight large caps and banks in particular underperforming their benchmarks, asset owners often pose the question of is there any benefit to be active, particularly in high index flow stocks in the top-20.

We believe that a more nuanced risk factor-controlled approach can be used to avoid being swamped by the price reactions of the high index flow / top 20 stock under and overweights. We apply this in our ClearBridge Australian Active Insights strategy.

In this, we see an opportunity to add value in the top 20 by owning the names that have good mispricing, i.e., stocks that are most attractive based on our analyst's 'pure' fundamental insights after systematic factor risks and super-sector biases are removed. This allows us to focus more on stocks within the top 20 that have good valuation and growth fundamentals compared to the names that have very extended valuations and weak growth within the same index flow dynamic (Exhibit 14).

For example, after controlling for style factor and super sector biases, we hold stocks such as Medibank Private, BHP Group, QBE Insurance Group as overweights, while taking underweights in other large caps names such as CBA, WBC and Goodman Group, stocks that are showing far less attractive valuations and fundamentals. These underweights have a role to balance out residual factor and sector exposures to help provide the more stable, consistent alpha, and act as a funding source so that the outcomes of our pure fundamental research insights within both Top-20 and Ex-20 stocks can play out over the medium to long-term.

Exhibit 14: Active Weights vs. Mispricing - ClearBridge Active Insights Portfolio Holdings

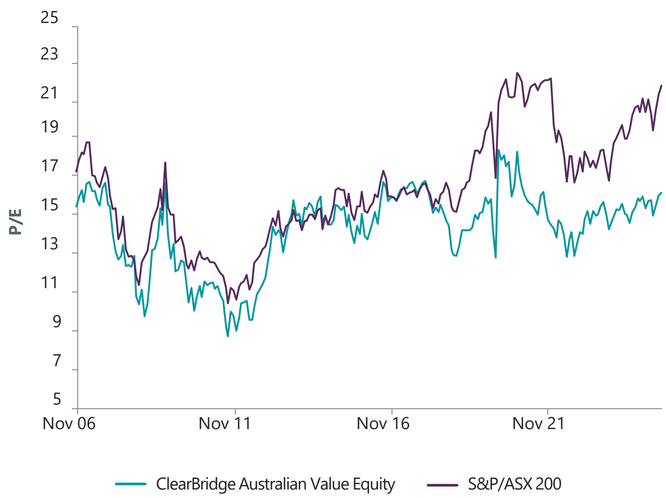


Shifting market dynamics also drives higher expected returns for value investing

The other way we deal with the divergences that occur between prices and fundamentals is to take a longer-term view, and with Valuation spreads continuing to sit at extreme levels, and with the quality and diversification of undervalued Australian stocks available today, we believe that there is a strong opportunity for the Value style to rebound. However, in order to focus on names that are providing these higher expected returns than the index, more tracking error is required to be taken.

Our ClearBridge Australian Value Equity strategy is showing much better fundamentals that the index in terms of earnings and growth characteristics, and in an absolute sense, profitability and beta characteristics are as attractive as they have ever been. With prices for the index so stretched versus earnings, it's hard to believe that an expected return for the S&P/ASX 200 index from a P/E of 21x can be strong, while we are seeing significant opportunity for Value stocks to outperform.

Exhibit 15: Expected NTM Price / Earnings (P/E) Ratio



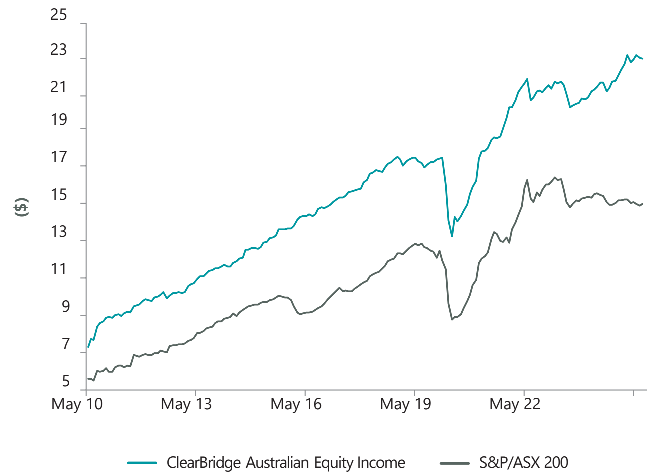
We believe that the liquidity environment that is driving prices higher can change very quickly, as can economic conditions (as we are seeing in the US). History has shown us that these kinds of extreme environments are highly susceptible to an imminent reversal, akin to stretching a rubber band. Based on historical experience, markets are unlikely to drive valuation spreads much wider, or even maintain them. We believe these wide spreads are unstable and now is the opportunity for investors to get positioned ahead of the rubber band 'snap'.

Impact of index flow on income requires a dedicated income approach

Considering the needs of income investors such as retirees and charities, the same concepts discussed above on index flow, liquidity and valuations also apply to income, as the market is paying more for high index flows stocks that have weak dividends.

This has resulted in the dividend yield and income growth for the S&P/ASX 200 index to be quite weak and stagnating versus history and also compared to the diversified portfolio of dividend paying stocks that we invest in for our suite of income portfolios. And given the valuation spread between the cheap and expensive stocks is at extremes, we are also able to find very high-quality stocks with growing dividend streams at very good valuations.

Exhibit 16: Income from A$100 Invested at Inception (Dividends Reinvested)

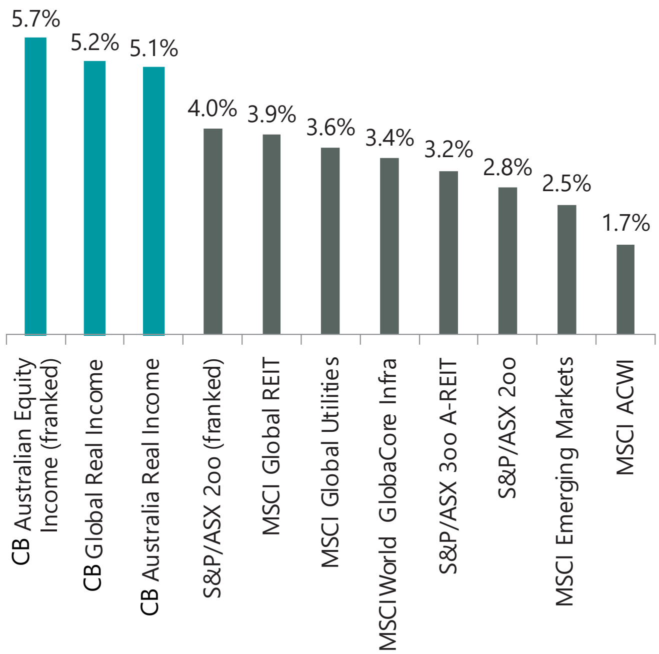


By design, our income portfolios aim to avoid the stock and sector concentrations of the index and are structurally underweight the Top-20 ASX stocks, and structurally underweight Banks and Resources. We believe that this helps to ensure a more stable income stream while mitigating the impact of income shocks caused by any individual stock, and avoid being forced to hold high index weight stocks that do not provide the income characteristics required by this type of investor.

Furthermore, with the S&P/ASX 200 index expected franked dividend yield now sitting at just 4%, it's unlikely to be a sound passive solution in a retirement income strategy. On the other hand, our dedicated ClearBridge Australian Equity Income strategy has an almost 6% expected franked dividend yield based on broker consensus estimates, with expected growth in line with a forecasted 4-5% nominal GDP.

Our Real Asset team share a similarly constructive outlook for our ClearBridge Australian Real Income and Global Real Income portfolios, and both have a greater than 5% yield expected dividend yield and with medium-term expected dividend growth of around 5%. Themes emerging from reporting season for Real Assets foreshadow a near-term outlook for continued earnings recovery on the back of strong pricing power for incumbents and receding pressure from interest costs (Exhibit 17).

Exhibit 17: Expected NTM Income Yield



Conclusion: Expectations, Impact, and the Case for Fundamentals

This reporting season has again underscored the tension between expectations and outcomes. Even modest earnings surprises triggered outsized price reactions, reinforcing that in today's market, index-driven flows and sentiment distortions amplify rewards and punishments well beyond what fundamentals alone would suggest. While valuations remain near record highs, and spreads between expensive and cheap stocks sit at extremes, the opportunities for long-term investors are equally pronounced.

For valuation-led investors, this environment demands conviction and patience. Attractive opportunities are emerging in companies with sustainable earnings and income growth, particularly where market mispricing is most acute. At the same time, the elevated role of index flows means caution is warranted in stocks with extended valuations and weaker fundamentals. For risk-constrained investors, a more nuanced, risk factor–controlled approach can still provide access to these opportunities, helping to navigate the distortions created by passive flows while maintaining balanced exposure to genuine fundamental value.

Ultimately, just as our wrap began with the challenge of separating noise from substance, it closes with the same imperative: active, disciplined stock selection remains essential. By focusing on earnings power, capital discipline, and valuation discipline, investors can cut through volatility and position for stronger long-term capital and income outcomes, even as market dynamics continue to shift.

About the Author

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- 30 years of investment industry experience
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- Master of Finance from RMIT University

Definitions

Key definitions used in our top-down analytical review

NTM: next 12-month.

Surprise: companies where there is a difference between company reported results and broker consensus forecasts on a specific measure. Below: <-2%, Inline: between -2% and +2%, Above: >+2%.

Revisions: change in broker consensus NTM forecasts after companies have reported their results on a specific measure. Down: <-2%, Inline: between -2% and +2%, Up: >+2%.

Revisions (composite): average change in broker consensus NTM forecasts after companies have reported their results for Free Cashflow (FCF), Debt/Equity, EPS and DPS.

Price reaction: active return between company reporting and the S&P/ASX 200 Accumulation index for specified time period (alpha season: post result announcement through to 31 August 2025; 2-day:alpha for two working days post result announcement).

Top index flow stocks: selected based on internal proprietary analysis of expected daily percentage buy turnover attributed to index daily inflows.

Long-run market Price/Earnings (P/E) ratio: uses a value of 15x based on S&P/ASX 200 index historical ratio.

Mispricing: isolates our analyst's 'pure' fundamental insights, without systematic factor risks and super-sector biases.

Disclaimers for data and content throughout

Past performance is not a guide to future returns. Unless otherwise noted, all data is through to 31 August 2025. Data 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.

For 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.

Portfolio data is presented for relevant representative ClearBridge Australian equity representative accounts as marked. Returns are shown in A$ gross of management fee. The Equity Income strategy is not constrained by a benchmark, however for comparison purposes it is shown against the S&P/ASX 200 Accumulation Index. Any franked income data assumes a 0% tax rate and that full franking benefits are realised in tax return.

Any information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were, or will prove to be, profitable.

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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.

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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 strategies mentioned 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.
- 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.