L1 CAPITAL

Quarterly report

L1 Capital Catalyst Fund

September 2024

- The L1 Capital Catalyst Fund returned 6.6%[1] for the September quarter (ASX200AI 7.8%).
- Since inception the L1 Capital Catalyst Fund has returned 11.3%[1] p.a. (ASX200AI 8.3% p.a.).
- The Fund's performance during the September quarter was driven by positive trading updates and the realisation of key catalysts, offset by weakness in key commodity prices.
- For further insights, please join our webinar on Thursday, 21 November at 11am AEDT for an update on the Fund.

Global markets moved higher over the September quarter, driven primarily by moderating inflation data which increased the likelihood of central bank rate cuts. This was ultimately confirmed by the U.S. Federal Reserve's 50bps interest rate cut. The S&P500 and the MSCI World excluding Australia returned 5.9% and 2.3%, respectively, whilst the ASX200AI returned 7.8% in the September quarter.

The Chinese Shanghai Shenzhen CSI 300 index was up 25% in the five trading sessions post the announcement by China of a range of monetary stimulus measures in late September, which also benefited the Australian market's Resources sector.

The strong performance of the ASX200AI in the September quarter came despite continued weak domestic macroeconomic data. Real GDP growth remains very low and has been underpinned by very high levels of government expenditure and population growth, while household consumption trends remain weak despite the implementation of the Stage 3 tax cuts in July.

The ASX200AI benefited from a slight softening in the RBA's stance to a more neutral bias and a sharp rally in Resource stocks later in the quarter following the China stimulus announcement. While it now appears unlikely that the RBA will hike again in this cycle, any easing will likely take longer than in other advanced economies given the less restrictive starting point in Australia and a slower return of inflation to target levels.

The strongest sectors in the ASX 200 for the September quarter were Technology (+16.1%), Property (+14.5%), Materials (+10.8%) and Financials (+8.3%) while Energy (-6.2%), Utilities (-1.2%) and Healthcare (+0.3%) lagged.

Returns (Net) (%)[1]

	Catalyst Fund	S&P/ASX 200 AI	Out-performance
3 months	6.6	7.8	(1.2)
1 year	11.7	21.8	(10.0)
3 years p.a.	6.8	8.4	(1.6)
Since inception* p.a.	11.3	8.3	+3.0
Since inception* cumulative	41.6	29.7	+11.9

Figures may not sum exactly due to rounding.

The L1 Capital Catalyst Fund continues to find value in low P/E stocks with undergeared balance sheets, strong cash flow generation and realisable near-term catalysts. We remain confident in our portfolio and are focused on identifying and enacting catalysts through active engagement with company management and Boards.

1. All performance numbers are quoted net of fees. Figures may not sum exactly due to rounding. Inception date: 1 July 2021. Past performance should not be taken as an indicator of future performance. Note: Fund returns and Australian indices are shown in A$. Returns of U.S. indices are shown in US$. Index returns are on a total return (accumulation) basis unless otherwise specified.

Portfolio commentary

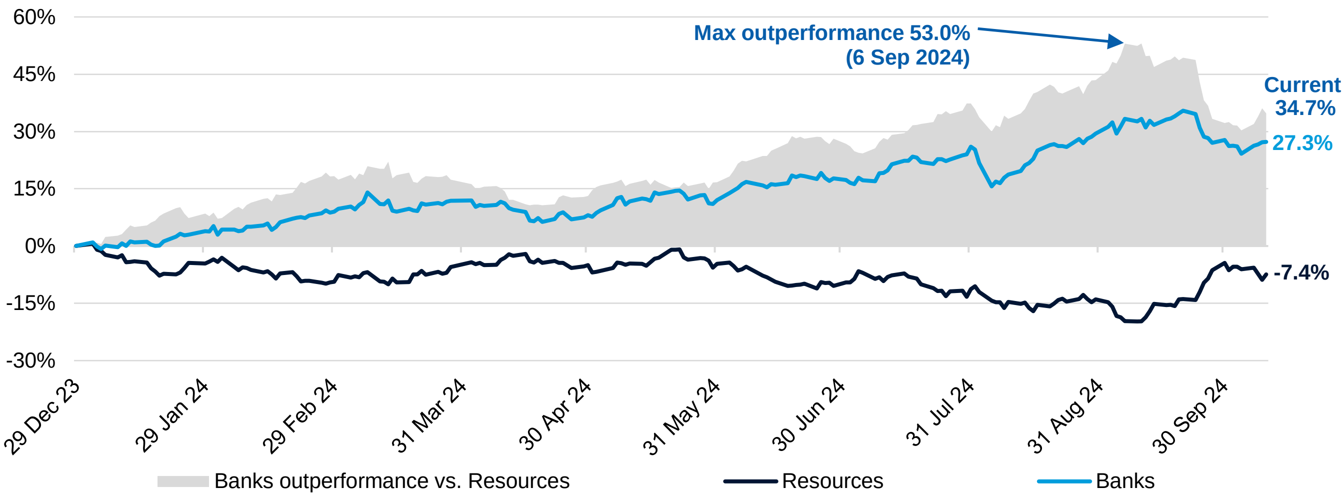
During the September quarter, the Catalyst Fund's performance relative to the ASX200AI was positively impacted by:

- **Favourable portfolio company trading updates and outlook statements:** A number of companies within the portfolio reported financial results or provided forward guidance during the quarter which exceeded market expectations and resulted in a strong share price response. In some cases, outlook statements reinforced our view that recent strong earnings levels are sustainable after a more volatile operating environment coming out of the pandemic.
- **Continued realisation of key catalysts:** During the quarter, a number of companies within the portfolio also announced meaningful progress towards the key catalysts which we had identified for each company. In particular, Downer has made significant headway towards its FY25 EBITA margin target of >4.5%, which we have long believed is achievable. The Catalyst Fund also benefited from a shift in the capital allocation policy at one of its portfolio companies, which resulted in it meaningfully increasing its dividend, a move which we have strongly advocated to the company's Board over time.

During the September quarter, the Catalyst Fund's performance relative to the ASX200AI was negatively impacted by:

- **Decline in Energy and select commodity prices:** The Catalyst Fund is exposed to movements in the prices of various commodities, including through its investments in Santos. Spot prices for several relevant commodities including oil declined during the quarter, largely driven by increased concerns about a slowing global economy, and notwithstanding China's stimulus announcement late in the quarter. However, in our view, the current valuations of these companies do not adequately reflect the quality of their assets and the longer-term structural supply and demand outlook for their underlying commodities. We have found the relative valuation movement between ASX-listed Resources companies and ASX-listed Banks (which are circa one third of the market) in calendar 2024, as shown in Figure 1 below, increasingly hard to justify. Whilst this gap eased towards the end of the quarter following the announcement of stimulus measures in China, in our view Resources stocks are, on average, still materially undervalued, especially relative to ASX-listed Bank stocks. We do expect the relative outperformance of ASX-listed Bank stocks to reverse at some point, which would provide tailwinds to the Catalyst Fund on a relative basis to the ASX200.
- **Temporary operational headwinds:** During the quarter, two of the companies in the portfolio provided relatively disappointing forward guidance, due to industry-wide de-stocking in one case, and higher divisional operating costs for the other. However, in both cases, we believe that these reflected temporary factors which are likely to reverse.

Figure 1: ASX 200 Banks vs. Resources returns YTD



Source: Goldman Sachs Research as at 9 Oct 2024

Stock Spotlight | BlueScope Steel

BlueScope (ASX:BSL) is an ASEAN and U.S. focused steel producer formed following a spin-off from BHP in 2002 (formerly BHP Steel). The company operates a combination of primary steel making facilities (conversion of iron ore/scrap into commoditised flat steel) in addition to value-added coated and painted branded steel products, with recognisable brands including Colorbond and Truecore.

BlueScope has been a strong contributor to the Catalyst Fund over the last two years despite a challenging Asian steel environment, a testament to the resilience of the business model and quality of the management team.

The company operates across four main regional divisions:

1. **North America (53% of earnings)**

    - **Steel making (North Star):** The operation of the low-cost North Star electric arc furnace located in Ohio has the capacity to produce 3.0Mtpa of commoditised flat steel products (to increase by 300ktpa with further de-bottlenecking by FY28). This asset is advantaged given the quality of the facility which has access to low cost nuclear power and is located proximate to automotive and other key customer segments.
    - **Buildings and coated products:** The division comprises a number of businesses including metal coating, painting and rolling facilities, engineered building products and industrial property. BlueScope is evaluating further significant investment (>US$800m) on cold rolling and metal coating lines as part of a broader strategy to replicate the success of its downstream businesses in Australia and the U.S..

2. **Australia (32% of earnings)**

    - **Steel making (Port Kembla):** The operation of the Port Kembla blast furnace steel facilities in NSW, Australia has the capacity to produce 3.2Mt of commoditised flat steel products. Port Kembla is the primary source of domestic Australian steel production and is one of only two domestic producers (with the other being Whyalla, which is currently offline).
    - **Coated and painted products:** Typically, two-thirds of Port Kembla's steel production is upgraded and sold as metal coated or painted products, including its flagship branded products Truecore or Colorbond. Prices for metal coated products can sell for 1.5x to 2.0x above the commoditised flat steel price, while painted Colorbond products can sell for 3.0x to over 4.0x more, significantly improving BlueScope's margin capture.

3. **Asia (11% of earnings):** This business operates a variety of coated and painted steel lines across India (a joint venture with Tata) and Southeast Asia (a joint venture with Nippon), and a pre-engineered building products business in China (100% owned).

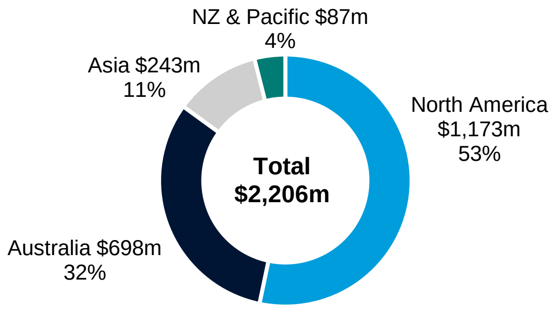
4. **NZ & Pacific (4% of earnings):** Operating the Glenbrook steel-making site, this business has a nameplate capacity of 670ktpa. It is the only steel producer in New Zealand and has recently announced a NZ$300m transformation of the facility in combination with the New Zealand government (who are contributing NZ$140m).

Figure 2: BlueScope Steel Capitalisation (A$b)

Market cap (30 September 2024)	$9.7b
Last reported net debt	$0.4b
Enterprise Value (EV)	$10.1b
FY26F EBITDA	$2.0b
FY26F EV/EBITDA	4.9x
FY26F P/E	11.2x

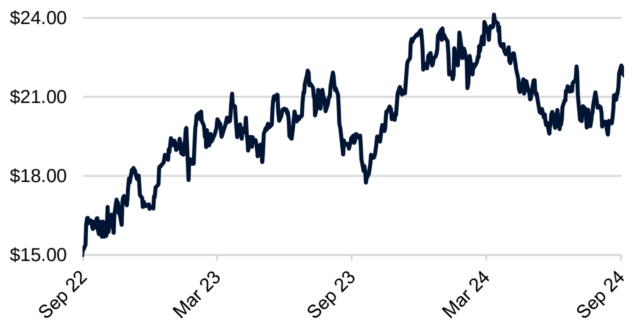
Source: Based on consensus estimates. Company financial year end is 30 June.

Figure 3: FY24 EBITDA Split



Source: Company filings

Figure 4: BlueScope share price – last 2 years



Source: Bloomberg

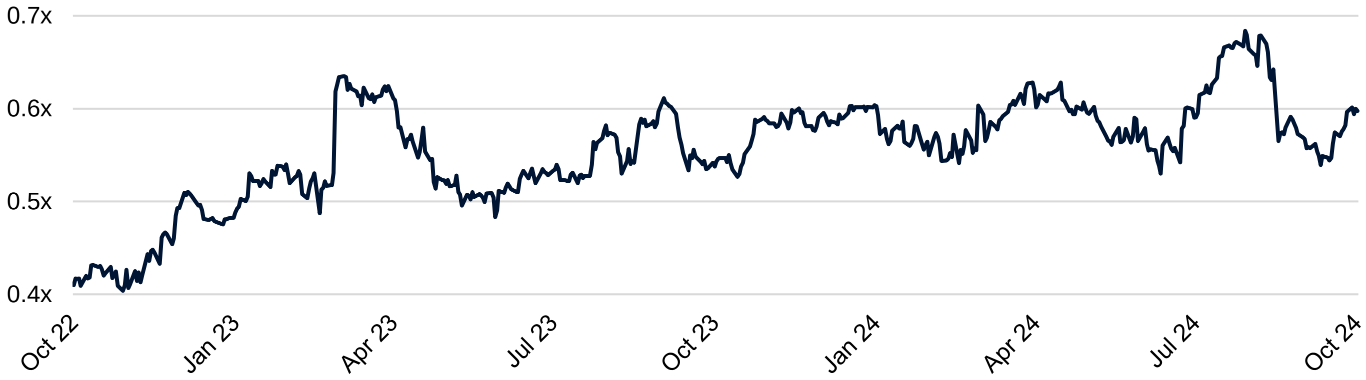
Investment case

Our investment thesis in BlueScope was premised on the opportunity to invest in strategic, high-quality, strong cash generative assets, supported by significant replacement value, which we believed was resilient to potentially challenging external conditions whilst having a more attractive valuation than its U.S. peers. Over the last several years BlueScope has been a positive contributor to the Catalyst Fund's performance and we continue to believe that the market significantly undervalues its unique and strategic asset base and the resilience of the largely consolidated U.S. steel sector.

Value

BlueScope is currently trading at <5x FY26 EBITDA and <12x FY26 P/E, which we believe is attractive given the quality attributes mentioned below. The business also has a track record of earnings per share growth over time, which we anticipate will continue with an attractive pipeline of growth opportunities. Relative to the ASX 200 Industrials Index, we have seen BlueScope's earnings multiple partially re-rate over time (contributing to our investment return) and we expect that, as the business earnings continues to grow in higher quality areas (e.g. U.S. and Australia downstream products), this will persist.

Figure 5: BlueScope relative valuation multiple to ASX 200 Industrial Index (P/E ratio)



Source: IRESS

We also see significant value in the 'sum-of-the-parts' for BlueScope in two key areas:

1. **U.S. North Star asset:** U.S. steel-making assets have attracted significant premiums from consolidating acquirers:
   - Cleveland Cliffs US$2.8b proposed acquisition of Stelco at an 87% premium to last close (announced in July 2024).
   - Nippon's ~US$15b proposed acquisition of U.S. Steel at a 142% premium to last close (announced in December 2023).
2. **Colorbond and branded coated products:** This business is comparable in many respects to high quality building materials businesses such as James Hardie (a prior Catalyst Fund investment), which trades on twice the earnings multiple of BlueScope.

Quality

The macroeconomic environment for steel producers, most notably in Asia, has been challenged as Chinese exports of 'cheap' steel have flooded the global market and reduced profitability in the sector as a whole. Steel spreads are a measure of the price of steel over the input costs (i.e. the price of steel less the raw material costs). Asian steel spreads currently sit near breakeven levels for blast furnaces in the region and have sat deep into loss-making territory for periods during the last 12 months.

Within this context, we see the quality of BlueScope's business, and notably its resilience to these conditions, as underappreciated and a key differentiator. This is largely driven by:

- **Exposure to U.S. Steel markets with a Tier 1 asset:** The U.S. steel market is proving to be structurally more attractive than it has been historically as a result of protectionism and the push for 'onshoring', the high and increasing degree of industry consolidation and strong end-market demand tailwinds. This is evident in steel mill profitability, with U.S. electric arc furnace steel spreads currently >US$350/t, in comparison to Asian blast furnace steel spreads currently <US$200/t. Over time we expect steel prices in the U.S. to remain elevated well above the pre-2020 averages. Within this market, BlueScope's Northstar facility is highly advantaged as one of the lowest costs mini-mills, positioned as a highly valuable and strategic asset.
- **Strength of the Colorbond product:** BlueScope's flagship painted product, Colourbond, is a high margin product continuing to take share in residential construction (60% of new roofing in Australia is Colorbond). We believe BlueScope is unique globally in having developed such strong consumer recognition for a steel branded product. Painted value-added products insulate the business from a more volatile underlying commoditised steel market. If steel prices fall, profit is transferred further downstream to products like Colorbond, offsetting weakness in steeling making segments. BlueScope's painted and coated products have been a material contributor in allowing it to continue generating profit in challenging external conditions (>10% ROIC achieved in Australia during FY24).

- **Balance sheet and capital allocation:** BlueScope maintains a strong net cash position (A$364m as at 30 June 2024) and has distributed A$3.5b of capital back to shareholders since FY17, while also materially growing earnings per share by 68% over that period. BlueScope has been buying back shares every year since FY17, with the exception of FY21, and has a policy of distributing at least 50% of free cash flow to shareholders.
- **Management team:** L1 Capital have been long-term investors in BlueScope and believe the management team led by CEO Mark Vassella is amongst the strongest within the ASX 200.

Catalysts

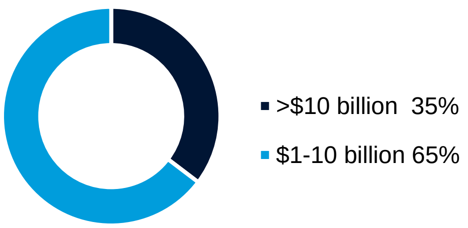
We see five future catalysts for BlueScope, namely:

1. **U.S. Presidential elections:** On the 5th of November 2024 the U.S. will conduct its Presidential election, which if Trump is elected may benefit the U.S. steel industry through the imposition of additional tariffs on foreign produced steel products. Regardless of the outcome, we believe that post the U.S. election there will be increased certainty and stability for BlueScope's U.S. steel businesses and their customers.
2. **Recovery of Asian steel spreads:** Asian steel spreads have continued to recover from unsustainably low levels reached throughout FY24, having already risen ~40% during the calendar year to date. We believe spreads will continue to improve over the medium term on increasing anti-dumping measures globally (against Chinese exports) and reducing iron ore prices as low mill profitability puts pressure on production levels.
3. **Completion of Port Kembla re-line and Western Sydney coating line:** BlueScope's Port Kembla asset requires a once-in-20-year re-line at an expected capital cost of A$1.15b, which will be completed in the second half of 2026. Successful execution of this project, we believe, is mission critical for the company and will prove a major de-risking event, in addition to improving the free cash flow profile going forward. In addition, the completion of the Western Sydney metal coating lines (A$415m investment), will continue to shift the sales mix further towards higher margin and valued add products (and reduce exposure to low margin commoditised products).
4. **U.S. growth and strategic action:** We believe the U.S. business will continue to be the growth driver of the business going forward. On the steel making front, the company will continue to increase volumes out of Northstar, with a 300kt expansion, representing a 10% volume increase by FY28. The company also plans to integrate further downstream capabilities (US$800m investment over FY26 – FY28), ultimately aiming to roll out a Colorbond product and strategy in the U.S.. If successful, we believe this could be a material step-change for the business, both in terms of absolute earnings and in terms of quality of earnings.
5. **Land value unlock:** BlueScope is currently working towards plans to redevelop and monetise its excess land portfolio (1,200ha of surplus land, notably including Port Kembla and West Dapto, NSW). We believe this will be gradually progressed over time and we do not believe the market is prescribing any value for these assets today (with a potential value range exceeding $1b).

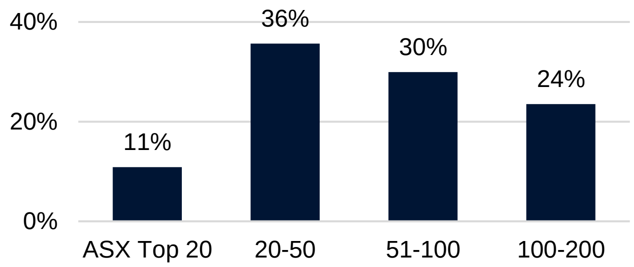
Portfolio exposures by primary catalyst as at 30 September 2024

	Strategic	Financial	Operational	Governance
Stock 1		✓		
Stock 2		✓		
Stock 3	✓			
Stock 4				✓
Stock 5			✓	
Stock 6	✓			
Stock 7			✓	
Stock 8		✓		
Stock 9	✓			
Stock 10			✓	

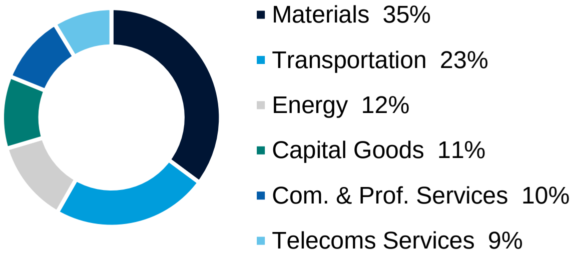
Market capitalisation exposure (%)



Market constituents exposure (%)



Sector exposure – GICS Level II (%)



Research Rating

Zenith HIGHLY RECOMMENDED

Recommended Lonsec Research

Awards

Money management Fund of the Year awards
Innovation Award of the Year 2023

WINNER

Note: All breakdowns shown are for stocks only (i.e. excluding cash).

Lonsec Research disclaimer: The rating issued for L1 Capital Catalyst Fund (October 2023) is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec). Ratings are general advice only and have been prepared without taking account of your objectives, financial situation or needs. Consider your personal circumstances, read the product disclosure statement and seek independent financial advice before investing. The rating is not a recommendation to purchase, sell or hold any product. Past performance information is not indicative of future performance. Ratings are subject to change without notice and Lonsec assumes no obligation to update. Lonsec uses objective criteria and receives a fee from the Fund Manager. Visit lonsec.com.au for ratings information and to access the full report.

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Fund Information

Fund/Class Name	L1 Capital Catalyst Fund – Retail Class
Currency	AUD
Investment approach	The Investment Manager seeks to deliver private equity-style returns with listed market liquidity by taking a hands-on 'owner's mindset' to each investment in a tightly focused portfolio of up to 10 companies.
Investment objective	To deliver strong positive risk adjusted returns over the long term.
Benchmark	S&P/ASX 200 Accumulation Index
Minimum investment	$25,000
Management fee*	1.28% p.a.
Performance fees**	20.5% (inclusive of GST and net of RITC) over benchmark, subject to any underperformance being recouped
Vehicle	Australian Unit Trust
Fund identifiers	ISIN: AU60ETL12936, APIR: ETL1293AU
Launch date	1 July 2021
Platform availability	Australian Money Market, BT Panorama, CFS FirstChoice, CFS FirstWrap, HSBC, Hub24, Macquarie Wrap, Mason Stevens, Xpand, Netwealth, North^, Powerwrap, Praemium

L1 Capital overview

L1 Capital is a global investment manager with offices in Melbourne, Sydney, Miami and London. The business was established in 2007 and is owned by its senior staff, led by founders Raphael Lamm and Mark Landau. The team is committed to offering clients best of breed investment products through strategies that include long short Australian equities, international equities, activist equities, a global multi-strategy hedge fund and U.K. residential property. The firm has built a reputation for investment excellence, with all L1 Capital's strategies delivering strong returns since inception. The team remains dedicated to delivering on that strong reputation through providing market-leading performance via differentiated investment approaches with outstanding client service, transparency and integrity. L1 Capital's clients include large superannuation funds, pension funds, asset consultants, private wealth firms, financial planning groups, family offices, high net worth investors and retail investors.

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* Fees are quoted inclusive of GST and net of RITC. ** Performance fee is quoted inclusive of GST and net of RITC over benchmark, subject to any underperformance being recouped. ^ Managed account holders only.

Key service providers for the Fund are: Responsible Entity – Equity Trustees Limited, Fund Administrator and Fund Custodian – Apex Funds Services, Fund Auditor – EY, Legal Advisor – Hall & Wilcox. There have been no changes to key service providers since the last report.