L1 CAPITAL

Quarterly report

L1 Capital Catalyst Fund

December 2024

- The L1 Capital Catalyst Fund ("Catalyst Fund") returned -7.2%[1] for the December quarter (ASX200AI -0.8%).
- Since inception the Catalyst Fund has returned 8.1%[1] p.a. (ASX200AI 7.5% p.a.).
- The Catalyst Fund's underperformance during the December quarter was driven by the poor performance of Mineral Resources due to governance issues, a decline in the prices of select commodities, and having no exposure to the Australian banks which continued to move higher.

Global markets were volatile during the December quarter ending the period with muted returns, driven primarily by a sharp rise in bond yields in response to increasing inflation concerns. The U.S. market was supported by a rally in mega-cap technology stocks but most other markets were weak. The S&P500 and the MSCI World excluding Australia returned +2.4% and -0.2%, respectively, whilst the ASX200AI returned -0.8% in the December quarter.

Domestic bond yields also rose with the Australian 10-year bond yields up 39bps to 4.36% over the December quarter. Softer macro data weighed on investor sentiment with Australian GDP growth of only 0.3% QoQ driven mostly by government spending as consumers elected to save, rather than spend the stage-three tax cuts.

Share price weakness was most acute in the ASX200 Resources companies as they suffered from softer commodity prices owing to continued disappointing economic data in China and a lack of decisive stimulus announcements from the Chinese government.

The strongest sectors in the ASX200AI for the December quarter were Financials (+5.9%), Industrials (+3.3%) and Communication Services (+2.2%) while Materials (-11.9%), Property (-6.0%), Energy (-5.4%) and Consumer Staples (-5.4%) lagged.

Returns (Net) (%)[1]

	Catalyst Fund	S&P/ASX 200 AI	Out-performance
3 months	(7.2)	(0.8)	(6.4)
6 months	(1.1)	6.9	(8.0)
1 year	(0.3)	11.4	(11.7)
3 years p.a.	4.0	7.4	(3.4)
Since inception* p.a.	8.1	7.5	+0.6
Since inception* cumulative	31.4	28.7	+2.7

Figures may not sum exactly due to rounding.

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

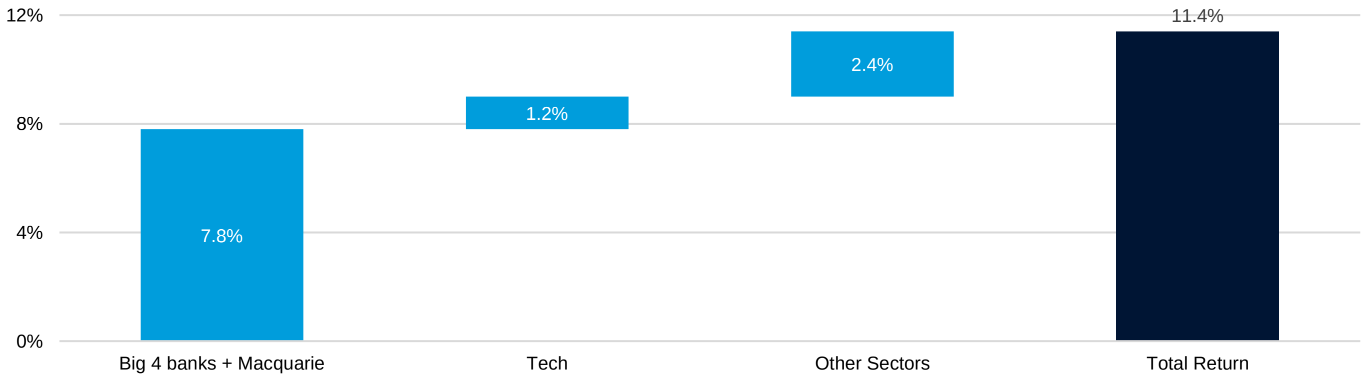
- **Strong aviation industry trends:** Qantas shares continued to perform well with the company benefitting from continued strong demand for domestic and international travel, against a backdrop of a disciplined and constrained capacity supply environment. These dynamics are broadly consistent globally and are aiding the performance of a number of global airline stocks, with the global JETS ETF up ~22% during the December quarter. We believe Qantas has a differentiated market position including its market-leading Frequent Flyer Program, compared to global airlines, and we expect further upside as strong execution persists and travel demand continues to grow, together with significant opportunities in the Loyalty division.

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

- **Mineral Resources** share price declined, primarily due to governance issues, with the company announcing a leadership transition plan for implementing CEO succession over the next 12-18 months. We refer our readers to the L1 Capital Long Short Fund October 2024 Monthly Report for our detailed perspectives on the matter. More broadly, we continue to believe that each of Mineral Resources' core segments should see material improvement from current levels over the medium term.
- **Decline in select commodity prices**: Spot prices for several commodities relevant to the Catalyst Fund declined or remained muted during the December quarter, largely due to ongoing concerns around global economic growth and in particular structural issues relating to the Chinese economy and housing. In particular, the battery materials sector has failed to show any meaningful recovery as new supply flooded the market with slower than anticipated demand, impacted by lower than forecasted electric vehicle penetration outside of China. Oil prices were fairly steady, rising ~3% in the December quarter after a 17% drop in the September quarter. In our view, the current valuations of our resources-linked investments do not adequately reflect the quality of their assets and the longer-term structural supply and demand outlook for their underlying commodities.

ASX200AI returns for calendar year 2024 were highly concentrated with financials accounting for 9.6% of total index returns of 11.4%. Within financials, the banking sector (Big 4 banks and Macquarie) accounted for gains of 7.8% which, when combined with the technology sector's return of 1.2%, made up more than 80% of the ASX200AI's total calendar year performance of 11.4%. This environment presented a challenging backdrop for the Catalyst Fund in 2024, given the significant skew to sectors outside the focus of our strategy.

Figure 1: ASX200AI returns for calendar year 2024 | Dominated by the big banks and technology



Source: Bloomberg as of 13 January 2025.

Catalyst Fund reflections on calendar 2024

In the Catalyst Fund's December 2023 quarterly, we detailed a number of key drivers that we believed would influence markets and provide opportunities for the Catalyst Fund in calendar 2024. As we look back on the year, we reflect below on whether our expectations for 2024 materialised.

Our expectation for 2024	Eventuated	Commentary
1. STRATEGIC **The volume of M&A activity is likely to normalise upwards from a low base as inflation moderates and interest rates peak.**	✓	• In 2024, the overall level of Australian M&A activity trended up towards historical levels, with the number of announced deals increasing moderately by ~5% but a solid uptick of ~24% in overall announced deals' value. Major completed transactions included Rio Tinto's acquisition of Arcadium ($9.9bn), Renesas Electronic Corporation's acquisition of Altium ($9.1bn) and Alcoa's acquisition of Alumina ($2.2bn). • Despite the pick-up in Australian M&A, it lagged the surge in M&A activity of U.S. and European markets. Contributing factors were RBA cash rate cut expectations being pushed out, Australian inflation moderating at a slower pace compared to other major countries and the perception of Australia's heightened sovereign risk by off-shore parties. • The Building Materials sector saw heightened M&A activity with notable deals including Seven Group Holdings' buyout of Boral ($7bn), Saint-Gobain's acquisition of CSR ($4bn) and CRH's acquisition of Adbri ($2bn).
2. FINANCIAL **Funding costs will continue to increase as existing lower cost debt arrangements roll off, impacting capital allocation decisions.**	✓	• For the first half of calendar year 2024, the median interest expense in the ASX200 (ex-Financials) index was 6.7% of net debt. This compared with 5.4% in the prior calendar year, representing a 23% increase in relative interest costs in the first half of this calendar year. • Company management teams responded to 'higher for longer' interest rates by trying to actively manage leverage levels. As an example, on average, the leverage of stocks in the ASX Industrials sector declined to 2.5x in June 2024 from 2.7x in June 2023. • Companies with strong balance sheets outperformed those with weak balance sheets, enjoying share price gains that were 18% higher relative to highly levered companies over calendar year 2024. Most of the outperformance occurred from late August onwards as both rate expectations and Australian 10-year bond yields rose markedly.
3. OPERATIONAL **More frequent instances of cost-out programs will arise to offset input cost pressures.**	X	• Ongoing cost challenges weighed on company margins, especially as the cost of living pressures that prevail in Australia have limited companies' pricing power. This was evidenced by wage costs continuing to grow ahead of sales, with 85% of sectors experiencing labour cost growth above revenues in both the 2023 and 2024 financial years. • While the past year has seen many ASX200 companies starting to talk about an increasing focus on cost-out initiatives, we have seen only a small number of material cost-out programs actually announced thus far. • Notable cost-out program examples include Telstra and Ansell, which each cut headcount by 9% (2,800 and 1,300 staff, respectively), and Nine Entertainment Group, which similarly reduced its FTE by 4% (200 staff).
4. GOVERNANCE **Large superannuation funds will continue to exert their influence.**	✓	• In calendar 2024 large superannuation funds continued to exert their influence. Although this often took place behind closed doors, many instances occurred in the public domain. • Major industry super funds have been involved in Board/management renewal and climate-related matters at several large ASX companies in calendar year 2024. Examples include HESTA's engagement with Woodside on the appointment of a new director with climate-related expertise, Australian Super's vote against Woodside's climate plan and Aware Super's campaign to remove the Lendlease Chairman in favour of an external appointment. • Large industry super funds have also been public with their views on governance best practice.

2025 themes relevant to the Catalyst Fund

We outline a range of themes that we expect to influence the investment strategy of the Catalyst Fund in 2025.

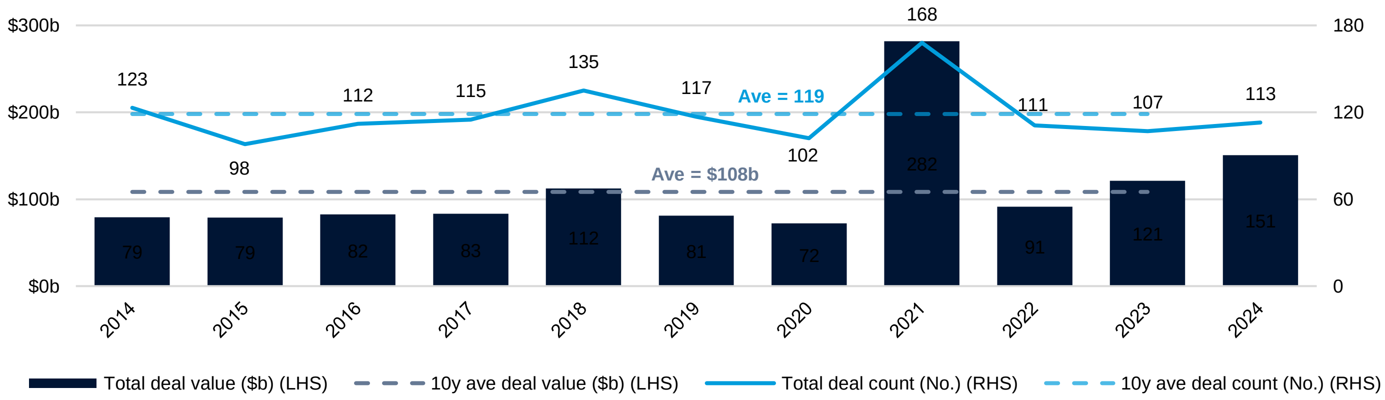
Themes by Catalyst exposure type:

- **STRATEGIC:** Companies will have an emphasis on divesting non-core assets.
- **FINANCIAL:** Companies will seek to maximise dividends to compensate for increasingly difficult margin and earnings growth while valuation multiples are elevated.
- **OPERATIONAL:** Companies will be geographically selective with their investments, favouring business-friendly countries like the U.S., which focus on deregulation and are welcoming of M&A activity.
- **GOVERNANCE:** Investor focus will increasingly centre on the accountability of ASX-listed company Boards, including the need for greater alignment of directors with shareholders.

STRATEGIC: Companies will have an emphasis on divesting non-core assets.

In 2024, Australian M&A activity trended up towards more normalised levels. Figure 2 below shows the number and total value of announced Australian M&A transactions exceeding $100m over the last 10 calendar years. 2024 saw some very high value transactions (e.g. Blackstone's $24bn acquisition of AirTrunk, albeit a private markets transaction), resulting in total deals worth $151bn, 40% higher than the average of the last 10 calendar years. At the same time, the total number of transactions in 2024 was 113, 5% lower than the average of the previous 10 years (119).

Figure 2: Australian announced M&A activity exceeding $100m, 2014 to 2024YTD (10y averages from 2014-2023)



Source: Goldman Sachs Investment Research, as of 18 November 2024

Looking ahead, with inflation moderating and central banks (with the exception of the RBA thus far) continuing to cut interest rates, we expect the 'bid-ask' spread between buyers and sellers in the M&A space to narrow as investors have improved transparency of future cash flows and as asset values are supported by lower discount rates. Indeed, should 2024's ASX200 equity market valuations be maintained into 2025, we could see increased confidence of asset sellers in achieving target exit values while acquirors may be encouraged by the ability of asset value multiples being maintained to limit downside risk.

At the same time, most corporates have been focused on managing inflation-related cost issues, rather than investing in structural growth. We expect companies to continue simplifying their businesses by divesting non-core assets, reducing costs and enabling further investment and focusing on their core strengths.

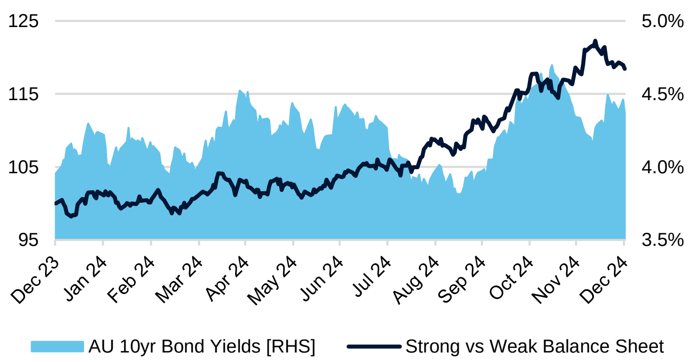
A more favourable M&A back-drop should lead to ongoing divestment of non-core assets, enabling companies to combat inflation and invest free cash flow into assets where they have endurable competitive advantages.

FINANCIAL: Companies will seek to maximise dividends to compensate for increasingly difficult margin and earnings growth while valuation multiples are elevated.

Higher interest rates resulted in a substantial increase in corporate debt funding costs in 2024. Companies responded by reducing their leverage levels and those with stronger balance sheets were rewarded accordingly by the market, especially in the second half of the year as bond yields rose (see Figure 3).

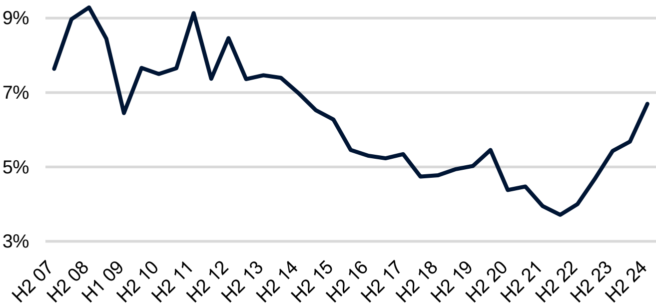
Effective interest rates rose 130bps in the 12 months to June 2024 to 6.7% as the impact of past rate hikes continued to flow through company borrowing costs (see Figure 4). When the cash rate was last around current levels in 2011-2012, debt costs averaged 7% to 8%.

Figure 3: Performance of strong balance sheet factor



Source: Goldman Sachs Investment Research

Figure 4: Median interest expense as % of net debt



Source: Goldman Sachs Investment Research

Many companies resumed or increased dividend payouts in 2024, and share prices went up accordingly. This partly reflects investors such as income funds or other investors screening out non-dividend-paying companies. For example, Chorus shares rallied 13% in the three weeks after announcing in August 2024 that it would increase its dividend payout ratio from between 60% and 80% of free cash flow to between 70% to 90% of free cash flow (uplifting dividends by 21% from 47.5cps to 57.5cps for FY25).

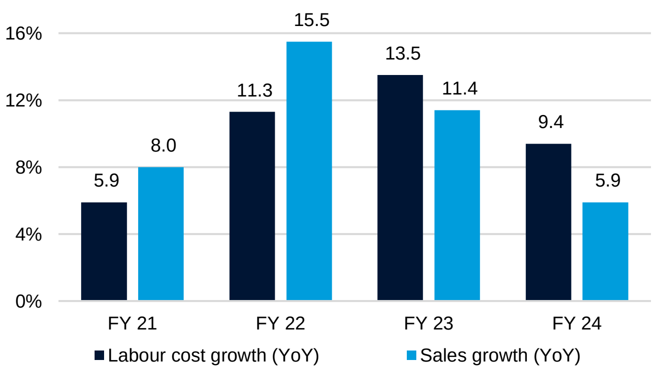
Indeed, many companies saw a big step up in dividend payments in 2024 from 2023, including: Auckland Airport +200%, Flight Centre +120%, IAG +80%, AGL +80%, Origin +50% and QBE +45%.

With elevated valuation multiples, cost pressures and uncertain demand weighing on earnings growth prospects, we expect companies to increasingly focus on generating total shareholder returns by adopting higher dividend payments.

OPERATIONAL: Companies will be geographically selective with their investments, favouring business-friendly countries like the U.S., which focus on deregulation and are welcoming of M&A activity.

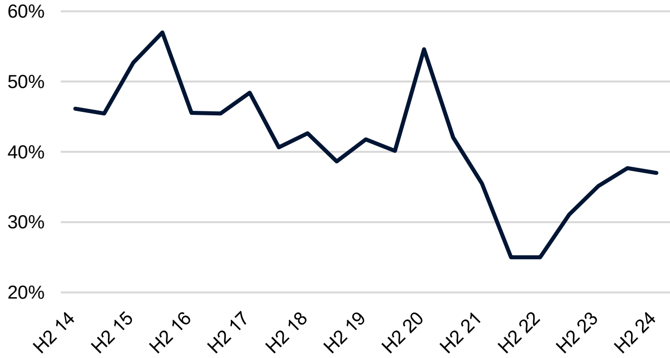
Companies faced negative margin jaws as wage costs grew at nearly double the pace of sales in H1 24 (+12% vs. +7%) (see Figure 5). These pressures reflect a continuing trend, with 85% of sectors having grown their labour costs faster than revenues in both financial year 2023 and 2024. As we expected, companies responded by focusing on improving efficiency (see Figure 6). However, the level of cost-out announcements increased more modestly than expected, up only ~13% year on year.

Figure 5: ASX 200 (ex-REITs) annual growth in labour costs and sales for the median stock



Source: Goldman Sachs Investment Research. Data to 30 June 2024.

Figure 6: % of ASX200 companies mentioning keywords relating to cost-out on earnings calls



Source: Goldman Sachs Investment Research

Geopolitical risks and tariffs are leading companies to be very selective regarding the geographies in which they are deploying capital. Examples of companies investing in business-friendly countries include Santos investing in Alaska via its Pikka Oil project rather than via its Dorado project in Western Australia, Paladin Energy acquiring Fission Uranium in Canada and Treasury Wines buying Daou Family Estates in the U.S.. At the same time, following a period of focus on costs, companies are realising they need to invest in structural growth to avoid being left behind.

> Following this phase of introspection on the cost/revenue balance, we expect companies to be more willing to start investing in their future growth prospects, and to do so with an eye for long-term success by selecting high-growth and investor-friendly geographies to invest in, in order to realise their strategic objectives.

GOVERNANCE: Investor focus will increasingly centre on the accountability of ASX-listed company Boards, including the need for greater alignment of directors with shareholders.

We expect that the trend towards Boards being held more accountable for company performance and shareholder outcomes to continue to strengthen going forward. Revised governance structures, such as increasing the use of independent Board committees to review related party transactions, will be on the rise, such as we saw in the Sigma and Chemist Warehouse merger. It is also interesting to note the general increase in independent Board committees across Australia regarding company acquisitions. According to Corrs Chambers Westgarth, such committees were set up for 32% of all Australian deals in 2024, up from 18% in 2023. Large super funds will continue to be a driving force in these trends, as they leverage off their significant scale and influence in their engagements with Boards of investee companies.

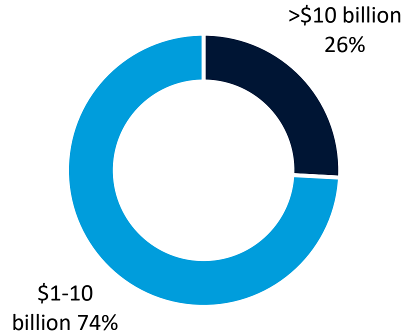
We also expect growth in the requirement for more directors to have minimum company shareholdings (typically expressed as a % of annual fees e.g. a dollar value of shares equal to twice their annual director salary). To achieve this, we could see a shift towards directors being paid a higher proportion of their salaries in company shares. We note that the latest data shows that the median equity holding for an ASX100 Chair is ~1.6x annual compensation, although the range is wide, from near 0x to ~2x. We expect the lower end to move upwards and for this trend to also play out amongst the broader ranks of company directors.

> We expect company directors to increasingly hold more equity in underlying companies to increase alignment with company shareholders.

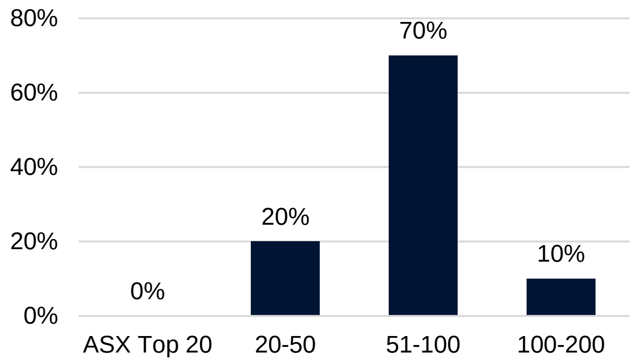
Portfolio exposures by primary catalyst as at 31 December 2024

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

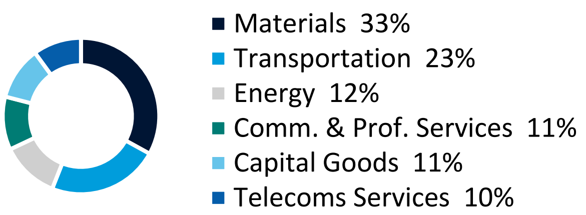
Market capitalisation exposure (%)



Market constituents exposure (%)



Sector exposure – GICS Level II (%)



Research Rating

Awards

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

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

Lonsec Research disclaimer: The rating issued for L1 Capital Catalyst Fund (October 2024) 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. Copyright 2025 Lonsec. All rights reserved.

Zenith Investment Partners disclaimer: The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) (Zenith) rating assigned to L1 Capital Catalyst Fund (June 2024) referred to in this document is limited to General Advice (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. **Past performance is not an indication of future performance.** Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at http://www.zenithpartners.com.au/RegulatoryGuidelines

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.

Contact us

Level 45, 101 Collins Street
Melbourne VIC 3000
Email info@L1.com.au

www.L1.com.au

Invest now

Head of Distribution	Chris Clayton	cclayton@L1.com.au	+61 3 9286 7021
Researchers	Aman Kashyap	akashyap@L1.com.au	+61 477 341 403
Advisers	Allan Evans	aevans@L1.com.au	+61 400 993 597
	Bryce Leyden	bleyden@L1.com.au	+61 407 876 532
	Clifford Fernandes	cfernandes@L1.com.au	+61 411 667 096
	David Redford-Bell	drb@L1.com.au	+61 417 148 075
Brokers	Alejandro Espina	aespina@L1.com.au	+61 423 111 531
Private wealth	Hugo Brettingham-Moore	hb-m@L1.com.au	+61 408 371 473
Private clients	Alexander Ordon	aordon@L1.com.au	+61 413 615 224
Investor services	Jeffrey Lau	jlau@L1.com.au	+61 403 194 728

* 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.