L1 CAPITAL

Quarterly report

L1 Capital Catalyst Fund

March 2025

- The L1 Capital Catalyst Fund returned -1.6%[1] for the March quarter (ASX200AI -2.8%).
- Since inception the Fund has returned 7.1%[1] p.a. (ASX200AI 6.1% p.a.).
- The Fund was modestly down during the March quarter but outperformed the ASX200AI by 1.2% as Australian banks suffered from a disappointing February results season and investors rotated from Growth into Value stocks.

Global equity markets were weaker during the March quarter owing to policy uncertainty, weaker U.S. economic data and persistently higher inflation reports. During the March quarter, the S&P500 and Nasdaq declined by 4.3% and 10.3%, respectively, while the S&P/ASX 200 Accumulation index was down 2.8%.

The Australian market followed the U.S. market lower, albeit by a much smaller amount, with risk-off sentiment driving a move into more defensive sectors at the expense of cyclicals. Investor confidence was especially subdued ahead of the Trump administration's tariff announcement at the start of April.

The strongest sectors in the ASX200AI for the March quarter were industrials (+2.6%), Utilities (+2.2%) and Communication Services (+1.5%), whilst Information Technology (-17.5%), Healthcare (-9.1%) and Property (-6.8%) lagged.

On 2 April, the U.S. tariffs announced by President Trump were far greater and widespread than the market was expecting, significantly raising fears of a global trade war and recession risks across the globe. This led to a sharp sell-off across listed equity markets in early April and with some extreme levels of volatility.

Tensions subsequently escalated between the U.S. and China with both announcing even higher tariffs on each other. President Trump announced a 90-day pause in the tariffs (excluding the 10% baseline tariff) just one week after the initial announcement. Markets rallied strongly on this news (ASX200 +~4.5% on the day). Tariff news will likely continue to drive heightened volatility in equity markets and we will keep monitoring the impacts and look for opportunities where valuations do not reflect our view of longer term fundamentals. To read the L1 Capital Australian Equities team's views on tariffs, please read the L1 Capital Long Short Fund's March 2025 quarterly report.

Returns (Net) (%)[1]

	Catalyst Fund	S&P/ASX 200 AI	Out-performance
3 months	(1.6)	(2.8)	+1.2
6 months	(8.7)	(3.6)	(5.1)
1 year	(9.3)	2.8	(12.1)
3 years p.a.	2.0	5.6	(3.6)
Since inception* p.a.	7.1	6.1	+0.9
Since inception* cumulative	29.3	25.1	+4.2

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, particularly as we see early signs emerging of the market rotating out of banks and overpriced ASX20 stocks. We remain focused on identifying and enacting catalysts through active engagement with company management and Boards, and believe a number of our portfolio companies are poised to realise unique catalysts over the next 12-18 months. We continue to believe this engagement will ultimately create better shareholder returns for investors and outcomes for the companies themselves.

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

- **BlueScope's earnings result:** BlueScope's share price performed strongly (+13% on results day), primarily due to the company presenting to the market its medium-term earnings opportunity at the February result. Notably, the company provided the market with an annual EBIT improvement target well in excess of $1b, which comprised >$200m of cost out, $500m from growth investments and $500m to $1b from improved market conditions. With these targets, the company provided visibility to a materially higher future earnings base (>~$1.8b of EBIT vs. the current annual run-rate EBIT of ~$600m). This has lifted investor sentiment given the company is currently experiencing challenging market conditions in Asia where cheap Chinese steel exports have depressed Asian steel spreads.
- **Sector positioning:** Banks de-rated in the February reporting season with results suggesting the sector may be at peak margins. Net interest margins and capital strength were below expectations making it hard to justify extremely elevated valuations.
- **Risk-off sentiment**: Owing to macro-economic concerns and geopolitical uncertainty, we finally saw Value stocks starting to outperform Growth stocks. In addition, the Technology (-17.5%), Healthcare (-9.1%) and Property (-6.8%) sectors materially underperformed during the March quarter, three sectors to which the Catalyst Fund has no exposure.

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

- **Mineral Resources:** Mineral Resources' share price declined 30% during the March quarter due to a 3-month delay to the ramp up of the company's Onslow Iron Ore Project and an additional $300m capital expenditure to upgrade and repair the haul road connecting the Onslow Iron Ore Project to the port after severe weather damage. We refer our readers to the L1 Capital Long Short Fund February 2025 Monthly Report for further commentary on Mineral Resources. We continue to believe that the earnings of each of Mineral Resources' core segments (being Mining Services, Iron Ore and Lithium) should see material improvement from current levels over the medium term.
- **Negative H1 FY25 results:** One portfolio company underperformed during the February reporting season owing to guidance falling slightly below market expectations, despite delivering an actual result which was broadly in line. This company experienced a share price fall after flagging slightly higher costs relating to a specific, one-off growth initiative with no change to the medium-term earnings outlook or the overall investment thesis. We expect the share price of this company to move higher in the future to reflect their longer-term prospects.

Stock spotlight | Qantas Airways Ltd

Qantas Airways Ltd (ASX:QAN), Australia's largest domestic and international airline, has been a strong contributor to the Catalyst Fund's performance, despite significant share price volatility in mid-late 2023. The Qantas share price is up over 80% in the last 12 months, ending 31 March 2025.

Qantas operates across four segments:

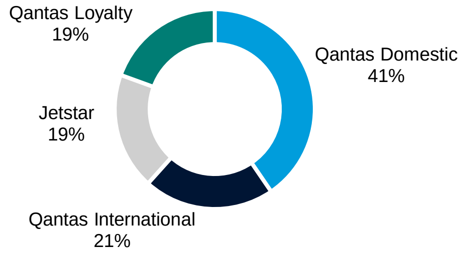
1. **Qantas Domestic:** Operates Australia's largest domestic network and schedule, served by a large domestic fleet of predominantly narrow body aircraft.
2. **Qantas International:** Services the corporate and premium leisure segments, flying to high-demand destinations in the U.S., Europe and Asia. It is a member of the OneWorld Alliance and also has a long-running codeshare partnership with Emirates.
3. **Jetstar:** Qantas' low-cost carrier which has domestic and international operations across Australia, New Zealand and parts of Asia.
4. **Qantas Loyalty:** Qantas' frequent flyer business has ~17 million members (nearly two-thirds of Australia's total population) with an extensive network of earning and redemption options for points across flights, hotels, financial services and major retailers.

Figure 1: Qantas key characteristics

Market cap (31 March 2025)	$13.6b
Last reported net debt	$4.1b
Enterprise Value (EV)	$17.7b
FY26F EBIT	$2.8b
FY26F EV/EBIT	6.3x
FY26F P/E	7.7x

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

Figure 2: FY24 EBIT by division (ex corporate costs)



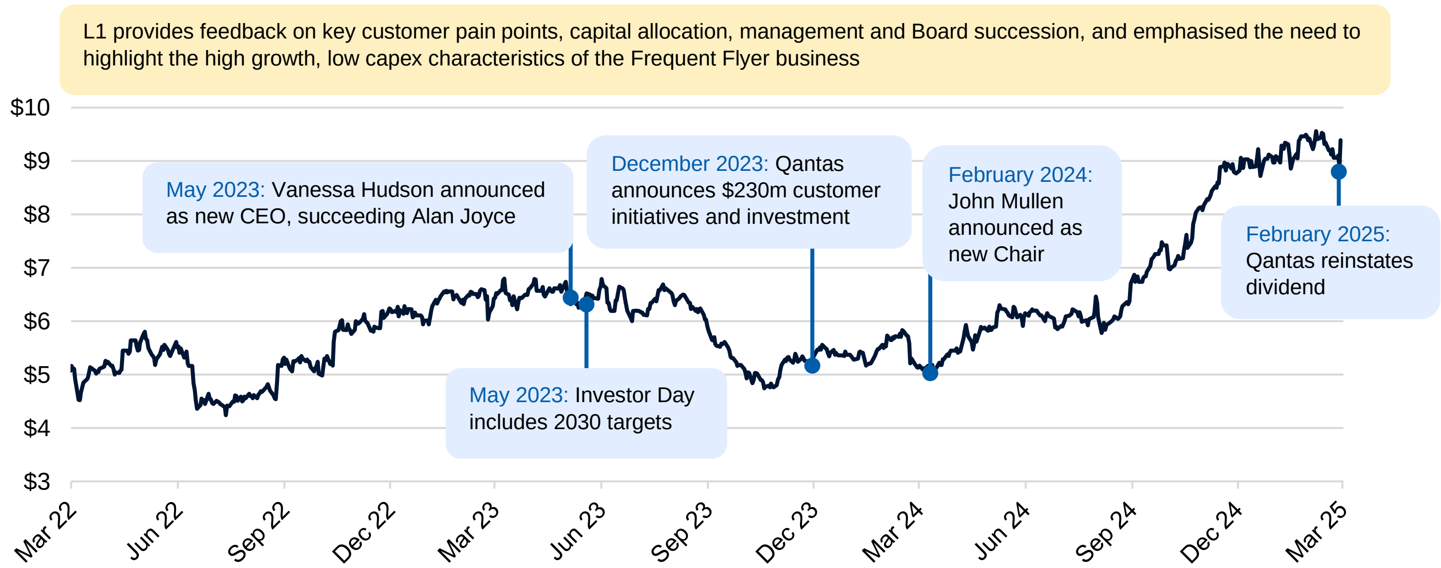
Source: Company filings

The Catalyst Fund's investment in Qantas

Our investment thesis in Qantas was premised on the opportunity to invest in a business with a leading market position in the attractive Australian domestic aviation market and at a valuation we believed did not reflect the quality of the business. In mid-2023, Qantas experienced significant operational issues (such as elevated levels of flight cancellations and delays) and was engaged in two public legal cases (one with the ACCC and another with its baggage handlers), which contributed to a deterioration in its corporate reputation and accelerated the retirement of its former CEO (Alan Joyce) and former Chairman (Richard Goyder). We have engaged with the company to provide our views on how these issues could be resolved in the best interest of all stakeholders, with a summary of interactions (outlined in Figure 3).

We have been pleased with the actions taken by management since then (summarised in Figure 4 on the next page), which have resulted in a strong recovery in the performance of the business and its share price. Despite the share price rally, we still see a strong investment case for Qantas at current levels, as outlined on the next page.

Figure 3: Qantas share price and Catalyst Fund interactions



Source: Bloomberg and L1 Capital

Figure 4: Actions taken by Qantas to address key issues

Key issues	Action taken by Qantas
Poor customer experience post-COVID	Qantas initially announced a range of measures in September 2023 to address customer pain points (e.g. relatively high rate of flight cancellations, delays, lost baggage and a deterioration in the quality of onboard service) and improve its customer value proposition, including expanding workforce in customer call centres, additional airport customer support staff, improved dining options, the removal of the expiry period of COVID flight credits and the implementation of Classis Rewards Plus (which expanded the ability for Loyalty members to redeem Frequent Flyer points for Qantas flights). This has been followed by further measures to enhance the customer experience, including substantial lounge and aircraft cabin investments.
Legal disputes with the ACCC and baggage handlers	Qantas reached a settlement agreement in 2024 with both parties
Ageing fleet	Substantial fleet renewal program with >100 aircraft on order

The investment case

Value

Qantas' share price has been volatile over the past month, driven initially by weak trading commentary from U.S. airlines and subsequently by the market-wide volatility following President Trump's tariff announcement. While aviation demand is inherently cyclical, Qantas operates in a vastly different and superior domestic market structure to the U.S. (which has 5 major domestic airlines), has a far more efficient international business today than it has had historically, and benefits from the relatively stable and diversified Loyalty revenue even during more challenging macroeconomic periods. ~80% of group EBIT is derived from the Domestic, Jetstar and Loyalty business which are relatively insulated from the broader tariff related volatility.

Quality

We believe that the strength of Qantas' business is driven by:

- **Leading industry position in a rational domestic market:** Qantas has a strong market share in the Australian domestic aviation market, making it capable of serving a very wide network of interstate and regional routes and a frequent schedule on dense capital city routes. Qantas' key domestic competitor Virgin Australia is currently owned by a private equity-led (Bain Capital) consortium and has remained a strong but rational competitor ahead of its likely IPO. Jetstar's earnings are also benefiting from improving demand following the exit of three low-cost carrier competitors (Bonza, Rex and Tiger) from the Australian domestic market in recent years. While we remain wary of any shift from the largely rational competitive dynamics that currently exist, we don't see an obvious catalyst for this to shift given capacity constraints that exist due to slower plane deliveries.
- **High growth, capital-light Loyalty division:** Qantas operates Australia's best loyalty business, which is expected to double earnings over the next 5-7 years as it expands its membership base, as well as its points earning and redemption options. While the Loyalty business is highly effective at monetising airline inventory and retaining existing Qantas customers, it also represents a fast-growing, capital-light and diversified source of revenue.
- **Management team:** Since commencing as CEO in September 2023, Vanessa Hudson has done an excellent job alongside the broader management team at quickly addressing the issues that were impacting Qantas at the time of her appointment. We have also been pleased with the Board renewal process, in particular the initial actions of new Chairman John Mullen.

Catalysts

We see three key future catalysts for Qantas, namely:

1. **Ongoing actions to address customer pain points:** The actions Qantas has made already have resulted in an improvement in its on-time performance, customer reputation and NPS scores. The business has announced a range of further measures to be introduced over the coming years, including investment in its lounges, aircraft cabins, customer experience and Loyalty redemption options. We believe that this investment is prudent and is likely to result in an ongoing improvement in both the customer and equity market perception of Qantas.
2. **Earnings upside from new aircraft:** Qantas is in the early stage of a large fleet re-investment program. It will take delivery of 18 new aircraft in FY25, with >100 new aircraft on order (compared to its current fleet of approximately 300 aircraft). These aircraft will provide a range of benefits, including additional seat capacity, improved customer offer, reduced fuel consumption and additional fleet flexibility, including the option for new previously financially unviable routes. The International operations will benefit significantly from Qantas's fleet investment, which will deliver differentiated premium product offerings such as direct flights from Melbourne/Sydney to London and New York under Qantas' Project Sunrise.
3. **Strong balance sheet:** In February 2025 Qantas paid its first dividend since the Covid pandemic. Even with Qantas' significant fleet investment program over the coming years, we believe that its balance sheet is strong and should support ongoing, attractive fully franked dividends and/or share buybacks in addition to future earnings growth.

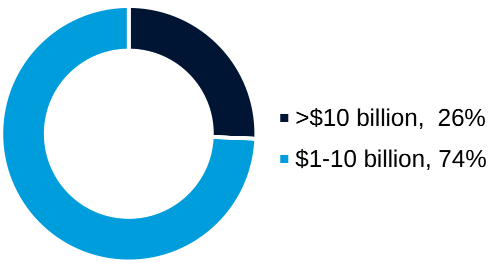
Conclusion

In summary, Qantas is currently trading at 7.7x FY26 P/E, which we believe does not adequately reflect the quality of the business, in particular its high-growth, capital-light loyalty division, which remains underappreciated by the market.

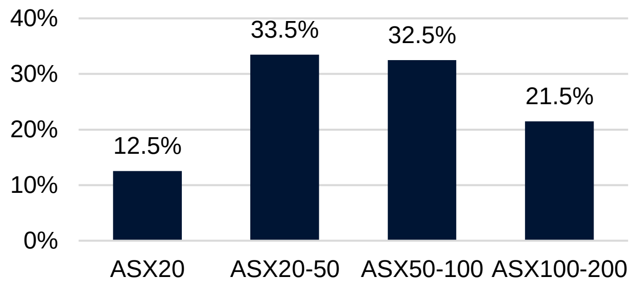
Portfolio exposures by primary catalyst as at 31 March 2025

	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 (%)

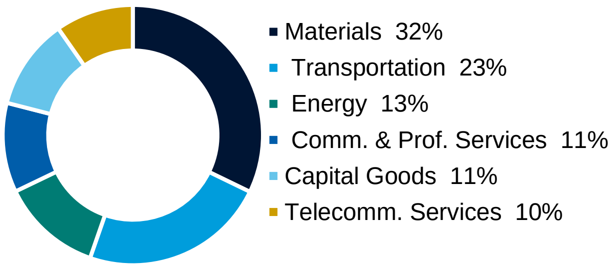


Market constituents exposure (%)



Figures may not sum exactly due to rounding.

Sector exposure – GICS Level II (%)



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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).

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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.

Contact us

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

www.L1.com.au

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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
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.

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This publication has been prepared by L1 Capital Strategic Equity Management Pty Limited (ACN 648 751 928), (an authorised representative (no. 1286013) of L1 Capital Pty Ltd (ACN 125 378 145, AFSL 314 302)) and its officers and employees (collectively "L1 Strategic"), to provide you with general information only. In preparing it, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither L1 Strategic, Equity Trustees nor any of its related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. All performance numbers are quoted after fees. **Past performance should not be taken as an indicator of future performance.** You should obtain a copy of the Product Disclosure Statement on our website www.L1.com.au before making a decision about whether to invest in this product.