L1 CAPITAL

Quarterly Report

L1 Capital International (Unhedged) Active ETF

June 2026

In this Quarterly Report, we have outlined:

- Our assessment of the current investment environment including:
  - A ‘two-speed’ but broadly resilient global economy
  - The uncomfortable certainty of an uncertain future
  - Are we in an AI bubble? Separating strong fundamentals from momentum chasing
  - An extremely ‘narrow’ market characterised by both frothy exuberance and over-pessimism
- The positioning of the L1 Capital International Fund in this environment
- Key drivers of recent performance, including contributors and detractors
- Where we continue to see compelling investment opportunities for investors with a longer-term investment horizon
- Recent portfolio adjustments.

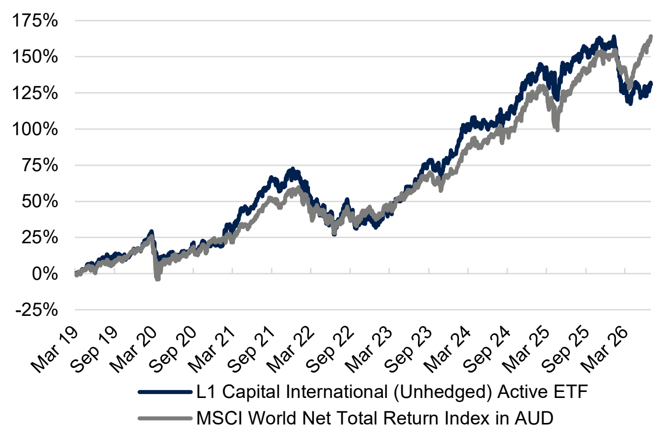
Fund performance (Net) (%)[1]

	Fund	Index[2]	Outperformance
3 months	2.6	12.5	(9.8)
1 year	(6.5)	14.8	(21.3)
3 years p.a.	11.8	17.7	(5.9)
5 years p.a.	8.5	13.3	(4.8)
Since Inception* p.a.	12.1	14.2	(2.1)
Since Inception* cumulative	130.7	164.2	(33.5)

NAV price as at 30 June 2026	$6.14

* Unit Trust Inception is 1 March 2019 (returns measured from Index close). ETMF Inception is 22 November 2023.

Fund (Net) and benchmark returns since inception[1,2]

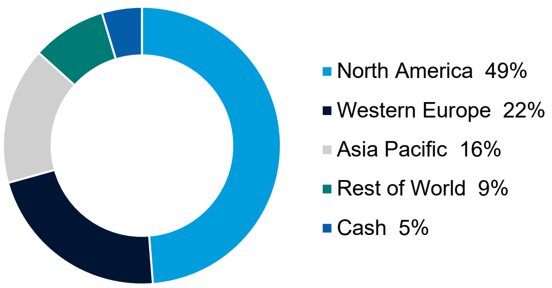


1. All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Figures may not sum exactly due to rounding. **Past performance should not be taken as an indicator of future performance. 2.** The Benchmark is the MSCI World Net Total Return Index in A$. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI’s express written consent.

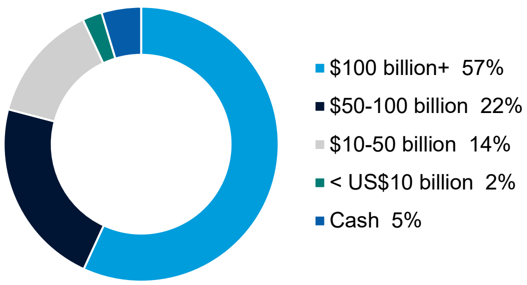
Strategy returns (Net)[3] (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019			0.8	5.8	(2.7)	4.4	2.8	1.5	(0.5)	(0.7)	4.9	(1.4)	**15.4**
2020	6.0	(2.6)	(8.9)	2.0	3.6	(2.5)	1.5	3.8	(0.3)	(1.1)	3.5	(0.3)	**3.8**
2021	6.1	2.9	5.4	5.9	(0.2)	5.5	3.4	4.6	(4.1)	1.1	3.8	1.1	**41.1**
2022	(4.1)	(5.6)	(4.3)	(3.6)	(0.4)	(6.4)	10.2	(4.3)	(5.5)	7.1	1.3	(6.3)	**(21.1)**
2023	5.4	1.4	6.4	1.9	3.0	3.8	2.2	4.6	(3.1)	(1.1)	5.0	2.7	**36.9**
2024	6.1	5.0	2.3	(3.7)	0.4	0.4	5.8	(1.3)	0.2	4.5	5.0	1.5	**29.0**
2025	3.6	(0.6)	(2.8)	(1.7)	5.1	1.2	1.8	1.2	(0.3)	3.3	(2.0)	0.9	**9.8**
2026	(7.0)	(4.9)	(1.8)	2.2	(1.3)	1.8							**(10.9)**

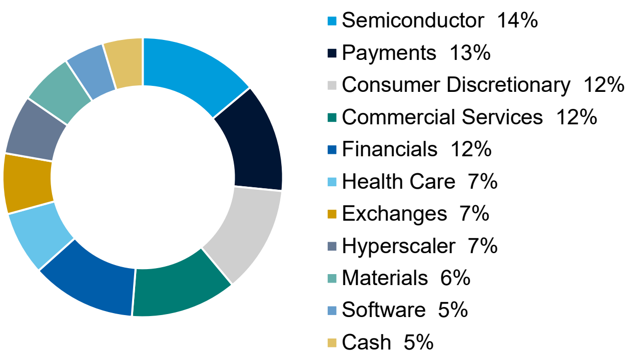
Revenue exposure by region[4]



Market capitalisation exposure (in US$)



Sector exposure[5]



Top 10 holdings

As at 30 June 2026 (In alphabetical order)	**Sector**
AerCap	Financials
Alphabet	Commercial Services / Hyperscaler
Amazon.com	Consumer Discretionary / Hyperscaler
Booking Holdings	Consumer Discretionary
CRH	Materials
Danaher	Health Care
Mastercard	Payments
Nvidia	Semiconductor
TSMC	Semiconductor
Visa	Payments

3. All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Figures may not sum exactly due to rounding. **Past performance should not be taken as an indicator of future performance. 4.** Revenue by region is internally estimated on a look through basis based on the underlying revenues of the individual companies held in the portfolio. **5.** Sector exposure is defined by L1 Capital International to best describe the nature of the underlying businesses.

Current investment environment

> **"**Doubt is an uncomfortable condition, but certainty is a ridiculous one.**"**
>
> Attributed to Voltaire
>
> **"**When most people think about the future, they ignore that the future is a distribution of probabilities.**"**
>
> Howard Marks

Introduction

The two opening quotes encapsulate our perspectives on the current investment environment. Many commentators are **expressing their views on unknowable issues** such as the path of geopolitics or Artificial Intelligence (AI) **with certainty**. We consider that ridiculous. Share prices are also often reflecting too much certainty – characterising businesses in white or black terms such as **'AI Winners'** or **'AI Losers'**. As discussed in our March 2026 Quarterly Report we continue to see '**grey**' or a distribution of probabilities.

Doubt and uncertainty are uncomfortable, but they can create attractive risk-adjusted investment opportunities. While the share prices of some companies in the portfolio have partially recovered during the quarter, we continue to see **compelling value in high-quality businesses for investors with a longer-term horizon**.

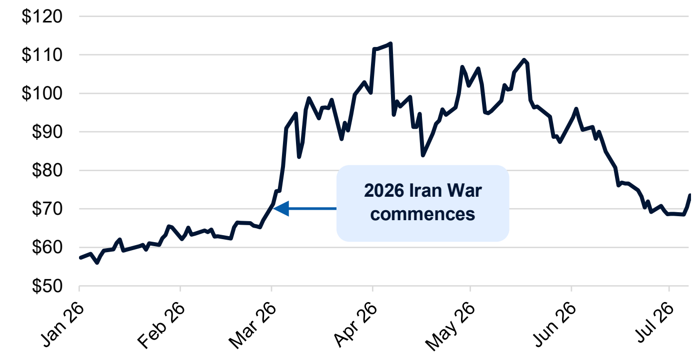
Macroeconomic environment

Despite another quarter dominated by geopolitical headlines, there was limited change in the underlying macroeconomic backdrop.

The Middle East conflict initially de-escalated, with the flow of trade through the Strait of Hormuz resuming. After quarter end, the conflict has flared up again, once again providing a reminder of **geopolitical uncertainties.** Fears of a major oil shortage were quickly replaced with concerns about an oil glut. The spot oil price rapidly fell to levels only modestly above pre-conflict prices, although there has been a recent uptick on resumption of military action.

Investors continue to look through the conflict, expecting any supply chain disruption and any associated inflationary pressures to be modest and temporary. The longer the conflict continues, the greater the downside risks.

Figure 1: WTI Oil Price (US$ / barrel)



Source: Bloomberg

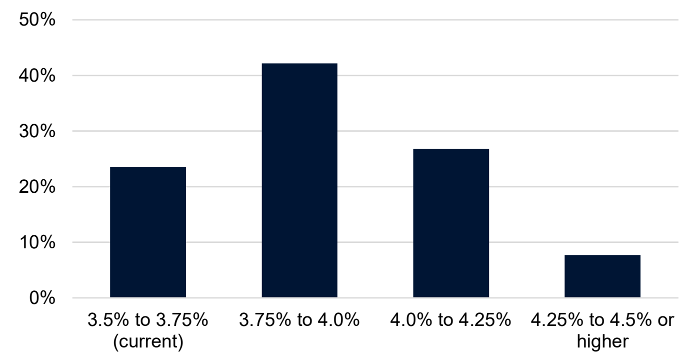
The first Federal Open Market Committee (FOMC) meeting chaired by Kevin Warsh came and went, with no change to the Federal Funds Rate. The official FOMC statement was brief, while the subsequent press conference by Chairman Warsh was more 'hawkish' (potentially increasing interest rates to reduce inflation) than many observers expected.

> **"**We recognise that inflation has been running well ahead of the Fed's long-stated inflation goal of 2 percent…for more than five years. Persistently high prices are a burden for the American people…I am pleased to report that the members of the FOMC are unambiguous and unanimous: The Committee will deliver price stability.**"**
>
> Federal Reserve Chairman, Kevin Warsh, 17 June 2026

Macroeconomic data globally remains mixed. Recognising the future is a distribution of probabilities, our base case remains unchanged:

- A two-speed economy persists, where affluent consumers continue to thrive and lower socio-economic consumers continue to be challenged by cost of living and other pressures.
- AI-related investment remains exceptionally strong while many traditional sectors remain subdued.
- Labour markets remain resilient, although AI introduces longer-term uncertainty.

Figure 2: Forecast for Fed Funds Rate at December 2026



Source: CME FedWatch

We remain in the '**higher for longer' interest rate camp, a view we have long held.** The market is assessing around a 25% probability of no change in the Fed Funds Rate by December 2026, around a 70% probability of one to two 0.25% increases by December 2026, and a small chance of further rate increases. Regardless of the exact level of interest rates, it is **critical to financial markets that the Federal Reserve maintains independence**.

Longer-term interest rates in most global markets, with the noticeable exception of Japan, continue to be rangebound and remain broadly supportive of asset values and equity market conditions.

Figure 3: 10-year bond rates (%)

	U.S.	ECB	U.K.	Australia	Canada	N.Z.	China	Japan
31 December 2024	4.57	2.36	4.57	4.36	3.23	4.41	1.67	1.09
Current	4.50	2.95	4.79	4.82	3.42	4.43	1.73	2.85
Change	(0.07)	+0.59	+0.22	+0.46	+0.19	+0.02	+0.06	+1.76

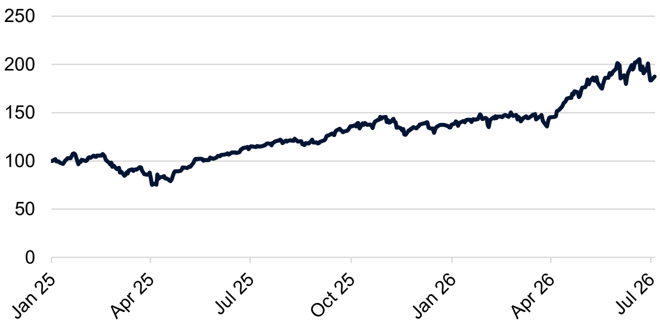
Source: Bloomberg

June 2026 quarter review

Equity market conditions

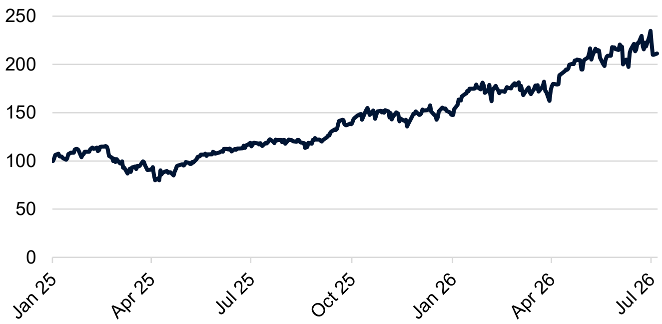
Equity markets continue to be dominated by the 'AI winners' / 'AI losers' trade and associated momentum.

Figure 4: AI Winners Index



Source: Bloomberg – GS Broad AI Basket Index

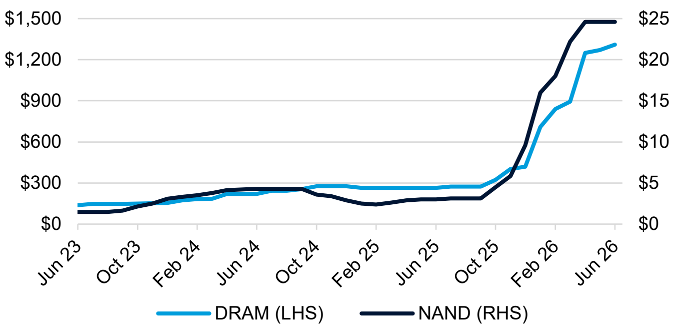
Figure 5: U.S. Momentum Index



Source: Bloomberg – GS Long Momentum Index

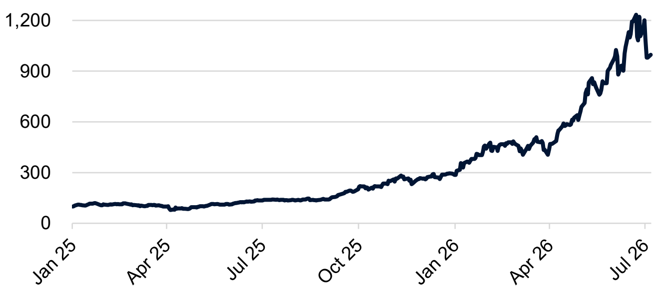
Memory has become the latest AI capex 'bottleneck'. There has been a **genuine step change in demand, not speculation.** Tight oligopolistic supply has caused a parabolic increase in the price of memory components and the share price of memory manufacturers.

Figure 6: Memory prices (US$ per unit)



Source: Bloomberg – inSpectrum – Server DRAM contract price DDR5 64GB RDIMM, inSpectrum – NAND FLASH contract price, 512 GB

Figure 7: Memory Index

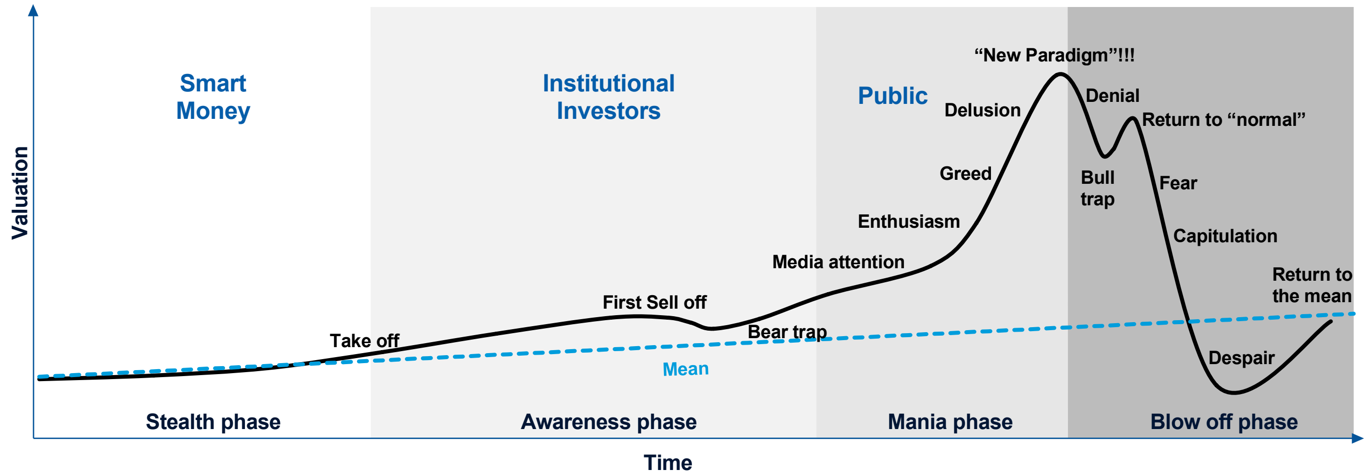


Source: Bloomberg – BofA Memory Index

> **"**Stock market bubbles don't grow out of thin air. They have a solid basis in reality – but reality as distorted by a misconception.**"**
>
> George Soros

At times like these we are reminded of the oft-referenced diagram by Dr Rodrigue depicting the **stages of a market bubble**.

Figure 8: Stages (Phases) of a Bubble

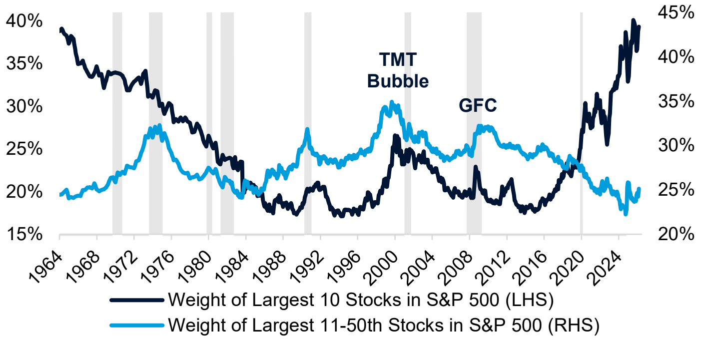


Source: Jean-Paul Rodrigue, "Stages (Phases) of a Bubble" (2008), Department of Global Studies & Geography, Hofstra University

The stock market in the June 2026 Quarter, and much of the past 12 months, has been **dominated by AI capex winners and momentum, to the exclusion of almost everything else**. If you thought markets (particularly the U.S. market) were becoming **more dominated by a small number of largely tech companies – they are**. We are back to U.S. market concentration last seen in the 1960s! **This is presenting attractive investment opportunities outside of current market darlings.**

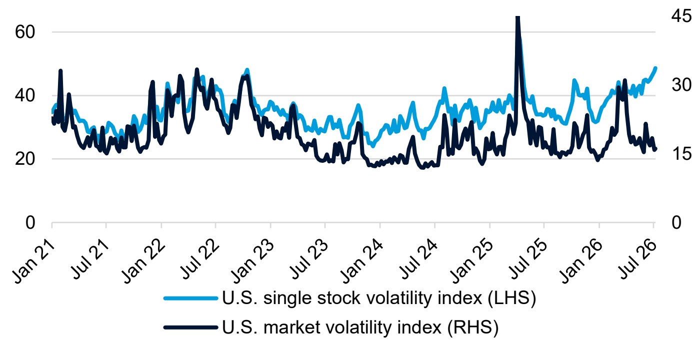
If you thought **individual company share prices** were moving around with **abnormal volatility** – they are. Single-stock volatility reflects increasingly polarised investor positioning.

Figure 9: S&P 500 Index concentration



Source: JP Morgan U.S. Strategy

Figure 10: U.S. equity market volatility

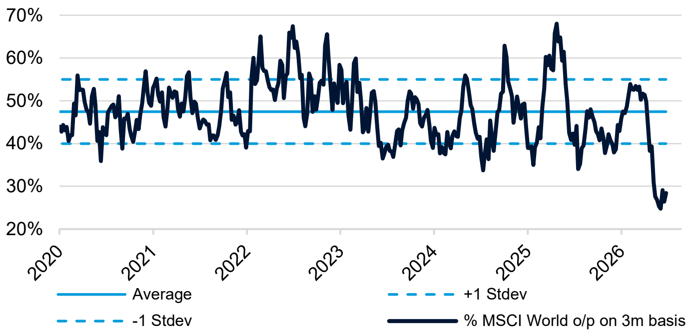


Source: Bloomberg

Recently, the proportion of companies outperforming the index over the past 3 months has collapsed, reflecting the **narrowness of the recent market rally**.

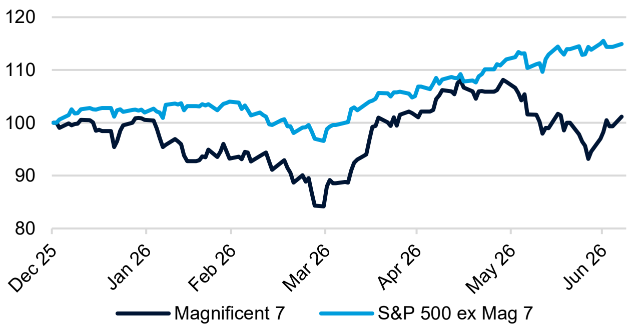
Even the **Mag 7** are starting to be renamed the **Lag 7**.

Figure 11: Market breadth – MSCI World Index



Source: JP Morgan U.S. Strategy

Figure 12: Mag 7 vs. S&P 500 (Indexed to 100)



Source: Bloomberg

Implications of these equity market conditions

Returning to our opening comments, we continue to see a **future full of uncertainty**, with a range of potential outcomes of varying probabilities. **No area better illustrates the range of potential outcomes than AI. Expressing certainty on its long-term impact is a mistake; so too is ignoring AI-centric investment opportunities.**

The current enthusiasm for AI has only limited parallels with the dot.com era. **AI is not a fad, infrastructure bottlenecks such as memory are real, and we expect strong growth in AI capital expenditure well into the future.** Many AI beneficiaries are also amongst the largest, most profitable and financially strongest businesses in the world.

At the same time, valuations of some designated ‘AI Winners’ increasingly assume sustained exceptional growth and near-perfect execution. However, not every AI-related share price resembles Rodrigue’s bubble chart, and we **continue to see pockets of compelling value among AI beneficiaries**.

On page 8 we have outlined how **the portfolio has been selectively tilted to benefit from sustained growth in AI capex, and away from potential AI losers**. We also **continue to see attractive valuations for many high-quality businesses that are not particularly AI sensitive**. We have increased exposure to several businesses in this category.

June 2026 quarter review

Performance

The Fund returned +2.6% (net of fees) during the June 2026 quarter, compared to the Benchmark return of +12.5% (all in A$). The Australian dollar appreciated modestly, rising 0.3% versus the U.S. dollar and 1.4% against the Euro, slightly detracting from reported returns.

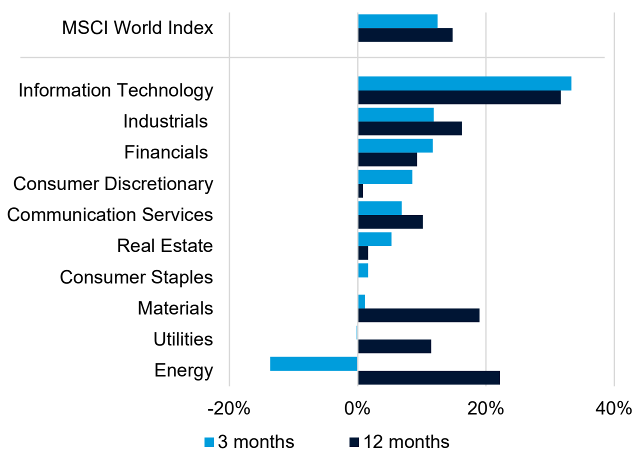
While the Fund’s relative underperformance is disappointing, its primary drivers are clear. **The Fund’s relative underperformance compared to the Benchmark was driven more by which investments were not held in the Fund, than by which investments were held in the Fund.**

It was very much a **‘risk on’ quarter**. At a broad sector level (measured in A$), Information Technology delivered returns of more than 33% during the June 2026 quarter. Industrials and Financials both returned around 12%, in line with the overall MSCI World Index return. Every other sector lagged the Index, particularly Energy (Middle East stabilisation) as well as the defensive Utilities and Consumer Staples sectors.

Delving further into the detail, **AI capex beneficiaries predominantly drove quarterly market returns**. Companies within the semiconductor and semiconductor equipment sub-segment accounted for around 45% of the MSCI World Index’s June 2026 quarter returns, and if you include AI capex beneficiaries classified in other sub-segments the total contribution was even greater.

Individual company contribution was also highly concentrated. Ten companies accounted for close to half of the MSCI World Index quarterly returns, with the remainder of the 1,300 plus companies accounting for the rest of the Index returns.

Figure 13: MSCI World Index (in A$) – Sector performance



Source: Bloomberg

Quarterly share price movements for some companies were exceptional, with AMD, Intel and Micron each broadly tripling or more over 3 months. These companies accounted for just over 2% of the Index by market capitalisation yet accounted for 17% of quarterly returns. Not having an investment in these companies detracted from the Fund’s relative performance. In our view, momentum chasing has overtaken valuation discipline in some instances.

Cash at the end of the June 2026 quarter was 5%, slightly elevated in advance of the upcoming distribution. **We expect the fund to hold 5% or less cash in most market environments.**

Key contributors and detractors

At the end of quarter, the Fund held 22 investments, with the top 10 positions accounting for around 60% of the Portfolio.

At an individual stock level, while the Fund had more positive contributors than negative detractors to returns, quarterly performance was again mixed. **TSMC** contributed more than 2.0% to the Fund’s returns (measured in A$), while **Amazon.com** contributed around 1.0%. Four other companies (**AerCap**, **Alphabet**, **Nvidia** and **Visa** – in alphabetic order) each contributed around 0.5% or greater. **Intercontinental Exchange** and **Intuit** each detracted from the Fund’s performance by more than 1.0%.

TSMC, and to a lesser extent **Nvidia,** benefitted from the market favouring AI capex winners. Our valuation of both businesses continues to increase, and the rationale for increasing the Fund’s investment in Nvidia is discussed on page 9. **Nvidia** and **TSMC** are currently top 5 holdings in the Fund.

We remain excited by the outlook for **Amazon.com**, both for the ecommerce business and Amazon Web Services (AWS). Operational execution within ecommerce is consistently improving, and the June 2026 announcement to extend Amazon Freight services to the less-than-truckload market segment is an indication that management has sufficient comfort in the operational performance of the logistics network to further extend the platform to third parties.

We expect further increases in AWS's capital expenditure which will result in Amazon.com generating **negative free cash flow.** We believe **the market remains overly focused on near-term free cash flow and continues to underappreciate the longer-term structural opportunity** for the hyperscalers and the potential returns on their AI-related capital investment. Amazon CEO Andy Jassy's Letter to Shareholders in April 2026 is recommended reading, particularly his perspectives on AI and how Amazon is being positioned for what he considers to be a '**seminal shift**'. Jassy shed some light on **AWS's internal chip capabilities** (particularly Graviton – CPU, and Trainium – GPU) which we believe **remain under-appreciated**, as is the nearer term ramp in AWS capacity. In our view, **both the ecommerce flywheel and AWS remain underappreciated and undervalued**.

AerCap, the world's largest aircraft and aircraft engine lessor, continues to benefit from **strong demand and constrained supply across both aircraft and engines.** Higher fuel prices associated with the Middle East conflict have contributed to some adjustment in airline capacity and increased pressure on weaker carriers, but we do not expect this to materially negatively impact AerCap and may present opportunities for AerCap's nimble management team. We expect another quarter of strong financial results and elevated buyback activity. Although upside is more modest following recent share price appreciation, AerCap remains a high-quality compounder capable of creating significant shareholder value through sustained financial performance and disciplined capital allocation.

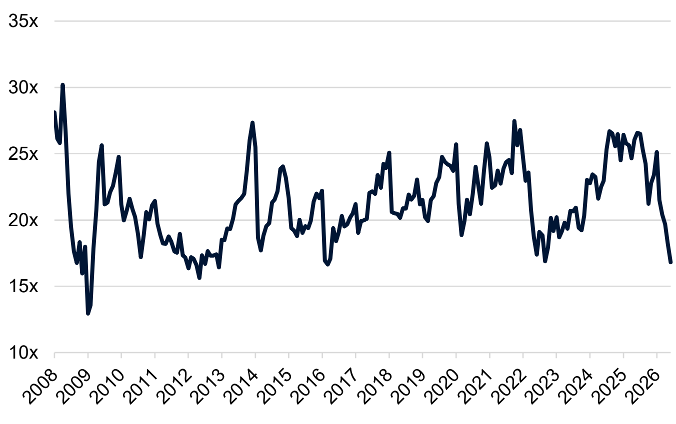
Intuit's Q3 2026 quarterly results were **moderately below our – and the market's – expectations**. **The share price fell nearly 40%** during the June 2026 quarter. While we **consider the market's response excessive, it was not without reason**. Intuit operates a number of software businesses. QuickBooks (accounting, payroll and payments) continues to perform solidly although growth rates are expected to slow. Credit Karma (personal finance) has performed exceptionally well, while Mailchimp (marketing) has struggled since acquisition although this is not new information. The **core disappointment was the TurboTax business**.

TurboTax is a tale of two cities. Intuit has been investing in AI for many years. TurboTax has developed a hybrid offering between AI driven software and a human tax expert called TurboTax Live which is rapidly disrupting the 'do it for me' tax filing industry. This part of TurboTax grew at a mid-30s growth rate and is now over 50% of total TurboTax revenue. However, the 'do it yourself' TurboTax product lost meaningful share amongst price sensitive, low-income filers, causing a modest downgrade to expected total TurboTax divisional growth from around 8% to around 7% for FY2026. On its surface the slightly lower revenue expectations look de minimis, but we had expected Intuit to exceed its prior guidance. The key investment question is whether recent market share loss reflects temporary execution issues or a structural change in competitive dynamics resulting from AI. **Intuit is now trading well below our assessment of fair value**. Execution will be critical and evidence of improvement will take time. Given the heightened uncertainty, the now smaller position reflects what we consider to be an appropriate balance between risk and potential return.

Intercontinental Exchange (ICE) is an example of a **high-quality business that is not particularly AI-sensitive** (positively or negatively) that we assess to be trading at a **compelling valuation**. **ICE is trading on a forward price to earnings ratio of around 17x, a level we have not seen since the GFC**.

ICE has been a long-term holding of the Fund, and we have discussed the investment on many prior occasions. In our view, not much has changed. There are some market concerns around the impact AI may have on the number of people using ICE's proprietary data and analytics. We think this is a peripheral issue and unlikely to materially impact ICE. The larger market concern is that the Commodity Futures Trading Commission (CFTC), which regulates many of ICE's markets, may authorise 'perpetual' derivatives and encourage competition in products such as crypto that could compete with established regulated exchanges.

Figure 14: ICE 12-month forward P/E ratio



Source: FactSet

As a brief aside, **the CFTC situation is highly unusual**. Normally there are five commissioners with no more than three from the same political party. Today, following a series of resignations, there is only one, Michael Selig, appointed by President Trump. Selig has a background in law working for crypto exchanges and promoting innovation.

Discussion on these issues is complex and rapidly turns technical. This is an area where **detailed industry knowledge is critical**. To simplify, we do expect pro-competition regulatory developments and, in some areas, increased competition for retail customers. Nevertheless, we continue to view ICE's core franchises as well positioned for a range of legal, regulatory and commercial reasons. ICE management is also actively partnering with and investing in participants across crypto and prediction markets, positioning the company to adapt as the regulatory framework evolves.

We have modestly added to the ICE investment at a price **well below our assessment of fair value**.

Portfolio adjustments

Figure 15 deliberately exaggerates current reality to make a (hopefully entertaining) point. **Many investors are crowded onto the same side of the boat**, 'all in' on perceived AI winners and associated capital expenditure bottlenecks. Meanwhile investors are fleeing perceived AI losers, including software and white-collar employment businesses because of fears of AI disruption.

This brings us back to George Soros' observation on page 4. **When positioning becomes this one-sided, reality can become distorted and share prices can diverge materially from fundamentals and valuation.**

Figure 15: Market sentiment and positioning

Source: ChatGPT, L1 Capital International

Importantly**, the enthusiasm for AI-centric businesses is grounded in genuine fundamental strength**. We expect **data centre construction and the rollout of AI compute to remain extremely strong for at least the next several years**.

We have consistently increased our capital expenditure forecasts for the hyperscalers such as Amazon Web Services (Amazon), Google Cloud Platform (Alphabet) and Azure (Microsoft). Neoclouds (new-generation, specialised providers of AI infrastructure) are accelerating development globally, while the conversion of bitcoin-mining capacity to AI compute is gaining credible momentum. In our view, **businesses exposed to this substantial expansion in AI compute are likely to deliver strong financial performance for some time.**

FOMO (fear of missing out) is high. The party on the boat does look fun. We **do not think the fundamentals-based music is about to stop**. However, there is **at least one interplanetary flag of caution**, and while it is debatable whether we are at the '**Enthusiasm**', '**Greed**', '**Delusion**' or '**New Paradigm**' stage in Rodrigue's bubble chart, it is hard to argue that we are still in the AI '**Awareness Phase**'.

AI is fast evolving, the future is particularly uncertain, and the distribution of probabilities is wide. As always with investing, it is of paramount importance to remain objective as new information becomes available. To summarise the evolution of our thinking on AI:

- **AI is rapidly becoming more capable.**

  It was less than a year ago that we jokingly asked will AI help to solve cancer or will it have limited commercial applicability and be only useful for gimmicks like turning your portfolio manager's golden retriever into a superhero. While many of the key questions we posted in that report remain uncertain, the evidence is increasingly pointing towards the 'help cure cancer' end of that spectrum.

- **AI is potentially more disruptive to established businesses and industries.**

  We are not saying all software is dead, or that every white-collar employee-centric business will be crushed by AI and mass redundancies will ensue. Rather, we are saying AI is potentially disruptive and a tool to be harnessed to improve competitiveness. Execution by management will be critical. Some companies within these industries will evolve to be stronger and more valuable, while others will falter. From an investment perspective, the **range of potential outcomes is wider**, and both **risk and potential return are higher**.

- **AI capital expenditure will be stronger for longer.**

  Data centres do not fall out of the sky (although maybe one day they will operate in the sky). Planning and permitting timetables, community relations activity, power and networking requirements are all real. **The debate around the return on investment from all this expenditure** and the longer-term outlook remain uncertain, but there is a high degree of visibility that **AI capital expenditure will stay at high levels for longer than we previously expected**.

Portfolio adjustments during the June 2026 quarter accounted for just under 10% of the Fund's investments.

During the June 2026 Quarter the Fund's investment in **Nvidia** was increased. This reflects our view that AI is rapidly becoming more capable and AI capital expenditure will be stronger for longer. Nvidia is now a top 5 holding. It is the world's largest company by market capitalisation, so is hardly unknown. We have followed Nvidia for many years, but our first investment in the company was slightly less than 12 months ago. At that time, we explained that we had **materially underestimated the growth in AI, the size of the addressable market, and Nvidia's associated growth and profitability**.

Since then, Nvidia's financial performance has gone from strength to strength, and our earnings and cash flow expectations for Nvidia for the next few years have almost doubled. Yet the share price has 'only' increased around 15% since our initial investment. This has been reflected in a material derating of Nvidia's near term trading multiples. Market commentators are generally not concerned about Nvidia's short term earnings prospects. Key concerns are focused on longer term loss of market share, and questions over management's allocation of Nvidia's immense free cash flow. We do expect Nvidia will lose share within the entire 'AI compute pie', but the rapid growth in the size of the pie will mean Nvidia's smaller share still corresponds to very strong growth and financial performance. While there may be some unsuccessful investments, we are comfortable with Nvidia's overall capital allocation strategy. **We consider Nvidia to be trading well below fair value today – an example of value to be found amongst all this AI exuberance.**

> **"**…the enterprise landscape has changed…The bar is now higher when it comes to all enterprise software.**"**
>
> Jacob Andreou, Executive Vice President Copilot – Microsoft, July 2026

In response to our concern that **AI is potentially more disruptive to some established businesses and industries**, several portfolio adjustments were made.

Salesforce is the clear leader in its software sub-segment, is well-managed and its business economics and financial position are strong. However, we think the implications of AI are significant for Salesforce, and management will need to respond with strong execution and adjustments to the current business model. We sold into a bounce in Salesforce's share price and used the proceeds to fund the increased investment in Nvidia.

CDW is a leading provider of products and solutions in the information technology (IT) industry in North America and the U.K. It acts as a value-added reseller for many of the leading IT businesses. Management is executing solidly in subdued market conditions. Most of the AI implications for CDW are second-order. For example, clients may spend less on the products and solutions sold by CDW and more on AI-centric solutions.

We divested CDW to **fund larger investments in several high-quality businesses that are not AI sensitive and trading below our assessed fair value**, thus offering a compelling investment opportunity particularly for investors who are less driven by short-term momentum and have a longer-term investment horizon. Examples include **American Express**, **Apollo Group**, **Danaher**, **HCA** and **ICE**.

Particularly attentive long-term followers of the Fund may have noticed that **Microsoft** is no longer among the top 10 holdings. We have rebalanced the portfolio weights between **Alphabet** and Microsoft. We remain comfortable with the Azure hyperscaler business of Microsoft, although we believe the business may be less well positioned compared to Alphabet's GCP and Amazon's AWS hyperscaler businesses:

- Microsoft is behind in developing its own chips (GPUs, CPUs, ASICs) to support AI workloads at lower cost and reduce reliance on Nvidia.
- Previously, Azure pulled back on some data centre investments and is now **capacity constrained** and more dependent on neocloud capacity for immediate needs.
- Azure is more OpenAI-centric and less Anthropic-centric, and recently Anthropic has been out-executing OpenAI. Azure does not just serve OpenAI and is a trusted partner of many of the largest organisations globally. We expect Azure to deliver strong growth, and sound returns on its massive capital expenditure.

Microsoft is, of course, considerably more than Azure. Some businesses operated by Microsoft, such as Xbox, are struggling, while others such as the Windows operating system franchise face cyclical challenges. Microsoft 365 remains of critical importance to the Microsoft investment case and valuation, particularly the ongoing development of Copilot. Management changes have been made to improve performance. The new business head, Jacob Andreou, summarised the situation well in the highlighted quote. **Microsoft needs to lift its game and execute better to clear the higher bar.**

> Today's market is characterised by both frothy exuberance and over-pessimism. We see stretched valuations and considerable hype, but also compelling opportunities in high-quality businesses whose long-term prospects are not reflected in their share prices. The businesses in the portfolio are generally performing strongly, while management teams continue to respond thoughtfully to changing opportunities and risks. We remain focused on quality, valuation and the avoidance of permanent capital loss, and believe the portfolio is well positioned to deliver attractive risk-adjusted returns for patient investors.

Fund Information

Name	L1 Capital International (Unhedged) Active ETF
Portfolio Manager	David Steinthal, Chief Investment Officer
Types of investments	Listed securities globally. Developed market focus. No shorting, no leverage.
Number of investments	20 to 40
Cash weighting	0% to 25%
Minimum initial investment	$25,000
Hedging	Unhedged
Structure	Dual Registry
Inception	Unit Trust: 1 March 2019. ETMF: 22 November 2023
Domicile/currency	Australia/$
Management fee*	1.20% p.a.
Expenses	Nil (included in Management Fee)
Benchmark	MSCI World Net Total Return Index in A$
Performance fee**	15% over Benchmark
High watermark	Yes
APIR / ISIN / ASX Ticker	ETL1954AU / AU0000302960 / L1IF
Platform Availability	Asgard, Australian Money Market, BT Panorama, CFS Firstwrap, Hub24, Macquarie Wrap, Mason Stevens, Netwealth, North, Powerwrap, Praemium, Xpand

L1 Capital International overview

L1 Capital International is an independent active manager of global equities. We apply a detailed investment process built on a fundamental assessment of quality and value. We aim to deliver attractive risk-adjusted returns by investing in high quality companies that have favourable cash-flow-based valuations in well-structured industries. Capital preservation over the investment horizon is central to our investment philosophy and process. We view risk as the potential for a permanent loss of capital as opposed to volatility in share prices. Additional information on L1 Capital International is available at www.L1International.com.

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

* All fees are quoted inclusive of GST and net of RITC. ** There must be positive absolute performance (adjusted for distributions) in the performance period. Otherwise, positive relative performance carries forward to next Period.