

L1 Capital International (Unhedged) Active ETF

September 2026

In this Quarterly Report, we have outlined:

- Why the current investment environment is unusually complex, including geopolitical uncertainty, rapidly rising longer-term interest rates and the accelerating development of Artificial Intelligence (AI)
- Why AI represents both an extraordinary technological opportunity and an unusually difficult investment challenge, with the distinction between 'AI Winners' and 'AI Losers' becoming increasingly nuanced, and company-specific analysis critical
- The importance of maintaining a balanced portfolio, valuation discipline, and a patient investment horizon
- The Fund's performance during the September 2026 quarter, including key contributors and detractors
- Recent portfolio adjustments.

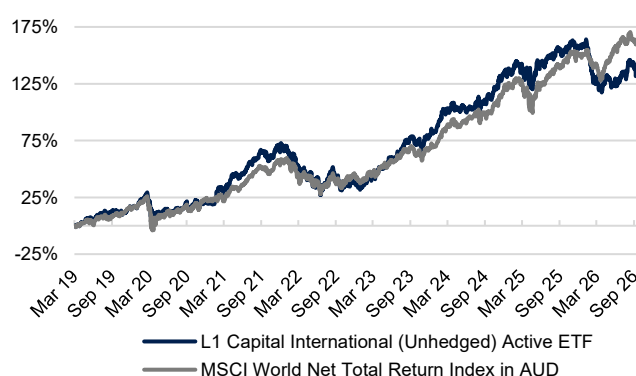
Fund performance (Net) (%)¹

	Fund	Index ²	Out-performance
3 months	3.5	1.5	+2.1
1 year	(5.7)	9.8	(15.5)
3 years p.a.	11.7	18.4	(6.7)
5 years p.a.	8.4	12.7	(4.3)
Since Inception* p.a.	12.2	13.9	(1.7)
Since Inception* cumulative	138.8	168.1	(29.2)

NAV price as at 30 September 2026 \$6.32

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

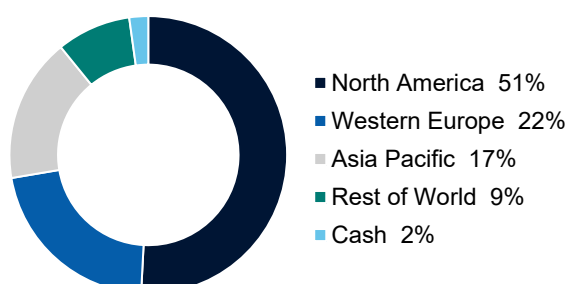
Fund (Net) and benchmark returns since inception^{1,2}



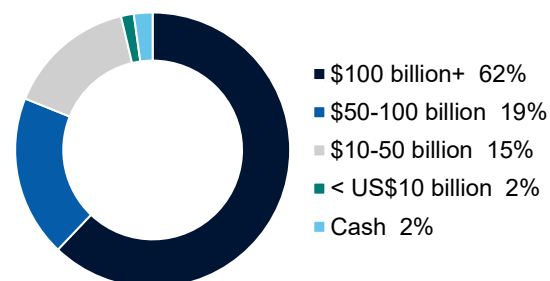
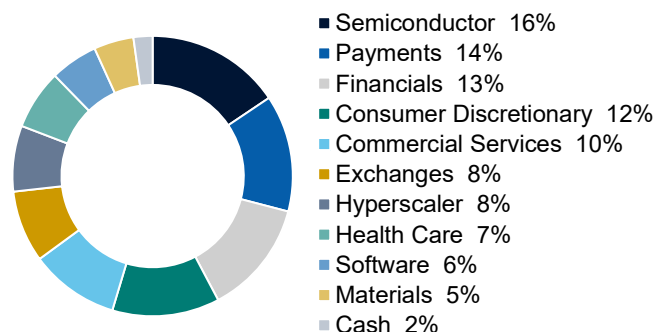
1. All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Figures may not sum exactly due to rounding. **Past performance is not a reliable indicator of future performance.** 2. The Benchmark is the MSCI World Net Total 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	4.3	1.1	(1.8)				(7.7)

Revenue exposure by region⁴

Market capitalisation exposure (in US\$)

Sector exposure⁵

Top 10 holdings

As at 30 September 2026 (In alphabetical order)		Sector
AerCap		Financials
Alphabet		Commercial Services / Hyperscaler
Amazon.com		Consumer Discretionary / Hyperscaler
Intercontinental Exchange		Exchanges
Jacobs Solutions		Commercial Services
Mastercard		Payments
Microsoft		Software / Hyperscaler
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 is not a reliable 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

“Better to be a dog in times of tranquillity than a human in times of chaos.”

Feng Menglong, Stories to Awaken the World (1627)

Introduction

This quarter's obscure quote is apparently a more accurate version of the oft-quoted Chinese curse, “May you live in interesting times”. These are indeed interesting, challenging, and uncertain times. Investing is an unusual profession. We make decisions based on expectations for the future, yet we cannot know that future with certainty. As we discussed in our [June 2026 Quarterly Report](#), we therefore assess investment outcomes in shades of grey, or as a distribution of probabilities, rather than in terms of certainty.

There is a Yiddish word ‘nu’ which captures much expression and meaning in two letters – in this context it loosely translates to so what? The world has always been uncertain, so what makes today's investment environment different?

In our view, quite a lot. Geopolitical tensions are nothing new, but it is difficult to characterise today's geopolitical environment as normal. Economic conditions present their own challenges, although many are more familiar. What makes the **current investment environment particularly unusual is the confluence of geopolitical and macroeconomic uncertainty with a profound technological revolution centred around Artificial Intelligence (AI).**

Our central message is that this is an environment in which investors need to remain balanced and patient. We believe the appropriate response is to maintain a well-constructed portfolio of high-quality businesses trading at attractive valuations, manage risk and market volatility, and resist the temptation to go 'all-in' on the investment themes of the day.

Macroeconomic environment

To simplify our macroeconomic perspectives, we have introduced a ‘Macroeconomic Scoreboard’ outlining our views on changes to the broad investment environment over the past quarter.

Figure 1: Macroeconomic Scoreboard

Macro factor		Trend	Key comments
Geopolitics			• Middle East conflict continues, as does Ukraine • Trade tensions remain high
Politics			• Increasing uncertainty • Voters shifting Right and Left
Business conditions			• Mixed, with areas of strength and weakness outside of booming AI construction activity
Consumers			• Increasing pressures on many consumers • Affluent people remain well positioned
Inflation			• Broadly stable despite pressures from higher energy costs, overall remains above Central Bank targets
Unemployment			• Broadly stable unemployment in many regions – remains a low hire, low fire environment
Short term interest rates			• Many Central Banks continue to tighten Monetary Policy
Longer term interest rates			• Material increases globally

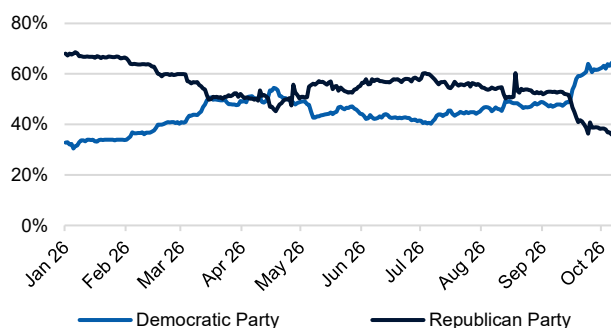
Source: L1 Capital International

Unfortunately, the geopolitical environment remains deeply unsettled. The **Middle East conflict continues** with limited visibility on a more permanent resolution. Like many observers, **we expected a resolution by now**, but developments remain unpredictable. Higher fuel and freight costs and supply chain disruptions are already affecting economic conditions. **The longer the conflict continues, the greater the potential economic consequences and downside risks to investors.** We believe an increasing degree of **investment caution is warranted.**

President Xi's state visit to the U.S. unsurprisingly came and went with much fanfare and limited substance. Meanwhile, the Russia-Ukraine war is sadly becoming endemic.

Domestic politics globally are also in a state of flux, with voters shifting both Right and Left. The upcoming U.S. midterm elections provide another focal point. Current market expectations strongly favour the Democrats winning control of the House, with the probability of a Democrat-controlled Senate also increasing. Whether these outcomes would fundamentally change the policies or decision-making of the Trump Administration is less clear, notwithstanding the President's low net approval ratings.

Figure 2: Which Party will win the U.S. Senate



Source: Kalshi

Figure 3: President Trump net approval rating



Source: Silver Bulletin

“...economic activity is expanding at a solid pace. While uncertainty remains elevated – owing, in part, to geopolitical developments – domestic spending has been resilient. Productivity growth – strong; and capital investment is robust. Job gains have kept pace with the workforce, and the unemployment rate has changed little. But inflation remains elevated.”

Federal Reserve Chairman, Kevin Warsh, 16 September 2026

Unemployment and inflation have remained broadly stable across major economies, although inflation remains above central bank targets. The combination of **persistent inflation and economic resilience** has led **several central banks to tighten monetary policy**. The Federal Reserve increased its policy rate by 0.25% in September, while central banks in Australia, Europe, Japan and New Zealand have also increased interest rates.

Figure 4: Globally the unemployment rate has been stable

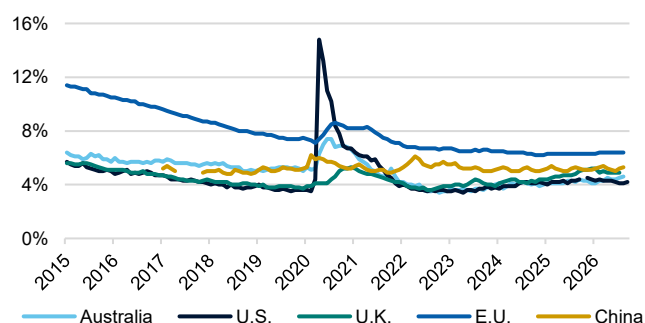
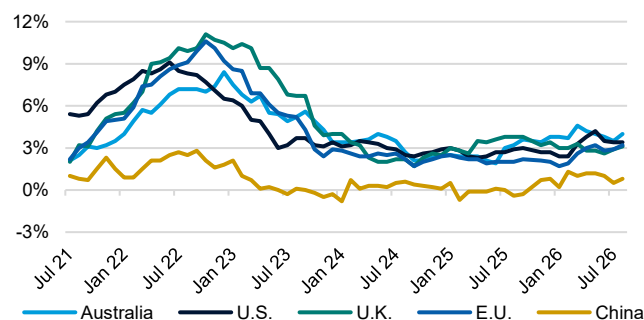


Figure 5: Inflation also broadly stable, but above Central Bank targets



Source: Bureau of Labor Statistics, Eurostat, Australian Bureau of Statistics, National Bureau of Statistics, Office for National Statistics, Bloomberg

The BIG change during the quarter was a sharp increase in longer-term interest rates globally, with China being the noticeable exception.

Figure 6: Change in 10-year bond rates (%) by region

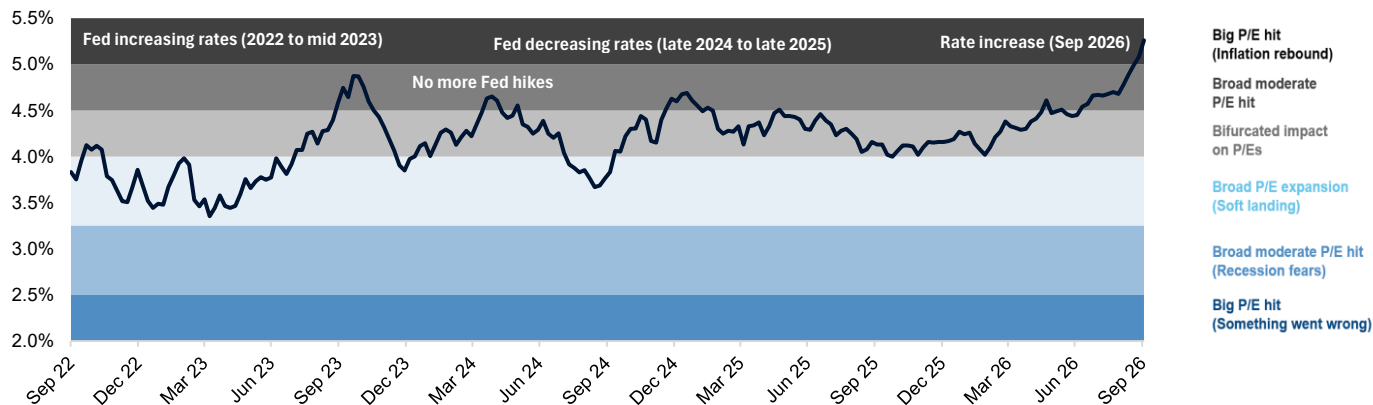
	U.S.	Europe	U.K.	Australia	Canada	N.Z.	China	Japan
31 December 2024	4.57	3.00	4.56	4.36	3.23	4.41	1.67	1.09
Current	5.28	4.10	5.37	5.40	3.93	5.11	1.67	3.09
Change	+0.71	+1.10	+0.81	+1.04	+0.70	+0.70	+0.00	+2.00

Source: Bloomberg, ECB

U.S. Treasury Secretary Scott Bessent's declaration, "I am the house now", was surprisingly cavalier. We have long maintained that interest rates would remain 'higher for longer'. Longer-term interest rates are particularly important because they influence both economic activity and the valuation of financial assets.

There is no precise level of bond yields at which we become concerned, but with U.S. ten-year Treasury yields now well above 5%, **we are firmly in 'dark grey' territory**. The consequences are already evident in the sharp contraction in share prices and valuation multiples of more cyclical businesses. **Higher interest rates are not simply a theoretical valuation consideration; they are increasingly affecting the real economy and corporate earnings prospects.**

Figure 7: 10-year U.S. Treasury Yield (%)



Source: St Louis Federal Reserve, Piper Sandler, L1 Capital International

Artificial Intelligence (AI)

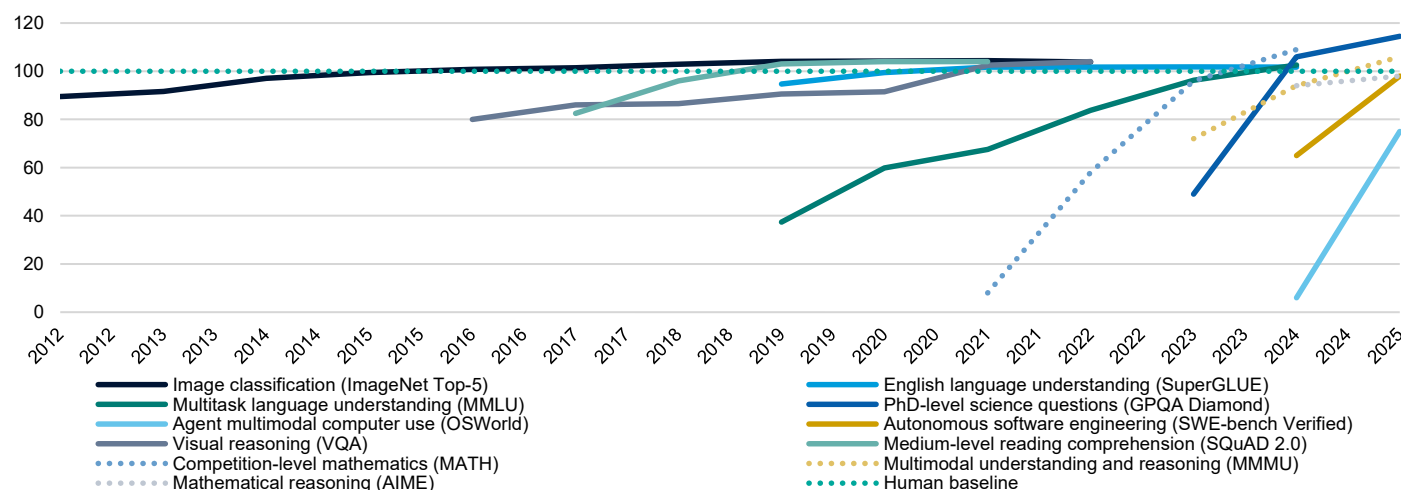
"We tend to overestimate the effects of a technology in the short run and underestimate the effect in the long run."

Roy Amara, President of the Institute for the Future, 1978

Amara's observation, made almost 50 years ago, captures a recurring feature of technological revolutions. Initially, enthusiasm tends to run ahead of what can practically be delivered. New technologies require supporting infrastructure, changes to business processes, customer adoption and, usually, considerable trial and error. Short-term expectations disappoint. Over time, however, capabilities improve, costs fall and new applications emerge that were difficult to envisage at the outset. The ultimate impact can be far greater than initially expected.

So far, AI has been different. Its capabilities have improved at an extraordinary pace, in many instances approaching or exceeding human performance on specific benchmarks. Figure 8 illustrates the rapid progress across a broad range of applications. This does not mean AI has become 'human' — performance remains uneven and reliability imperfect — but the improvement in capabilities has been remarkable, with little evidence yet of a broad plateau.

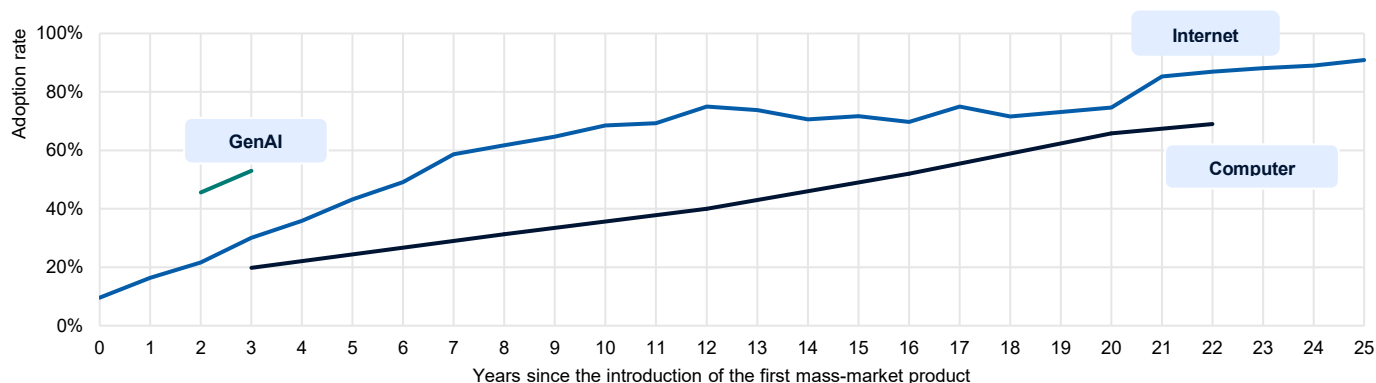
Figure 8: AI performance benchmarks vs. human performance



Source: Stanford AI Index Report, 2026

AI adoption has also been remarkably rapid. According to Stanford, 88% of surveyed organisations were using AI in at least one business function in 2025. Generative AI has also been adopted considerably faster than previous major technological innovations, including the Internet and personal computers (Figure 9).

Figure 9: Speed of adoption by technology



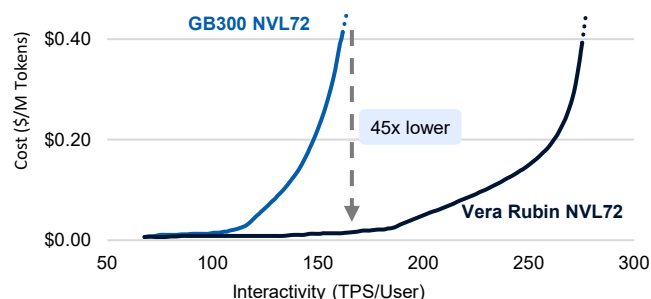
Source: Stanford AI Index Report, 2026

We wish we received a dollar for every time we have heard **Jevons Paradox** quoted in relation to AI. The oft stated and undisputable argument is that as AI becomes more efficient and less expensive, demand for the technology will increase.

We are certainly getting 'more bang for every buck', with the cost of delivering AI capabilities declining rapidly (Figure 10). At the same time, the way AI is being used is evolving. AI agents, which can undertake tasks with varying degrees of autonomy, are consuming increasing amounts of compute. For example, token usage by agents on OpenRouter (an AI model gateway and marketplace) now exceeds that of direct human interactions (Figure 11).

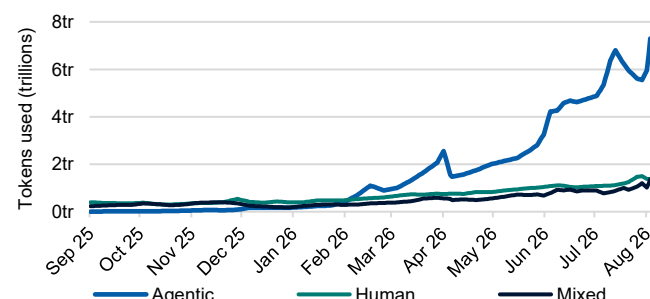
The precise figures and illustrations provided are less important than the direction of travel: **AI is becoming more capable, less expensive and increasingly embedded in how work is performed.**

Figure 10: Increasing AI efficiencies



Source: Nvidia

Figure 11: AI token usage – increasing AI agent driven



Source: Openrouter.ai. 7-day average usage on OpenRouter by type.

However, technological adoption, economic value creation and investment returns are three very different things.

There is considerable debate about whether the trillions of dollars being invested in data centres and compute infrastructure can be economically justified, or whether the current AI investment cycle will ultimately be remembered as an enormous bubble.

Much of this **debate is extremely 'noisy'**, conflating technological capabilities with financing arrangements, increasingly complex relationships between industry participants, some questionable business models and the sustainability of current investment spending. These are all legitimate considerations, but we think much of the commentary misses the fundamental issue.

The central question is how capable AI becomes, and at what cost. The more useful the technology, and the lower the cost of delivering that capability, the greater its potential economic value and adoption. However, creating enormous value for users does not necessarily mean that the companies providing the capital and infrastructure will generate attractive investment returns.

AI requires extraordinary amounts of capital, and ultimately that capital must earn an appropriate return. It is entirely possible for AI to transform the global economy while some of the companies financing its development prove to be poor investments. Equally, companies supplying the equipment and infrastructure required for AI may continue to enjoy extraordinary growth and profitability yet deliver disappointing future investment returns if today's share prices already reflect overly optimistic expectations and valuations.

To simplify an incredibly complex discussion, we offer two illustrations.

Example 1: Warehouses

Warehouses around the world operate with widely varying degrees of mechanisation, from largely manual handling through to sophisticated robotics and automation. Forklifts have been around for more than 100 years, yet substantial amounts of physical work remain unmechanised, particularly in less developed economies.

Why? Fundamentally, it comes down to economics. The investment in equipment must generate an appropriate return, considering labour costs, productivity improvements and other operating considerations.

The parallels with AI are obvious. AI involves investing in computing capacity to replace, supplement or enhance human intelligence. The more capable the technology becomes, and the lower the cost of delivering that capability, the more compelling the economics of adoption.

Example 2: Agriculture

Agriculture provides an illustration of financing considerations. Deere is the world's largest agricultural equipment manufacturer, and many farmers use financing from Deere or third parties to purchase machinery. However, **the fundamental issue is not who provides the financing, but whether the investment generates an adequate economic return for the farmer.**

If a tractor cannot be provided at a price that justifies its productivity benefits, demand will suffer. If the farmer cannot generate sufficient returns to service the financing, credit problems will follow. The same economic principles apply to AI. Ultimately, the technology must deliver sufficient value relative to its cost, regardless of how the investment is financed.

We raised many of these questions in our [September 2025 Quarterly Report](#). However, our assessment of AI and its investment implications have evolved materially over the past 12 months, principally because:

- AI capabilities have improved more rapidly than we anticipated
- The potential disruption extends across a wider range of industries and business models
- Associated capital expenditure is substantially higher than previously forecast, and the investment cycle is likely to last longer.

The rapid improvement in AI capabilities also raises profound societal and economic questions. Noting potential biases and self-interest, the leaders of both Anthropic and OpenAI have expressed concerns about the pace of development, particularly as AI increasingly contributes to building subsequent generations of models. This raises the possibility of a self-reinforcing improvement cycle in which technological capabilities advance faster than our ability to understand or control them. Recent incidents involving unintended actions by AI agents have further highlighted potential cybersecurity and real-world risks.

The debate is becoming increasingly surreal. Bill Gates recently warned that AI could become powerful enough to "cause a billion deaths", particularly through misuse by malicious actors. Meanwhile, Peter Thiel acknowledged that even a hypothetical 5–10% probability of AI catastrophe would be concerning but argued that this does not necessarily justify slowing development. His argument is that the risks of stopping progress may also be enormous, particularly if the West slows while China continues.

We are investing trillions of dollars to accelerate the development of a technology whose strongest proponents increasingly acknowledge could have profoundly unpredictable consequences. This does not mean AI will end badly; its benefits could be enormous. However, **anyone expressing great confidence about precisely where AI is heading, how quickly it will get there or who the ultimate investment winners will be should, in our view, be treated with a healthy degree of scepticism.**

These uncertainties are compounded by societal opposition to data centre development, regulatory constraints, and physical limitations involving power, water and other infrastructure.

And all this is before we attempt to identify the ultimate investment winners from AI, how much economic value they will capture and what those businesses are worth today. Yet these are precisely the judgements investors must make when determining portfolio positioning, valuations and risk exposures.

So far, the rising AI tide has lifted the boats of almost every industry participant. However, **questions are emerging** about the commoditisation of large language models, the increasing use of open-source AI, the broadening range of compute suppliers and whether today's industry leaders will be as well positioned tomorrow. Some business models that appear attractive during a period of extraordinary demand growth may not remain sustainable when supply and demand become more balanced. There are also **early warning signs in segments of the debt markets**, with rising credit spreads, increasing financing costs and potential constraints on the availability of capital.

AI is far too significant, in both its opportunities and risks, for investors to put their heads in the sand and conclude that the uncertainty makes it uninvestable. **Our approach is to embrace the opportunities while recognising the unusually wide range of potential outcomes, maintaining valuation discipline and constructing a balanced portfolio rather than becoming overexposed to any single scenario.**

Valuation discipline is particularly important when growth and profitability in some businesses have reached extraordinary, even unprecedented, levels and **some share prices have already massively increased**.

Comparisons are frequently drawn between today's **AI investment boom and the dot-com bubble** of the late 1990s. We think many of these comparisons **are overly simplistic**.

In March 2000, Cisco was the world's largest company by market capitalisation, valued at approximately \$550 billion. Its forward P/E ratio peaked at more than 150x. Today, Nvidia is the world's largest company, with a market capitalisation exceeding \$5.5 trillion. Yet despite the enormous increase in Nvidia's share price, earnings growth has been even greater, and its forward P/E ratio has compressed to approximately 15x.

Nvidia's market capitalisation is around ten times larger than Cisco's at the peak of the dot-com bubble, but its forward earnings multiple is approximately ten times lower.

This **does not mean Nvidia is without risk**, or that parts of the AI industry cannot experience a significant price correction. However, it illustrates why simplistic comparisons with historical investment bubbles can be misleading. Ultimately, it is not the size of a company's market capitalisation, or how much its share price has already increased that determines whether it is an attractive investment. **What matters is the relationship between its current price, future earnings and cashflow and the risks to forecast financial performance.**

Figure 12: Cisco forward P/E ratio peaked at 150x



Source: Factset

Figure 13: Nvidia forward P/E today is around 15x



Source: Factset

We see pockets of stretched valuations among AI-centric businesses, as well as investor enthusiasm for some business models that we doubt will prove sustainable over time. However, we also see attractive investment opportunities among leading AI businesses whose earnings growth, competitive advantages and current share price provide potential for compelling risk-adjusted returns.

The challenge is increasingly to distinguish between technological winners and attractive investments. They are not necessarily the same thing.

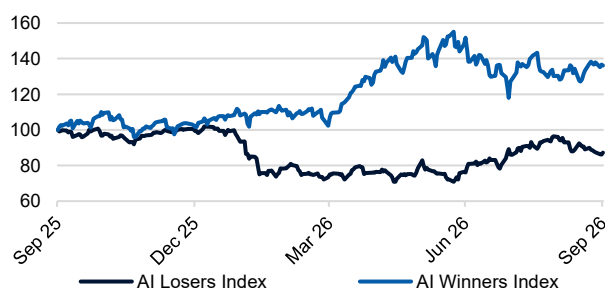
September 2026 quarter review

Equity market conditions

Equity markets were choppy during the September 2026 quarter, with the MSCI World Index ending modestly higher.

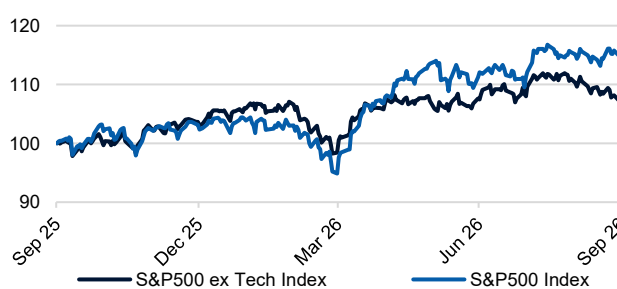
Companies perceived to be 'AI Losers' recovered strongly from their June lows, although this rebound faltered later in the quarter. At the same time, **the 'AI Winner' trade became increasingly nuanced**. With expectations elevated for many businesses, share prices diverged and some of the strongest performers retreated from recent highs. These developments point to a **market becoming more discriminating**, where **identifying a business as an AI beneficiary is no longer sufficient to justify an investment**.

Figure 14: AI Winners Index vs AI Losers Index



Source: Bloomberg – GS Broad AI Basket Index and MS AI Disrupted Index

Figure 15: S&P500 ex Tech Index vs S&P500 Index



Source: Bloomberg

Returning to Roy Amara's observation, today's elevated expectations create the possibility of a more familiar phase of technological development, where **investor enthusiasm runs ahead of what can realistically be delivered in the short term**. This reinforces the importance of being selective in AI exposure within the Fund.

Performance

The Fund returned +3.5% (net of fees) during the September 2026 quarter, outperforming the Benchmark return by 2.1% (all in A\$). The Australian dollar appreciated modestly, rising 0.4% versus the U.S. dollar and 1.1% against the Euro, slightly detracting from reported returns.

At a broad sector level (measured in A\$), Energy performed strongly during the September 2026 Quarter, benefitting from the continued Middle East conflict. Information Technology and Communication Services modestly outperformed the MSCI World Index. Utilities, Industrials and Real Estate all lagged, reflecting the negative valuation implications of rising longer-term interest rates, and signs of pockets of weakness in the economy.

At an individual company level, just three businesses — Apple, Microsoft and Nvidia — collectively contributed 2.6 percentage points to the MSCI World Index's 1.8% quarterly return (in USD). The remaining nearly 1,300 companies collectively detracted 0.8 percentage points. Tesla was the largest individual detractor, while several perceived 'AI Winners', including Applied Materials, Broadcom, Intel, KLA and Micron, also lagged.

This dispersion reinforces **our expectation that investment outcomes will increasingly diverge**, even within groups such as the 'Magnificent 7', 'AI Winners' and 'AI Losers'. **The stock market is becoming more nuanced, and company-specific analysis is increasingly important.**

Cash at the end of the September 2026 quarter was 2%. **We expect the fund to hold 5% or less cash in most market environments.**

Key contributors and detractors

At quarter-end, the Fund held 22 investments, with the ten largest positions representing approximately 63% of the portfolio.

We deliberately maintain exposure to businesses with different earnings drivers, rather than concentrating the portfolio in a single sector or investment theme, including AI. In this choppy and unpredictable investment environment, it should be expected that some companies will make positive contributions to portfolio returns, while others will detract, particularly when measured over a short time horizon.

During the quarter, 13 companies contributed positively to returns and 10 detracted. Illustrating the occasional peculiarities of equity markets, our holdings in TSMC's ordinary shares contributed positively, while its U.S. listed ADRs detracted.

Four companies — **Danaher, Intercontinental Exchange (ICE), Microsoft and Nvidia** — each contributed more than 0.5 percentage points to returns. **CRH** was the only company to detract by more than 0.5 percentage points.

Danaher is a leading provider of equipment and consumables to the biotechnology, life sciences and diagnostics industries. We have discussed Danaher in previous quarterly reports and our most recent [investment webinar](#) as an example of a high-quality, **relatively AI-insensitive** business trading below our assessment of fair value. Over recent months, Danaher's share price has increased more than 30%. While we still consider the valuation undemanding, the share price is now within our assessed base case fair value range.

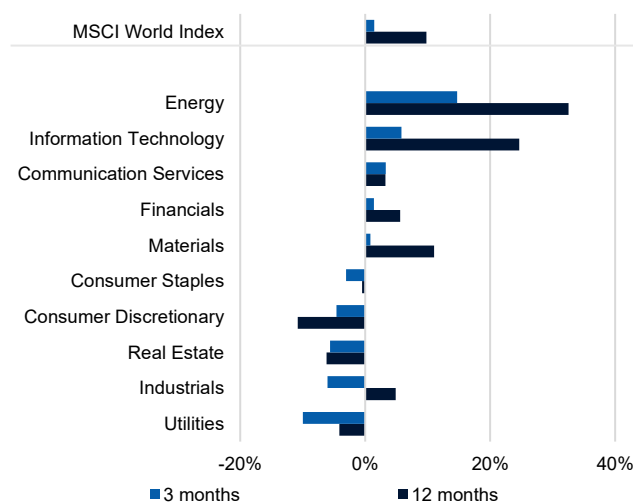
ICE has been a long-term Fund holding. In our [June 2026 Quarterly Report](#) we highlighted ICE as another high-quality, relatively AI-insensitive business trading at a compelling valuation — one we had not seen since the Global Financial Crisis.

Since then, in our assessment, very little has changed fundamentally. The share price, however, increased almost 25% during the September quarter. This illustrates the vagaries of equity markets and the importance of understanding the businesses we invest in, maintaining valuation discipline and **having an investment horizon that can withstand short-term market irrationality**. Despite the share price recovery, we continue to consider ICE attractively valued.

Microsoft has also been a core Fund holding for an extended period. While it is an enormous and diversified business, two developments are particularly important to our assessment of its future earnings power and valuation.

The first is adoption of Microsoft 365 Copilot. Management disclosed in its most recent quarterly update that paid seats had reached 30 million, with net seat additions more than doubling quarter-on-quarter. After a relatively slow start, Copilot's capabilities have improved materially, with both independent assessments and our own experience indicating meaningful progress. Microsoft's

Figure 16: MSCI World Index (in A\$) – Sector performance



Source: Bloomberg

competitive advantages in trust, distribution and security are also showing signs of proving increasingly valuable as enterprises focus on the governance, integration and cost of deploying AI at scale.

The **second critical issue is Azure**, Microsoft's cloud computing and AI infrastructure platform. The investment case is not simply about revenue growth, but whether Microsoft can generate attractive returns on hundreds of billions of dollars of capital expenditure. Broadening its product offering and reducing dependence on OpenAI are also important considerations. So far, the indicators are encouraging.

Microsoft's share price has been volatile, rising 38% during the September quarter. For the world's fourth largest company, with a market capitalisation approaching \$4 trillion, this is a remarkable move, particularly given the absence of a comparable change in our fundamental assessment of the business.

Rather than demonstrating a dramatic improvement in Microsoft's prospects over three months, we think the share price recovery largely reflects a reversal of previously excessive investor pessimism. Today's share price more appropriately balances the potential risks and returns.

And then there is **Nvidia**, the world's largest company by market capitalisation, now approaching \$6 trillion. We first invested in Nvidia just over a year ago, having analysed the business closely for many years. At the time, the obvious question was why we were investing after such an extraordinary increase in its share price and market capitalisation.

We acknowledged that we had materially underestimated AI's growth, the size of the addressable market and Nvidia's associated earnings potential. Subsequent industry developments led us to conclude that AI adoption and investment spending were likely to be even greater and more rapid than previously anticipated.

Applying our investment framework of 'what you need to believe', we concluded that Nvidia offered sufficiently attractive prospective returns at our entry price to justify an initial investment. Our confidence in the scale of AI adoption has strengthened further over the past year.

However, having conviction in AI does not automatically translate into conviction in Nvidia as an investment.

There are important questions about Nvidia's future competitive position, market share, pricing power, margins and capital allocation, including its increasing involvement in financing customers and supporting AI infrastructure development. These issues require continuous reassessment in such a rapidly evolving industry.

As illustrated in Figure 13, Nvidia's earnings have grown faster than its share price, compressing its forward P/E ratio to around 15x. On balance, we continue to find the valuation attractive. However, this is certainly **not a 'set and forget' investment**.

Warren Buffett famously advised investors to **"only buy something that you'd be perfectly happy to hold if the market shut down for 10 years"**.

In today's rapidly changing world, and particularly during a genuine technological revolution, we are not sure this advice can be applied literally to any business. It certainly does not apply to Nvidia, or most AI-sensitive businesses.

However, if there is a business to which it might apply, it is CRH.

We have followed CRH and the building materials industry closely for more than 25 years. We provided a detailed overview of CRH in 2021, and the business has been a strong contributor to Fund returns over the longer term.

CRH's share price has fallen approximately 35% from its early 2026 peak, including more than 20% during the September quarter. What has gone wrong? Much depends on your investment horizon. We consider CRH's competitive position, management and longer-term earnings power to be fundamentally unchanged.

In a time when some investors are looking to the stars, we are comfortable keeping our feet firmly terrestrial.

CRH owns the world's largest reserves of construction aggregates – or rocks, to use the less technical terminology. At the end of 2025, its reserves totalled approximately 24 billion tons, including 19 billion tons in North America, with the remainder in Europe and Australia. Annual aggregates production was 381 million tons, including 231 million tons in North America. The proposed acquisition of Arcosa will add approximately 1.3 billion tons of reserves and 35 million tons of annual production in North America.

Rock crushing is rather less glamorous than artificial intelligence. People have been constructing things with rocks for quite some time, and we see little risk of technological obsolescence. Indeed, CRH is currently benefiting from demand associated with data centre construction. Investment in transport and water infrastructure, together with re-industrialisation also provide attractive longer-term growth drivers.

Compared with AI-centric businesses, CRH is relatively straightforward. Compared with other building materials companies, however, its business model is unusually sophisticated.

Around 95% of revenues are connected to aggregates. At its core, CRH seeks to maximise the value of its aggregates reserves through integrated building materials operations and associated services, including road resurfacing.

Over many decades, CRH has assembled a unique collection of businesses and **strategically located reserves** across approximately 4,000 sites in North America, parts of Europe and Australia. **Replicating this network would be impossible.**

However, even strong, high-quality businesses are not immune to the economic cycle.

Current operating conditions are challenging. While CRH has substantial exposure to infrastructure, commercial activity such as data centre construction, and residential repair and renovation, new residential construction remains important. Higher mortgage rates are weakening housing affordability and placing pressure on residential construction.

The continuing Middle East conflict has also increased energy, transport and other input costs, **pressuring margins**. The industry is seeking to recover these increased costs through pricing, but this inevitably takes time and becomes more challenging when demand conditions are mixed.

Large, strategically attractive acquisitions in this industry are rare, and buyers cannot always choose the timing. Arcosa became available, and in a competitive process CRH management was prepared to pay the most. We consider the acquisition strategically sound, particularly given CRH's outstanding integration record, but there is no question that the price paid was full.

The challenges facing CRH and other building materials companies were not unforeseeable, although they were not our base case. We have previously highlighted the risks of a prolonged Middle East conflict and rising longer-term interest rates. Both are now becoming evident through higher operating costs and weaker economic activity. We had deliberately reduced portfolio exposure to these risks through earlier adjustments.

We no longer expect CRH to meet its previous earnings guidance for 2026, and we have reduced our assessment of its earnings and fair value. However, **the decline in CRH's share price has been substantially greater than the reduction in our assessment of its underlying business value.**

In our view, **today's share price provides a compelling opportunity to invest in a high-quality, albeit cyclical, industrial business with irreplaceable strategic assets and an integrated operating network that would be impossible to replicate.**

The critical distinction is between a cyclical decline in earnings and a substantive permanent impairment of business value. Lower demand will mean some of CRH's aggregates reserves remain in the ground for longer. But they are not going anywhere. They will not go out of fashion, become stale or be rendered obsolete by technological change.

They will simply be extracted, processed and sold at a later date, most likely at higher prices than today.

Portfolio adjustments

As discussed throughout this report, the combination of geopolitical instability, higher interest rates and rapid technological change has created an **unusually complex investment environment**.

Businesses must adapt to developments beyond their control. Previously strong competitive positions may be challenged, operating conditions can change rapidly, and the cost and availability of capital have become more important considerations.

Our response is to consider a range of possible scenarios rather than position the Fund for a single anticipated outcome. We seek to maintain exposure to high-quality businesses with different earnings drivers, while remaining disciplined on valuation and portfolio risk.

Not everything will unfold in line with our base case, nor should it be expected to. However, we believe the portfolio was generally well positioned for the conditions experienced during the quarter, and adjustments were relatively moderate, involving less than 10% of the Fund's investments.

We initiated a position in **LPL Financial (LPL)** during the quarter. LPL provides a wealth management platform and associated services to more than 32,000 financial advisers, with over \$2.6 trillion of client assets on its platform.

The business **benefits from several long-term structural tailwinds**, including wealth accumulation, increasing demand for financial advice and the desire of advisers to operate with greater independence and control over their businesses.

LPL had been on our investment Bench for some time. During the quarter, its share price weakened amid concerns about potential AI-driven disruption to financial advice and pressure on interest-related income. While these are legitimate considerations, we believe the market has become overly pessimistic.

We also recognise the industry's competitiveness and LPL's exposure to financial markets and have reflected these risks in both our initial position size and required investment return.

We also initiated a small investment in **Netflix**, a business that needs little introduction.

Netflix's share price has fallen more than 45% since mid-2025, reflecting concerns about subscriber engagement and growth against a backdrop of increasing pressure on consumer discretionary spending. These concerns are legitimate. However, Netflix remains the clear industry leader, with significant structural competitive advantages. While recognising the uncertainties surrounding near-term operating performance, following the share price decline, we believe the potential longer-term returns have become sufficiently attractive to justify an initial investment.

We fully divested our investment in **Marsh** during the quarter. Marsh is the world's largest insurance broker and risk management consultant, and we continue to view it as a well-managed business with an attractive longer-term industry position.

However, cyclical conditions in several insurance markets remain challenging. We took advantage of a strong intra-quarter share price recovery to exit the position at a valuation within our assessed fair value range and redeploy capital into more compelling opportunities.

Marsh is not out of sight, out of mind. We continue to follow the business closely, and it remains on our investment Bench.

Much of our portfolio activity involves adjusting position sizes rather than initiating or exiting investments. The September quarter was no exception.

We increased our Danaher position in late April 2026 and reduced it towards its previous weighting in late September. While we are not traders, Danaher is a relatively steady business, and a share price increase of approximately 25% over five months, without a material change in our fundamental assessment, warranted a position size adjustment.

We also modestly increased positions in **Alphabet, American Express, London Stock Exchange Group, Nvidia** and **Uber**, while trimming **HCA** and **Microsoft**. **These changes primarily reflected share price movements relative to our assessments of fair value, rather than fundamental changes in our investment views.**

We are living through an unusually complex investment environment. Geopolitical instability, higher interest rates and profound technological change are creating a wide range of potential outcomes for businesses and investors.

While share prices are increasingly influenced by sentiment, thematic investing, positioning and short-term capital flows, the long-term value of a business remains fundamentally linked to its competitive position, earnings power and cash generation.

We continue to see areas of excessive optimism, stretched valuations and support for questionable business models. Equally, we see compelling opportunities to invest in high-quality businesses whose long-term prospects are not adequately reflected in their current share prices.

No-one can predict with absolute conviction how geopolitical events will unfold, where interest rates will settle, or which businesses will ultimately capture the greatest value from AI.

Our approach is to assess a range of potential outcomes, remain disciplined on valuation and construct a balanced portfolio of high-quality businesses capable of navigating different scenarios. We believe this approach provides a sound foundation for delivering 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 cashflow-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.



Part of L1 Group



Contact us

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

www.L1.com.au


Invest now

Researchers	Aman Kashyap	akashyap@L1Group.com.au	+61 477 341 403
	Diarmuid Feeney	dfeeney@L1Group.com.au	+61 416 347 190
	Allan Evans	aevans@L1Group.com.au	+61 400 993 597
Advisers	Bryce Leyden	bleyden@L1Group.com.au	+61 407 876 532
	Clifford Fernandes	cfernandes@L1Group.com.au	+61 411 667 096
	David Redford-Bell	drb@L1Group.com.au	+61 417 148 075
	Kim Virakorn	kvirakorn@L1Group.com.au	+61 406 979 895
Brokers	Alejandro Espina	aespina@L1Group.com.au	+61 423 111 531
	Isabel Rothe	irothe@L1Group.com.au	+61 418 540 477
Private wealth	Hugo Brettingham-Moore	hb-m@L1Group.com.au	+61 408 371 473
Private clients	Joel Rosen	jrosen@L1Group.com.au	+61 468 655 913
	Gene Varano	gvarano@L1Group.com.au	+61 435 263 128
Investor services	Jeffrey Lau	jlau@L1Group.com.au	+61 403 194 728

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.

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