

L1 Capital International (Unhedged) Active ETF

December 2025

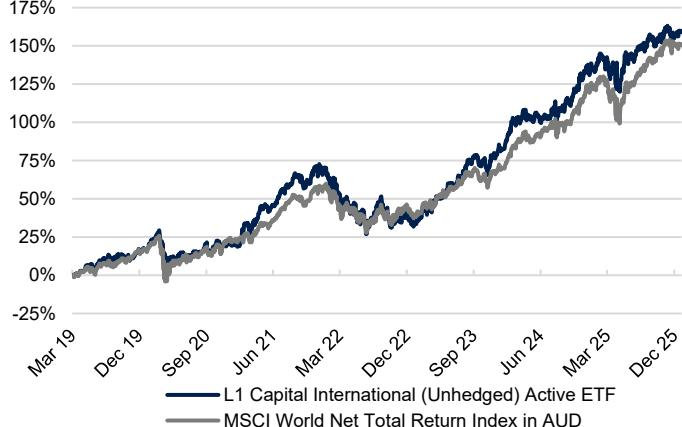
In this Quarterly Report, we have outlined:

- Our assessment of the current investment environment including:
 - Reflections on the 2025 investment environment and why James Carville's 1992 U.S. Presidential election priorities still have application today
 - Businesses to focus on and avoid in a 'K-shaped' economy
 - A market overly characterising businesses as either 'AI winners' or 'AI losers'
- L1 Capital International Fund positioning
- Our review of the December quarter and calendar 2025, including key contributors and detractors to the Fund's performance
- Recent Portfolio adjustments, including where we are seeing the most attractive investment opportunities.

Fund performance (Net) (%)¹

	Fund	Index ²	Outperformance
3 months	2.2	2.5	(0.3)
1 year	9.8	12.4	(2.6)
3 years p.a.	24.7	21.8	+2.9
5 years p.a.	16.7	15.5	+1.2
Since Inception* p.a.	14.9	14.3	+0.6
Since Inception* cumulative	158.9	150.3	+8.6

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



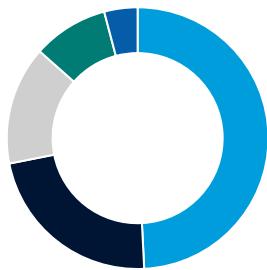
NAV price as at 31 December 2025 **\$6.89**

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

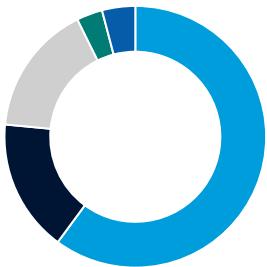
1. All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Figures may not sum exactly due to rounding. **Past performance should not be taken as an indicator of future performance.** 2. The Benchmark is the MSCI World Net 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 (%)

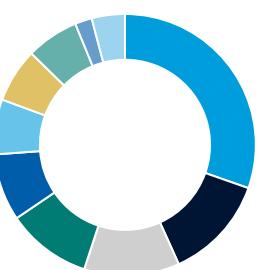
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019			0.8	5.8	(2.7)	4.4	2.8	1.5	(0.5)	(0.7)	4.9	(1.4)	15.4
2020	6.0	(2.6)	(8.9)	2.0	3.6	(2.5)	1.5	3.8	(0.3)	(1.1)	3.5	(0.3)	3.8
2021	6.1	2.9	5.4	5.9	(0.2)	5.5	3.4	4.6	(4.1)	1.1	3.8	1.1	41.1
2022	(4.1)	(5.6)	(4.3)	(3.6)	(0.4)	(6.4)	10.2	(4.3)	(5.5)	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

Revenue exposure by region⁴

- North America 49%
- Western Europe 23%
- Asia Pacific 15%
- Rest of World 9%
- Cash 4%

Market capitalisation exposure (in US\$)

- \$100 billion+ 60%
- \$50-100 billion 16%
- \$10-50 billion 16%
- < US\$10 billion 3%
- Cash 4%

Sector exposure⁵

- Technology 30%
- Consumer Discretionary 13%
- Payments 12%
- Financials 11%
- Commercial Services 8%
- Materials 7%
- Exchanges 7%
- Health Care 7%
- Industrials 2%
- Cash 4%

Top 10 holdings

As at 31 December 2025 (In alphabetical order)	Sector
AerCap	Financials
Amazon.com	Consumer Discretionary / Technology
Booking Holdings	Consumer Discretionary
CRH	Materials
Danaher	Health Care
Intercontinental Exchange	Exchanges
Mastercard	Payments
Microsoft	Technology
TSMC	Technology
Visa	Payments

Current investment environment

Introduction

Bill Clinton's campaign strategist, James Carville, coined the phrase "**It's the economy, stupid**" during the 1992 Presidential campaign, focusing attention on the economic issues that ultimately shape voter behaviour. Portfolio managers often invoke the well-worn observation, usually attributed to Mark Twain, that "**history doesn't repeat, but it rhymes**". We are no exception. Politics and the economy remain closely intertwined. While there are obvious differences between 1992 and today's global economic and political environment, there are also important parallels. **Daily headlines about artificial intelligence (AI) will continue, as the technology is a genuine game-changer for most industries. However, just as in politics, the underlying economic environment remains of paramount importance for investment outcomes.**

In line with prior December quarterly reports, we begin with reflections on the prior investment year and continue with our perspectives for the 2026 investment environment, and how we are positioning the Portfolio.

2025 investment environment reflections

Macroeconomic environment

Last year we commenced our commentary by saying **2024, much like the years that have preceded it**, was dominated by headlines on regional conflicts, domestic and international politics, extreme weather events and from an investment perspective, inflation, monetary and fiscal policy, the level of longer-term interest rates, as well as the evolution of Artificial Intelligence (broadly defined). **Looking back on 2025, the only thing we really need to change is the year of reference.**

Tragically, conflicts continue in Ukraine, the Middle East and elsewhere around the world. These conflicts continue to have limited impact from an investment perspective, which was and remains our base case. Politics remain volatile and uncertain. We have seen movements both Left and Right globally. U.S. – China geopolitical tension is likely to be a constant factor for investing going forward. President Trump continues to beat to his own drum, with Liberation Day in April 2025 causing intense volatility in investment markets, and daily tweets potentially affecting many industries. Any global investment portfolio will have some geopolitical exposure. **We continue to seek to reduce direct geopolitical risk where we can and are reluctant to invest in sectors or businesses which are likely to be primary political focal points.**

From a macroeconomic perspective, **2025 largely unfolded in line with our base-case expectations. Excluding the volatility surrounding Liberation Day, financial headlines were more dramatic than the underlying economic change.** U.S. tariff policy has continued to evolve and, so far, has been manageable from a global economic perspective. **Our central view is that macroeconomic conditions remain broadly consistent globally, supportive of moderate and slowing growth overall, but not for all sectors and not for all businesses. Industry and business selection, as well as strong execution by the management teams, remains critical to generating sustainably attractive risk-adjusted returns.**

Consumer spending remains one of the most important drivers of economic activity. While this is a familiar theme in our commentary, the consumer environment continues to be highly mixed. **Financial pressure on lower socioeconomic consumers continues to build, while the affluent are thriving** – not just in the U.S., but globally.

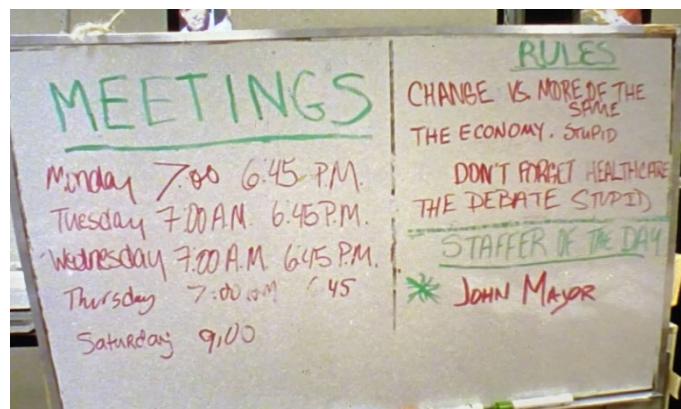
We have illustrated many times over prior years where we see fundamental evidence for this key trend, including:

- Higher wage growth for higher income earners
- Stronger spending growth for higher income earners
- Greater home price appreciation for more expensive homes
- Faster wealth growth for more affluent people

This fundamentally important trend is likely to continue to the foreseeable future and **materially influences our portfolio investment decisions.**

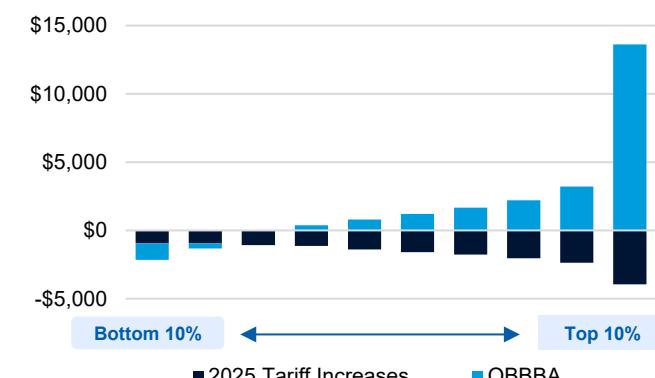
2025 political developments in the U.S. only exacerbated this trend. The Budget Lab at Yale concluded the increase in U.S. tariffs was a financial negative for all U.S. consumers, regardless of income level. The One Big Beautiful Bill Act (OBBA) was negative for people with lower incomes, while meaningfully positive for people earning the highest incomes. The net impact of the OBBA,

Figure 1: James Carville's 1992 campaign priorities



Source: New York Post, referencing The War Room documentary

Figure 2: Annualised effect of the One Big Beautiful Bill Act and tariffs by income decile



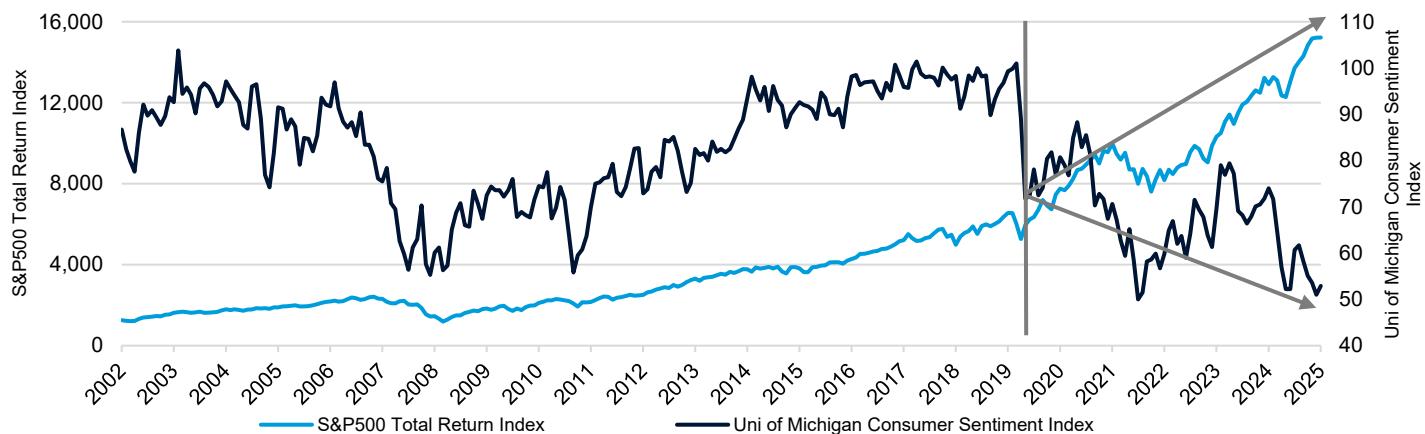
Source: The Budget Lab at Yale

offset by the tariffs, was only positive for the top 30% of income earners, and only strongly positive for the top 10% of income earners.

Lower income earners were most disadvantaged from an absolute dollar perspective, and dramatically worst off from a percentage of income perspective.

This has given rise to a 'K-shaped' economy, illustrated somewhat simplistically in Figure 3 by a strong equity market alongside persistently weak consumer confidence.

Figure 3: 'K-shaped' economy



Source: University of Michigan, Bloomberg

In practical terms, we are seeing a pronounced divergence in operating conditions for businesses exposed to lower socioeconomic consumers, compared to businesses which largely serve more affluent consumers. **We continue to actively avoid businesses in the former category, while selectively investing in businesses that benefit from more affluent customers and ongoing wealth accumulation.**

Macroeconomic data remains consistent with slowing, not recessionary, global economic activity. Most people are benefitting from wage growth in line with or ahead of inflation. Employment conditions are generally 'low hire, low fire', participation rates are solid, unemployment levels have only drifted higher, and inflation, while slightly above Central Bank targeted levels, is stable, broadly in the 2% to 3% range.

In that context, we have seen **Central Banks around the world continue to ease monetary policy**, again in line with our expectations. Japan was the exception, where interest rates increased in response to higher inflation (by Japanese standards).

Figure 5: Central Bank overnight rates (%)

	U.S.	ECB	U.K.	Australia	Canada	N.Z.	China	Japan
Overnight rate – December 2024	4.33	3.00	4.70	4.35	3.25	4.25	2.35	0.25
Number of rate cuts	3	4	4	3	4	6	1	2 increases
Overnight rate – December 2025	3.64	2.00	3.75	3.60	2.25	2.25	2.25	0.75

Source: Federal Reserve Bank of New York, European Central Bank, Bank of England, Reserve Bank of Australia, Bank of Canada, Reserve Bank of New Zealand, Bank of Japan, Bloomberg

In contrast, **10-year bond yields have been very stable in most regions**, drifting down in the U.S., while drifting up in Europe, reflecting broadly stable expectations for medium term macroeconomic conditions. Japan is once again the exception, where 10-year bond yields increased materially (again by Japanese standards) as the Bank of Japan moved away from controlling long term interest rates at around 0%.

Figure 6: 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
31 December 2025	4.17	2.85	4.48	4.74	3.43	4.40	1.84	2.06
Change in 2025	(0.40)	+0.49	(0.09)	+0.38	+0.20	(0.01)	+0.17	+0.97

Source: Bloomberg

Figure 4: U.S. core inflation in 2025

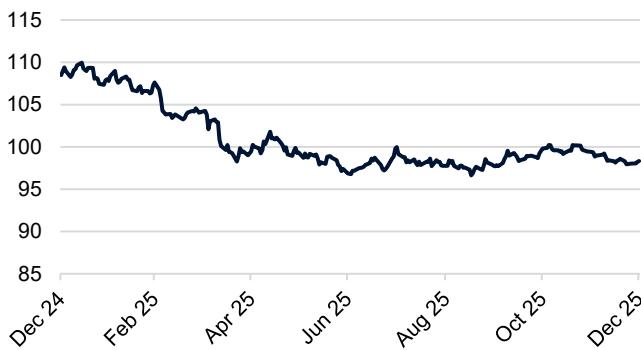


Source: Bureau of Economic Analysis

The U.S. dollar index fell 9% during 2025 (the fourth largest drop in the last 30 calendar years), with the U.S. dollar depreciation occurring in the first half of the year and then stabilising. There is a myriad of factors that impact exchange rates. Geopolitical uncertainties including U.S. tariff policies, as well as U.S. monetary and fiscal policy likely contributed to U.S. dollar weakness.

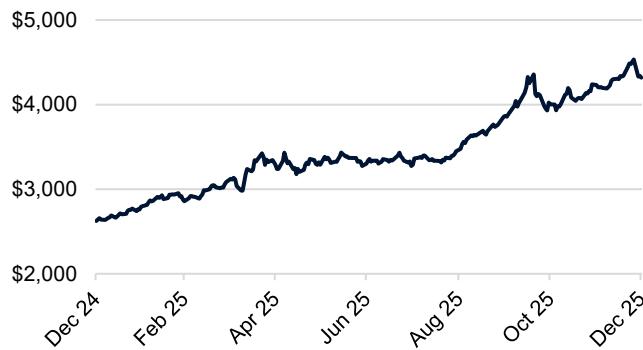
Gold rallied throughout the year, with the U.S. dollar value of gold increasing 65% during 2025, benefitting from U.S. dollar weakness and demand as a diversified store of value.

Figure 7: U.S. dollar index



Source: Bloomberg

Figure 8: Gold price (US\$/oz)



Source: Bloomberg

Artificial Intelligence

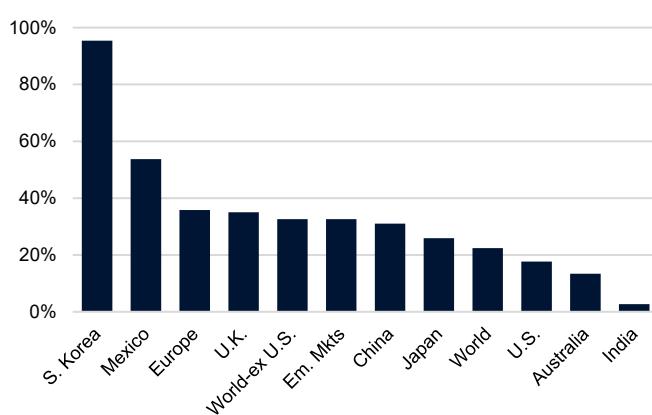
Today, we need to **add AI to the whiteboard for key investment considerations**. AI continued to be a central focal point for stock markets. Our broad views on AI have not changed. To rephrase Carville, “[It’s] the technology, stupid”. In our view, AI is not a fad or bubble, and technological developments will continue to reshape most industries. In our [September 2025 Quarterly Report](#) we addressed the AI debate from an investment perspective. Nothing substantive has changed since. **Our core message remains that conviction in AI alone is insufficient to generate attractive investment outcomes. While genuine opportunities exist, there are also clear pockets of froth and exuberance.** Capital requirements, commercial applicability, return on invested capital and timing all matter. While there are many questions that cannot be answered conclusively today, it is a mistake to view AI-centric businesses as uninvestable. **Valuation analysis under various scenarios, as always, is critical for potential AI-centric investments, particularly given the wide range of uncertainties related to new technology.**

2025 stock market returns

2025 was a strong year, globally, for stock market returns. All major markets increased significantly. The U.S. returned 18%, lagging most other markets, with Australia further behind.

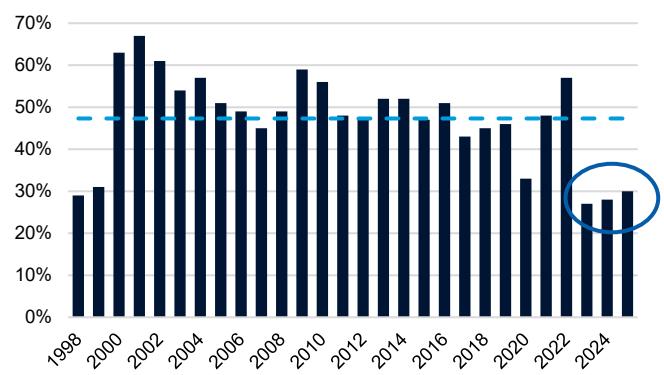
In the U.S., **2025 was the third year in a row of abnormally concentrated market returns.** In 2025, only 30% of the S&P 500 Index members outperformed the Index. This is similar to both 2024 and 2023, and well down on the long-term average of around 50%.

Figure 9: 2025 global equity returns (in U.S. dollars)



Source: Bloomberg

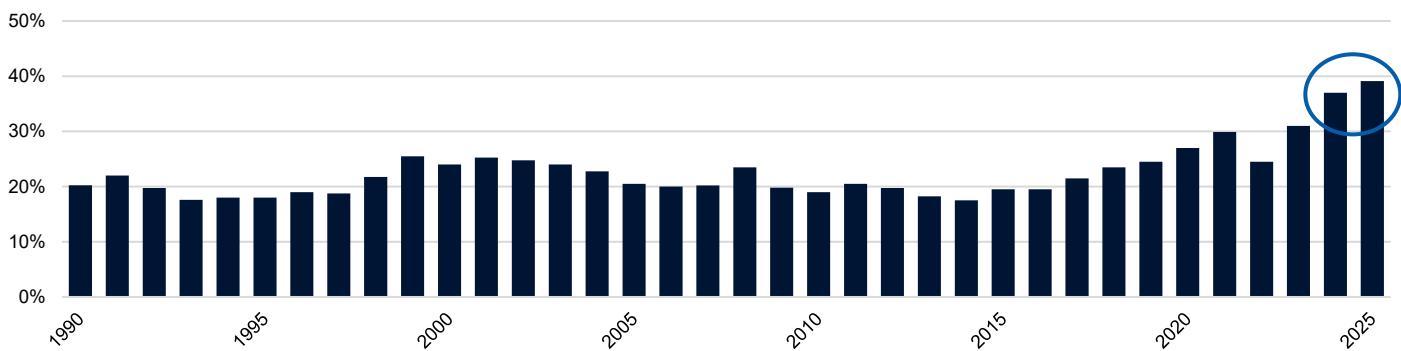
Figure 10: S&P 500 Index members outperforming the Index



Source: Bloomberg

Indices themselves are also becoming more concentrated. The ten largest S&P500 Index constituents account for 40% of the index. This level of concentration has progressively increased over the past decade and is now approximately double the long-term historical top 10 index concentration level of around 20%.

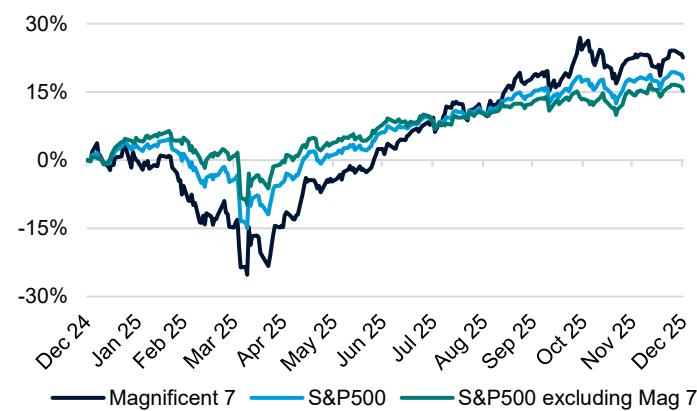
Figure 11: Weighting of top 10 S&P 500 Index members



Source: S&P Dow Jones, FactSet

During 2025, the **Magnificent 7** continued to outperform the broader U.S. stock market, but to a much lesser extent than 2024. At a company level, outperformance was driven by Alphabet and NVIDIA, with the other Mag 7 companies underperforming the U.S. stock market.

Figure 12: Magnificent 7 compared to the U.S. market

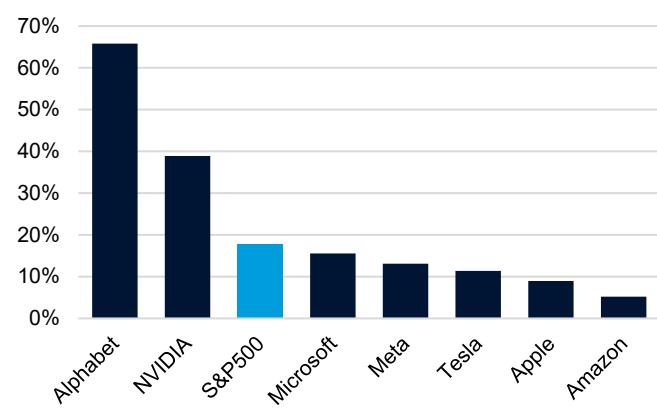


Source: Bloomberg

Looking at the **broader MSCI World Index** which has over 1,300 members, the top 10 contributors accounted for over one third of 2025 returns.

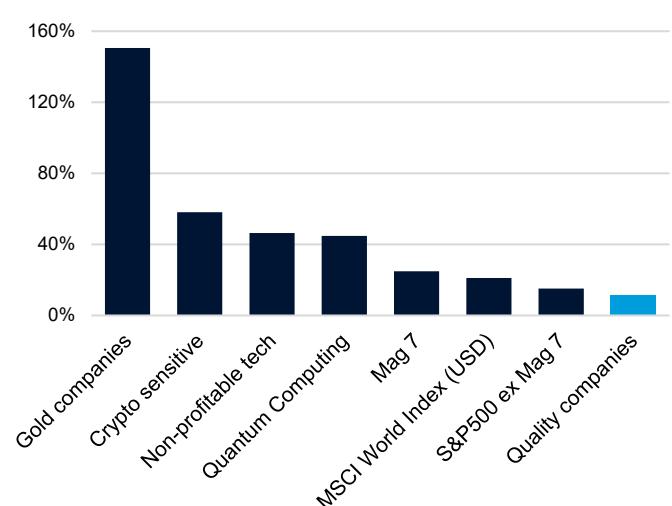
Narrow pockets of significant outsized positive returns in 2025 included gold companies, businesses exposed to cryptocurrency and quantum computing, near-term beneficiaries of data centre capex, as well as non-profitable technology companies. It is in these areas that we are seeing pockets of euphoria and exuberance. We have already seen a significant correction in the share price of some companies exposed to these themes.

Figure 13: Magnificent 7 total shareholder return in 2025



Source: Bloomberg

Figure 14: Category returns for 2025



Source: Bloomberg, Goldman Sachs, Van Eck. MSCI, iShares, L1 Capital International

During 2025, the traditional Quality factor materially underperformed the broader U.S. market by the widest margin since the **dot.com boom of late 1999/early 2000**, recovering modestly in recent months. As noted in our [September 2025 Quarterly Report](#), this provides another opportunity to reference the 'history rhyming' quote.

Our definition of Quality is broader and differentiated relative to the traditional definition of Quality, many of the L1 Capital International Fund's holdings differ to the members of a Quality index, and the Fund's returns exceeded the returns from this Quality index. However, there is overlap in the way we assess Quality and the criteria for companies to be included in a traditional Quality index, and the **abnormal material underperformance of Quality as a factor did contribute to the performance of the L1 Capital International Fund relative to its benchmark, the MSCI World Index**.

Figure 15: Performance of S&P Quality Index minus S&P 500 Index



Source: Jeff Weniger (WisdomTree), FactSet, L1 Capital International

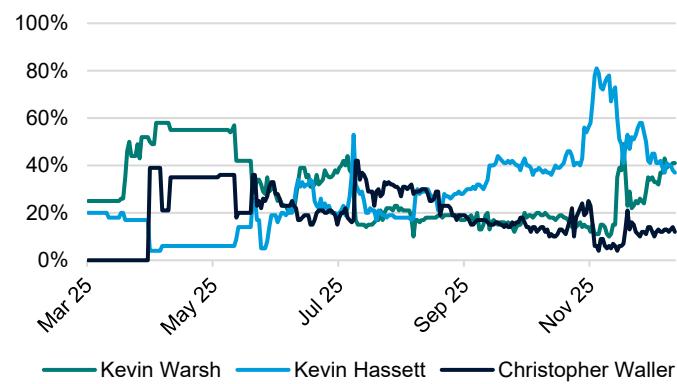
2026 investment environment outlook and Portfolio positioning

Our **base case is for the 2026 investment environment to remain broadly consistent with that of 2025 (and 2024)**, albeit hopefully without the added excitement of a Liberation Day-type event. Looking ahead, we expect recent macroeconomic trends and the market's focus on AI to persist, while **remaining mindful that adverse outcomes are typically driven by the unexpected**.

We have been showing the Federal Reserve's Fund Rate and market projections chart illustrated in Figure 17 for the past few years. **Since 2022, the market has consistently anticipated more Federal Reserve rate cuts than have ultimately materialised**. We will see if there are any changes when Powell's term as Fed Chair ends in May 2026. At this stage it appears to be 'a battle between the Kevins', with probability markets indicating Warsh has recently caught up to Hassett, with both having a near 40% probability of receiving President Trump's nomination. Hassett is perceived by many to be too loyal to President Trump, raising questions about his independence and relationship with other Federal Reserve board members.

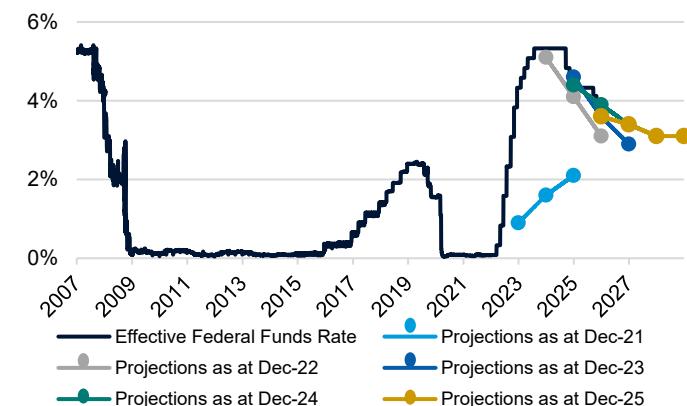
The market is assessing an 80% probability that the Federal Reserve Rate will be reduced by between 0.25% and 0.75% by December 2026, although more rate cuts and no rate cuts are not zero percent probabilities. President Trump emphatically believes the Federal Fund rate should be materially lower. **From an investment perspective, the independence of a country's central bank from political interference is far more important than the precise level of short-term interest rates**. The reported criminal inquiry into Federal Research Chair Jay Powell does not reflect well in this respect.

Figure 16: Next Federal Reserve Chair



Source: Kalshi

Figure 17: Federal Reserve Funds Rate and expectations



Source: St Louis Federal Reserve, Federal Open Market Committee

We continue to remain more focused on longer term interest rates. We referenced earlier in Figure 6 that globally, longer term interest rates have been broadly stable. **We consider current 10-year nominal and real interest rates to be supportive of economic activity and asset valuations.** Materially higher longer-term interest rates would likely be in response to inflation concerns, while materially lower longer-term interest rates would likely signal recessionary conditions. Neither would be positive for stock market valuations.

Political developments, both internationally and in key domestic markets, **remain a wildcard**. Liberation Day tariff policy created massive market uncertainty. Subsequently, policies have been watered down, deals done, exceptions made and timeframes extended. **We continue to view U.S. tariff policy as moderately inflationary in the U.S. and net negative to economic growth in the U.S. and globally.** Overall, the economic implications at the effective implementation level of tariffs appears manageable.

As highlighted by Carville on his whiteboard back in 1992, **healthcare** was a key election issue back in the 1992 Presidential campaign and it remains a key U.S. political issue today. Mark Twain is getting a workout in this quarterly report. **Most U.S. domestic policy appears to be heading for a more centrist outcome than proposed at various times.** Mid-term elections and a potentially Democrat controlled House (assessed as a 77% probability in betting markets) may further temper U.S. fiscal policy. Political uncertainty and volatility both in the U.S. and internationally is likely to continue.

We expect more of the same at the consumer level. Our base case remains characterised by patchy, moderate economic growth overall. More affluent consumers continue to be much better placed than people with lower incomes and financial wealth. This continues to influence Portfolio exposures, steering us clear of businesses overly exposed to less affluent consumers.

The choppy investment environment makes industry and business selection critical. 2025 was a year of significant investment return divergence, both at the global stock market level, and even within our highly concentrated portfolio of high conviction investments. **We expect volatility and divergence of performance to continue**, making industry and business selection, valuation discipline and a clear investment process, as well as position sizing essential.

We continue to avoid fads and speculation. We remain focused on consistently applying our 'bottom-up' investment philosophy to identify high-quality businesses of varying size with long-term favourable business drivers in a diverse range of well-structured industries, led by experienced and aligned management. We believe this approach can deliver strong risk-adjusted returns over our investment horizon in a range of economic conditions.

December 2025 quarter and 2025 calendar year review

Performance

In the December 2025 quarter, the Fund returned 2.2% (net of fees), compared to the Benchmark return of 2.5% (all in A\$). The Australian dollar appreciated 0.9% against the U.S. dollar and 0.8% against the Euro, reducing both the Fund and Benchmark Australian dollar reported quarterly returns.

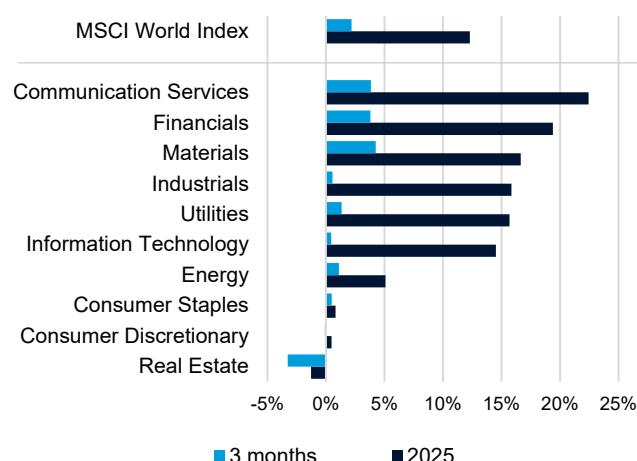
In 2025, the Fund returned 9.8% (net of fees), compared to the Benchmark return of 12.4% (all in A\$). In 2025, the Australian dollar appreciated 7.8% against the U.S. dollar and depreciated 4.9% against the Euro, which on a net basis negatively affected Fund and Benchmark returns measured in Australian dollars.

Real Estate was the only sector to deliver negative returns in the December 2025 quarter (measured in A\$), while Consumer Discretionary was breakeven. Materials was the leading sector for the quarter, supported by very strong gold company share price performance.

There was a high level of concentration of market returns at the company level. At the index level, returns were more broad-based, with the Communication Services, Financials, Materials, Industrials, Utilities and Information Technology sectors all delivering strong returns and ahead of the Index return. The Consumer Discretionary, Consumer Staples and Energy sectors were modestly positive, while the Real Estate sector delivered slightly negative returns in 2025.

Overall, the market remained firmly 'risk-on', with more defensive sectors lagging amid a still-patchy consumer environment. However, even within industries, company performance and stock market returns varied widely.

Figure 18: MSCI World Index (in A\$) – Sector performance



Source: Bloomberg

Key contributors and detractors

At the end of the December 2025 quarter, the Fund held 23 investments, with the top 10 positions accounting for 61% of the Portfolio.

At the individual stock level, quarterly performance was mixed. **AerCap** contributed over 1.5% to the Fund's returns (measured in A\$), while **Alphabet**, **Danaher** and **TSMC** (in alphabetical order) each contributed over 0.5% to the Fund's quarterly returns (measured in A\$).

Three companies (**Jacobs Solutions**, **Microsoft** and **Uber**, in alphabetical order) detracted slightly more than 0.5% (measured in A\$) from the Fund's quarterly returns.

Jacobs Solutions is a global leader in engineering services. We provided an overview of the business in the [June 2025 Quarterly Report](#). The company continues to perform in line with our expectations. During the quarter, a competitor held an investor event and created an impression that AI could be disruptive to the engineering services industry. As discussed further on page 10, we are in an environment where **every industry and every company is pigeon-holed into either an 'AI Winner' or 'AI Loser'**. While almost every industry needs to incorporate and adapt AI, we believe Jacobs Solutions and the engineering services it provides, will be a net beneficiary, and Jacobs Solutions' management is already actively investing in AI. In addition to discussing this issue with Jacobs Solutions management, we spoke to the competitor and believe their CEO materially mis-spoke at their investor event and they are in damage control mode. We viewed the share price weakness as unjustified and moderately increased our position. After quarter end, Jacobs Solutions acquired the minority interests in subsidiary PA Consulting. This transaction had been well signalled, was strategically sound and the agreed acquisition price was modestly below our expectations, a small positive to our base case valuation.

Uber is a 'battleground' company. Uber is clearly the leader in ridesharing and meal delivery networks in the U.S. and many markets globally today. Autonomous vehicles continue to gain traction, with Waymo (Alphabet), Telsa and Zoox (Amazon.com) at the forefront, and many other companies developing their own autonomous vehicle strategies. Uber is working with many of these companies and is well placed to maintain its central network role in a hybrid world of human-driven and autonomous vehicles. That said, we recognise the inherent uncertainties and view Uber as a higher-risk, higher-return investment opportunity. Accordingly, Uber remains a smaller position in the Portfolio and is not a top 10 holding.

Extending the investment period to a slightly more meaningful 12 months, company contributions were also variable. Six companies positively contributed over 1% to the Fund's returns in 2025, led by **AerCap**, **HCA Healthcare** and **TSMC** (in alphabetical order). Only UnitedHealth Group detracted from the Fund's 2025 performance by more than 1%.

We have referenced **AerCap** extensively in prior reports, with a full write-up in the [June 2024 Quarterly Report](#). The business continues to perform strongly, ahead of our base case, benefitting from a structural shortage of aircraft and aircraft engines, ongoing benefits from the highly value accretive acquisition of GE Capital Aviation Services in 2021, insurance recoveries after aircraft losses incurred when Russia invaded Ukraine, and ongoing prudent capital allocation. Following AerCap's more than 50% share price appreciation during 2025, AerCap is now trading within our assessed fair value range. While AerCap remains the Fund's largest position, we have slightly trimmed the investment for valuation and risk management reasons.

At the start of 2025, the market was acutely concerned that healthcare policy under President Trump and the Republicans would significantly negatively impact private hospitals and outpatient service providers such as **HCA** compared to operating conditions since Obamacare and under President Biden. As outlined in the [December 2024 Quarterly Report](#), during this period of overly negative sentiment we were increasing our investment in HCA and it became one of the Fund's largest holdings. While there have been some adverse regulatory developments, the One Big Beautiful Bill Act also had several provisions that benefited HCA. Today, expectations for operating conditions are more balanced. HCA's share price increased 55% during 2025 and we have progressively reduced the HCA position, with HCA now being one of the smallest Fund holdings.

TSMC is the leading manufacturer of semiconductor chips used in AI, mobile phone and other applications. TSMC continues to benefit from extremely strong demand conditions and industry-leading manufacturing capabilities. Capacity has been expanded domestically in Taiwan, as well as large investments in manufacturing in the U.S. and other international markets. Financial performance continues to exceed base case expectations, and we believe the business has a long runway for future growth. Following substantial share price outperformance, TSMC is trading within our assessed fair value range but remains a top 10 holding.

Portfolio adjustments

Portfolio adjustments during the December 2025 quarter were moderate, accounting for less than 10% of the Fund's investments.

We typically invest with a rolling three-to-five-year horizon, and several investments initiated at the Fund's inception remain holdings today. **CES Energy** was a **brief but successful investment for the Fund** and illustrates the flexibility we retain to find differentiated investments across a wide range of industries and market capitalisations. CES Energy is small by our Fund's standards, with a market capitalisation of C\$2.5 billion, but it still ticks all our stringent Quality criteria. The company provides drilling fluids, production chemicals and related services to the North American energy industry. We consider the management team outstanding, having successfully grown the business in a highly cyclical industry and transformed CES from a small Canadian participant into a leading onshore North American provider that rivals much larger, diversified peers through superior products, focus and customer service. While oil prices influence overall industry activity, CES has been able to outperform even in declining

oil price environments, as increasingly complex drilling requires higher value-added products and services, driving material market share gains. Adverse industry sentiment and a lack of understanding of the quality of the business gave us a compelling opportunity to invest in CES Energy early in the year. The market quickly reassessed the business, and we fully exited the position during the December 2025 quarter, achieving a near 80% gain on our average purchase price in less than a year. Liquidity and risk considerations limited position size, but CES Energy still contributed more than 1% to the Fund's 2025 returns.

AI winner or AI loser?

As previously noted, companies are being assigned the tag of 'AI winner' or 'AI loser'. **Many perceived AI winners are trading at valuations that require everything to go right - and then some.** In our framework, the assumptions required - "what you need to believe" - to justify current share prices and achieve satisfactory risk-adjusted returns are simply too demanding. **We have already seen the share price of some of these perceived AI winners fall considerably from recent highs and expect further share price falls for some businesses as they underperform against lofty expectations.**

In contrast, across a range of industries, some businesses are being labelled AI losers due to concerns that we believe are exaggerated or misplaced. This creates attractive risk-adjusted investment opportunities. Jacobs Solutions is one example, and the position size was increased during the December quarter at a price below our assessed fair value range.

Software and Information Services are two other sectors where AI concerns are overly reflected in current share prices.

Coding and software development is one of the areas where AI has had the most immediate impact. However, extrapolating this to conclude that leading software businesses are structurally challenged by AI is both simplistic and, in our view, incorrect, underestimating durable competitive moats, including:

- Proprietary data and analytical assessment of that data
- Customer relationships with their software embedded in mission-critical workflows
- Distribution networks including integration in third-party platforms
- Regulatory requirements such as security and compliance

In addition, leading software incumbents have scale and are highly profitable. They are investing in their own AI agentic capabilities and in promising third-party technologies, including via acquisitions and partnerships.

During the December 2025 quarter, we initiated a position in **Salesforce**. Salesforce is the global leader in customer relationship management software and over the past 25 years has built a highly profitable, high-quality business exemplifying the barriers to competition just outlined. However, a combination of AI-related concerns and natural growth moderation as the business has scaled saw Salesforce's share price fall more than 35% from its late-2024 peak, leaving it trading at levels last seen five years ago. We expect Salesforce to deliver high single digit revenue growth over the medium term, and earnings per share growth in the teens. We invested at the lower end of our assessed fair value range and view Salesforce as offering an attractive risk-adjusted return opportunity and would look to further increase the position on additional share price weakness.

Intuit is another leading software holding where we believe AI-related concerns are overly reflected in the share price and is **currently trading on decade low earnings multiples.**

Information Services is a sector where we have several Portfolio investments, as well as companies on our Bench for potential future investment. Some market participants are concerned AI could lead to greater competition for these businesses, particularly if AI agents somehow access the proprietary data many of these businesses hold. As with the leading software companies discussed above, we view leading Information Services companies as having sustainably strong competitive moats and are partnering with AI leaders to enhance services and analytics.

During the December 2025 quarter, we initiated a position in **London Stock Exchange Group (LSEG)**. LSEG is highly diversified, with many of its businesses embedded in the plumbing of the global financial services industry. While it does own the London Stock Exchange, as the Group's name suggests, that business only accounts for a small percentage of the company's operations.

Intercontinental Exchange (ICE) is a long-term holding and remains a top 10 position in the Fund. ICE's share price has been under pressure, largely due to AI-related concerns. The share price has already recovered 15% from recent lows.

Negative sentiment and unjustified share price movements can weigh on short-term returns, particularly when compared against market indices that are benefitting from pockets of excessive "AI winner" exuberance. We will continue to apply our disciplined process to assess Quality and invest where we see the opportunity to generate strong risk-adjusted returns over the investment horizon. In this AI winner/AI loser mentality, we are seeing opportunities in a range of industries where patient investors can invest in perceived AI losers that are much more likely to be AI winners over time. Meanwhile, we continue to be cautious about AI-centric businesses whose share prices have reached lofty levels and are now priced for AI perfection or more.

Cash at the end of the December 2025 quarter was 4%. **The Fund remains close to fully invested and we expect this to continue under most conditions. Our Bench of potential investments has never been stronger,** with several companies actively challenging for inclusion in our high-quality Portfolio.

Fund Information

Name	L1 Capital International (Unhedged) Active ETF
Portfolio Manager	David Steinhalt, 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 \$
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.



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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.

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This publication has been prepared by L1 Capital International Pty Limited (ACN 628 068 717), (an authorised representative (no. 1273764) of L1 Capital Pty Ltd (ACN 125 378 145, AFSL 314 302) and its officers and employees (collectively 'L1 International'), 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 International, 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 accept 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 from our website www.L1.com.au before making a decision about whether to invest in this product. The Fund's Target Market Determination is available <https://l1.capital/40dVTnI>.

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