

# L1 Capital International (Unhedged) Active ETF

June 2025

## In this Quarterly Report, we have outlined:

- Our assessment of the current investment environment including:
  - The scary applicability of Metallica's *Enter Sandman* lyrics
  - U.S. foreign and domestic politics, particularly Tariff Policy and the One Big Beautiful Bill, continuing to trump macroeconomics
  - Macroeconomic conditions (they still do matter)
- Our review of the June 2025 quarter, including key contributors and detractors to the Fund's performance
- Recent Portfolio adjustments
- An overview of Jacobs Solutions, a leading global provider of engineering services to secularly growing, higher margin infrastructure, water, advanced manufacturing and life sciences sectors.

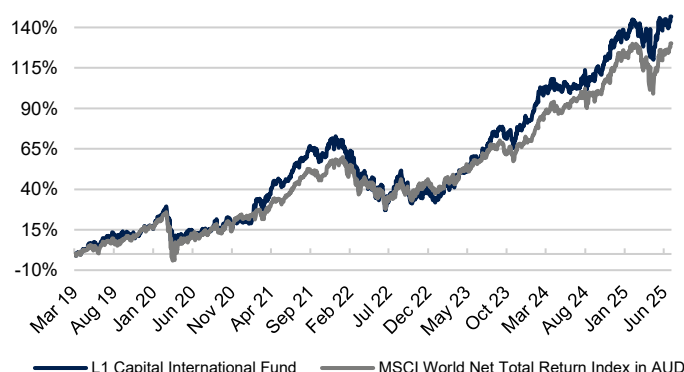
## Fund performance (Net) (%)<sup>1</sup>

	Fund	Index <sup>2</sup>	Out-performance
<b>3 months</b>	4.5	6.0	(1.4)
<b>1 year</b>	22.1	18.5	+3.6
<b>3 years p.a.</b>	23.3	20.2	+3.0
<b>5 years p.a.</b>	17.2	15.7	+1.5
<b>Since Inception* p.a.</b>	15.3	14.1	+1.3
<b>Since Inception* cumulative</b>	146.7	130.2	+16.5

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

**NAV price as at 30 June 2025 (cum distribution) \$6.83**

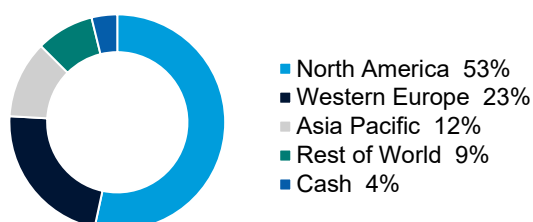
## Fund (Net) and benchmark returns since inception<sup>1,2</sup>



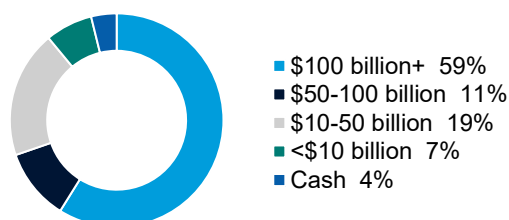
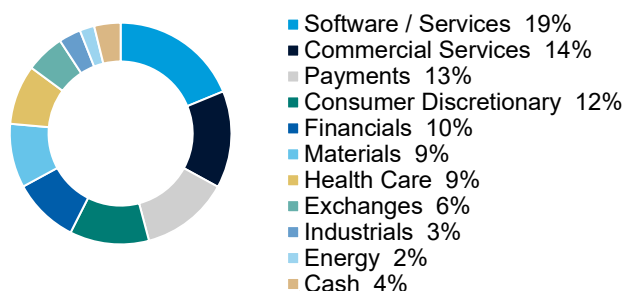
1. All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Figures may not sum exactly due to rounding. **Past performance should not be taken as an indicator of future performance.** 2. The Benchmark is the MSCI World Net 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)<sup>3</sup> (%)

	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							4.7

Revenue exposure by region<sup>4</sup>

## Market capitalisation exposure (in US\$)

Sector exposure<sup>5</sup>

## Top 10 holdings

As at 30 June 2025 (In alphabetical order)		Sector
AerCap		Financials
Amazon.com	Software / Services / Consumer Discretionary	
Booking Holdings		Consumer Discretionary
CRH		Materials
HCA Healthcare		Health Care
Intercontinental Exchange		Exchanges
Jacobs Solutions		Commercial Services
Mastercard		Payments
Microsoft		Software / Services
Visa		Payments

## Webinar Replay | June 2025

David Steinthal, Chief Investment Officer of L1 Capital International, recently provided an investor webinar discussing portfolio positioning and the outlook for equity markets.

To watch the replay, please click [here](#).

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

"Something's wrong, shut the light  
Heavy thoughts tonight  
And they aren't of Snow White  
Dreams of war, dreams of liars  
Dreams of dragon's fire  
And of things that will bite, yeah  
Sleep with one eye open  
Gripping your pillow tight"

*Enter Sandman, Metallica*

### Introduction

We are confident that Metallica didn't have Sydney based global investment managers in mind when *Enter Sandman* was penned, but over the past three months we have certainly been sleeping with one eye open and gripping our pillow tight, waiting for the next social media post. It is easy to have heavy thoughts in today's investment environment. Deeply concerning wars continue, and as for liars, take your pick – there are plenty on the world stage to choose from. Many foreseeable events could bite. Yet, despite all the worries, markets have recovered post Liberation Day on 2 April 2025 to near all-time highs.

What is going on? Why are markets going up when there is so much uncertainty and so many concerning issues in the world?

## U.S. foreign and domestic politics

U.S. foreign and domestic politics continue to trump macroeconomics.

Short term, markets are often driven by actual outcomes relative to expectations. **Events are turning out less bad than they could have been...so far.**

The June 2025 quarter started near maximum uncertainty with President Trump's **Liberation Day Reciprocal Tariffs** policy announced on 2 April 2025. We discussed the Reciprocal Tariffs at length in our [March 2025 Quarterly Report](#) and why we considered this policy to be deeply flawed. Our views are unchanged. We also outlined why leopards don't change their spots, President Trump sees the stock market as a barometer of his success and therefore we were not surprised by the 90-day pause to tariff implementation on 9 April 2025 and the associated strong market bounce. Since then, there have been further timetable extensions and are hopefully heading towards 'Deals' being done and some degree of normalisation of U.S. trade policy, at least relative to 2 April. At a minimum, the degree of uncertainty now compared to early April has reduced, and the extreme downside case of outright trade war is unlikely, which is supporting stock markets.

Nevertheless, the continued announcements threatening higher tariffs on countries which do not make acceptable Deals is a reminder that Tariff Policy is not final, outcomes are far from certain and **downside risks remain**. President Trump is reported to have taken offense from the Trump Always Chickens Out (TACO) meme which may embolden his final decisions. Wherever we end up when all the White House letters are sent and Deals are done (or not done), **we do expect the U.S. and world economies will be in a worse position than they would have been before the U.S. embarked on a global trade war**. Inflation is likely to be higher in the U.S. than it otherwise would have been, and demand and economic growth is likely to be lower. Exports to the U.S. are also likely to be lower (at least in part achieving President Trump's objective of improved trade balances) and non-U.S. economic growth is also likely to be negatively affected. Unlike in the U.S., the tariffs are more likely to be deflationary for non-U.S. countries, in part explaining the divergence in Central Bank Monetary Policy in recent months. We discuss this further on page 5.

Elon Musk, along with his Department of Government Efficiency (DOGE) initiatives, have come and gone.

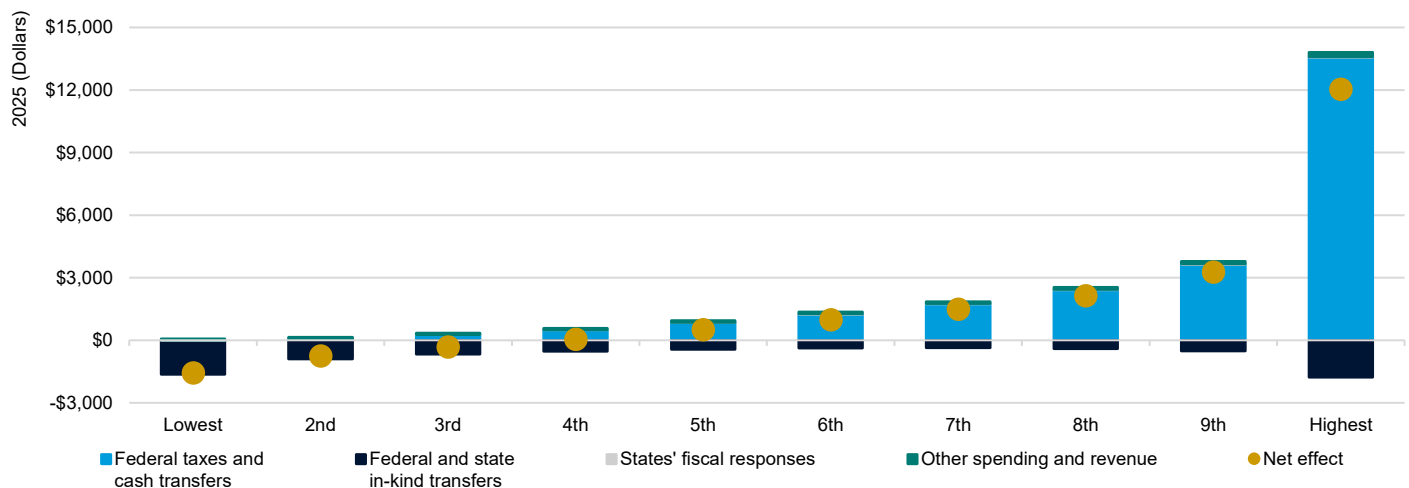
The other **big** development during the June 2025 quarter was the passing of the **One Big Beautiful Bill (OB BB)** by both the Senate and the House and signing into law by President Trump just after quarter end on 4 July 2025. The OB BB spans around 1,000 pages so no-one is doubting its size. They say, "**beauty** is in the eye of the beholder", a proverb which seems exceptionally apt in this instance.

The Congressional Budget Office, which is **mandated to provide non-partisan analysis for the U.S. Congress**, has estimated the OB BB will **increase** the U.S. Deficit by \$3.4 trillion over the next 10 years, while the University of Pennsylvania estimated a \$3.2 trillion **increase** to the U.S. Deficit over the next 10 years. In early June 2025, the White House provided an estimate for OB BB to **reduce** the U.S. Deficit by \$6.6 trillion over the next 10 years through spending cuts, tariff revenue, and not counting the extension of President Trump Term 1 tax cuts that would otherwise have expired. Elon Musk has called versions of the OB BB a "disgusting abomination" and "utterly insane and destructive".

Whatever your view, the reality is the OB BB has been passed into law and will have meaningful economic implications. It is likely to be more expansionary, and to **place greater pressure on inflation and long-term interest rates** than a more balanced budget.

In addition, the OB BB is widely considered by independent observers to **transfer wealth from the poor to the rich**. Lower socio-economic consumers have been struggling in the U.S. (and all around the world) before the OB BB. These policy decisions are likely to further increase the wealth divide in the U.S.

Figure 1: Average annual change in resources per household – 2026 to 2034

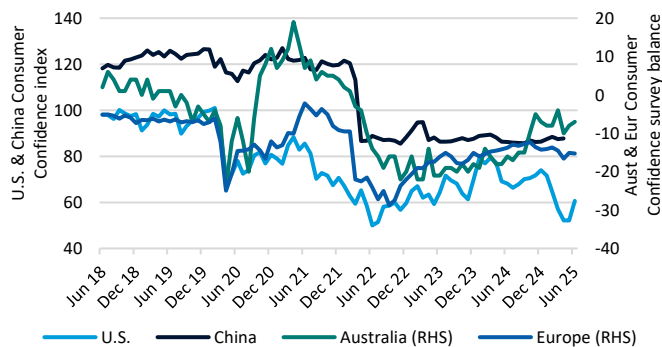


Source: U.S. Congressional Budget Office

### Macroeconomic considerations

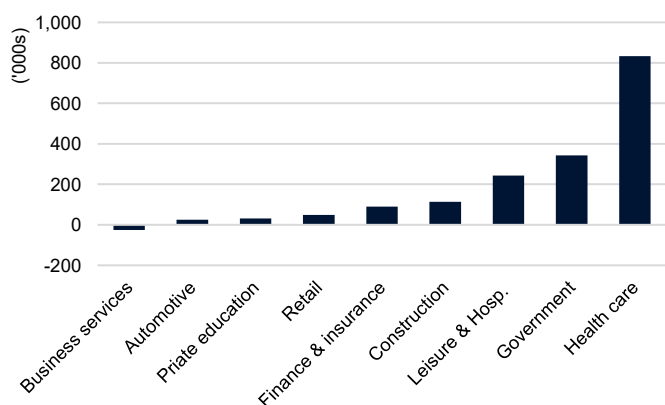
Against this volatile political background, **macroeconomic data remains decidedly mixed**. Globally, consumer confidence remains relatively weak, albeit U.S. consumer confidence has modestly recovered from the lows following Liberation Day. Unemployment remains generally low; however, employment growth has slowed, and not all industries are flourishing. U.S. job creation is concentrated in the Government and Healthcare sectors. Inflation has stabilised at or near Central Bank targets, although this is before the full impact of U.S. tariff policy.

Figure 2: Globally, consumer confidence is down



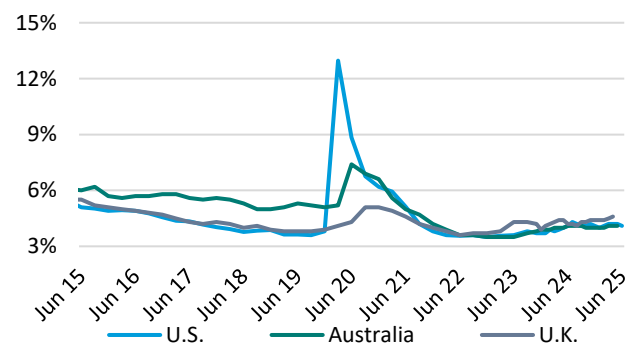
Source: St Louis Federal Reserve, OECD, National Bureau of Statistics, European Commission

Figure 4: Change in U.S. jobs by sector – last 12m



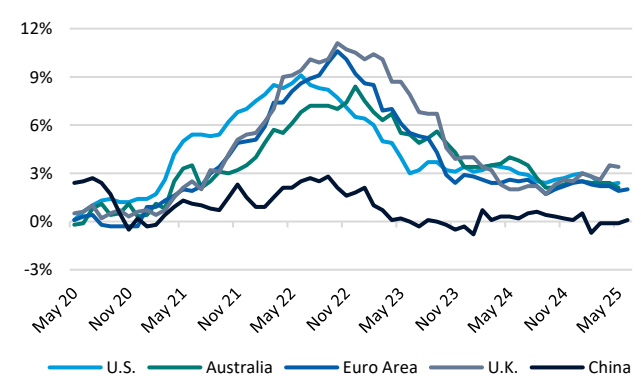
Source: Bureau of Labor Statistics

Figure 3: Unemployment remains generally low



Source: Australian Bureau of Statistics, St Louis Federal Reserve, Office for National Statistics

Figure 5: Globally, inflation has been trending down



Source: Bureau of Labor Statistics, Eurostat, Australian Bureau of Statistics, National Bureau of Statistics, U.K. Office of Natural Statistics, Bloomberg



At a sector level we are also seeing **wide variance in operating conditions**. All things connected with Artificial Intelligence are booming, but even against this backdrop strongly performing companies such as **Microsoft are announcing significant job cuts**<sup>1</sup>. **U.S. new residential construction activity has slowed considerably** in response to elevated mortgage rates, lower consumer confidence and reduced housing affordability.

Central Banks globally have responded to these mixed, softening economic conditions by loosening Monetary Policy. The ECB leads the way with 8 interest rate cuts over the past 18 months and a current overnight rate of 2.0%.

### Figure 6: Central Bank overnight rates

	U.S.	ECB	U.K.	Australia	Canada	N.Z.	China
Overnight Rate – December 2023	5.32	4.00	5.19	4.35	5.00	5.50	2.65
Number of rate cuts	3	8	4	2	7	6	3
Overnight Rate – June 2025	4.33	2.00	4.25	3.85	2.75	3.25	2.25

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, Bloomberg

Chairman of the Federal Reserve, Jerome Powell, has held his ground. He has consistently stated that the Federal Reserve is focused on achieving both an inflation target of 2% as well as full employment and that, based on current conditions, there is no need to cut interest rates. He has also highlighted inflation and other uncertainties caused by the Administration's tariff policies, which can take time to impact the economy.

“The effects of tariffs will depend, among other things, on their ultimate level... increases in tariffs this year are likely to push up prices and weigh on economic activity. The effects on inflation could be short lived – reflecting a one-time shift in the price level. It’s also possible that the inflationary effects could instead be more persistent.”

Jerome Powell, Chairman of the U.S. Federal Reserve  
18 June 2025

President Trump is decidedly unhappy with Chairman Powell, calling him “a major loser”, “Mr Too Late”, a “Fool”, “very dumb, hardheaded”, a “bad person”, a “stupid person”, a “numbskull” and that “his termination cannot come fast enough”. We might have missed a few names, but the point has been made. Our personal favourite was when White House press secretary Karoline Leavitt held up **a handwritten note from President Trump to Chairman Powell during a press briefing** telling Powell he should be lowering rates to around 1%.

Under the Federal Reserve Act, President Trump can only fire Chairman Powell “for cause”. Further, to remove Powell before his term ends in May 2026 would be very destabilising for global financial markets (although such matters do not always seem to be of a concern for President Trump).

In addition to the schadenfreude and comedy of it all, **we are in a serious and unprecedented situation where the U.S. Administration is seeking to direct U.S. Federal Reserve Monetary Policy.** It has even been suggested that U.S. Treasury Secretary, Scott Bessent, could be appointed as successor to Chairman Powell.

In recent years, the market has overly anticipated Federal Reserve rate cuts. Despite President Trump's public demands, the market is not pricing in U.S. rate cuts to anywhere near the level he is saying is warranted. **We do expect the Federal Reserve to cut rates in the second half of 2025 and into 2026**, and President Trump will have his moment to say, "I told you so" and repeat the cuts should be greater. However, if there is **loss of independence of the Federal Reserve** and a massive reduction in short term rates in the U.S. including by Powell's replacement, we expect **adverse market implications** that swamp the knee-jerk positive reaction to a big rate cut "sugar hit".

### Figure 7: President Trump's note



Source: Karoline Levitt, White House press secretary on 30 June 2025

<sup>1</sup> In July 2025, Microsoft confirmed it would reduce its global workforce by around 4%, or 9,000 people.

While commentators remain focused on the back and forth between President Trump and Chairman Powell on short-term interest rates policy, **we are more focused on market pricing of longer-term interest rates, both nominal and real.** A significant increase in longer term interest rates will likely pressure many aspects of the global economy, and place downward pressure on stock market valuations.

## June 2025 quarter review

### Performance

**In the June 2025 quarter, the Fund returned 4.5% (net of fees), compared to the Benchmark return of 6.0% (all in Australian dollars).** The Australian dollar appreciated 5.3% against the U.S. dollar and depreciated 3.3% against the Euro. The relative strength of the Australian dollar compared to the U.S. dollar reduced Fund and Benchmark returns when measured in Australian dollars.

**For the year ended 30 June 2025, the Fund returned 22.1% (net of fees), outperforming the Benchmark return of 18.5% by 3.6% (all in Australian dollars).** Over the past year, the Australian dollar depreciated 1.3% against the U.S. dollar and depreciated 10.3% against the Euro.

### Key contributors and detractors

While the MSCI World Index recovered strongly during the June 2025 quarter after an initial sharp selloff due to the Liberation Day tariff policy announcements, there continues to **be significant divergence in performance at the sector and individual company level.**

Broadly speaking, companies that are performing well and have strong growth tailwinds have seen significant share price appreciation, while the share price of any company with headwinds, even if those headwinds are likely to be transitory, has been under pressure.

During the quarter, market returns were led by the Information Technology and Communication Services sectors, home to the Magnificent 7. The share price of 6 out of the Magnificent 7 companies exceeded MSCI World Index returns, with NVIDIA increasing 46% in U.S. dollars and Microsoft, Meta and Tesla also significantly outperforming the Index. Apple lagged substantially, with Apple's share price decreasing 8% over this period. **The broad strength of the Magnificent 7 has been a key contributor to the increase in market indices.**

Industrials was the only other sub-segment to exceed broader Index returns. The Energy, Real Estate, Consumer Staples, Materials, Utilities, Financials and Consumer Discretionary sectors all underperformed the broader Index, with the Energy sector declining 10% in Australian dollars.

As at the end of the June 2025 Quarter, the Fund had investments in 22 companies, with the top 10 holdings accounting for 64% of the Portfolio.

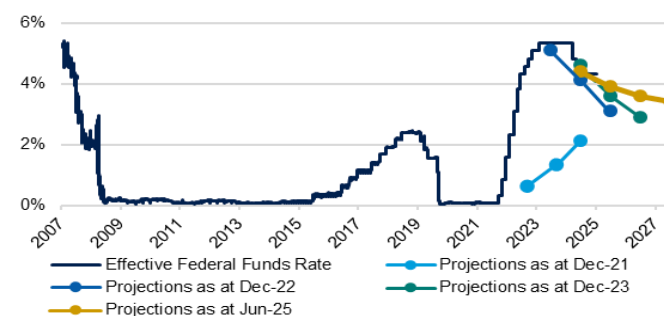
**The mixed market performance was also reflected in mixed operating and share price performance of the companies in the Fund.** During the June 2025 quarter, 15 companies made a positive contribution to the Fund's performance (in Australian dollars), 7 companies detracted from the Fund's performance (in Australian dollars) and 2 were essentially flat.

On the positive side, 6 companies contributed over 0.5% to the Fund's returns for the quarter, led by **AerCap, Booking Holdings and Microsoft** (in alphabetical order). All investment managers talk about their winners and losers, but most do not discuss **position sizing**, which is critical to overall returns. We are pleased that **some of our strongest performing businesses are aligned with some of our largest Fund positions, reflecting our high conviction.**

On the negative side, 3 companies, **Eagle Materials, Marsh & McLennan and UnitedHealth Group** (in alphabetical order) each detracted more than 0.5% from the Fund's returns for the quarter.

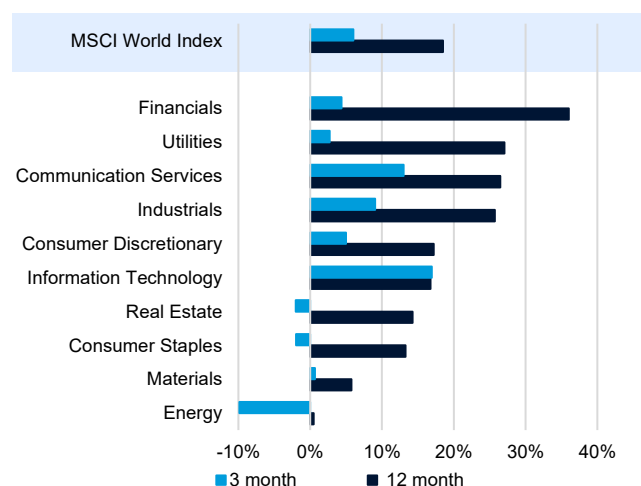
**UnitedHealth** announced a material downgrade to 2025 profit expectations in conjunction with its first quarter results and followed up a few weeks later with a further profit downgrade and the "resignation" of then CEO, Andrew Witty. We are extremely disappointed with the performance and management of UnitedHealth, and our own assessment of the business. It is hard to do justice to UnitedHealth or the issues impacting the business in a few sentences. UnitedHealth is by far the largest and most diversified healthcare business in the world providing both health insurance and an extensive array of health services.

Figure 8: Federal Reserve Funds Rate and expectations



Source: St Louis Federal Reserve, Federal Open Market Committee

Figure 9: MSCI World Index (in A\$) – Sector Performance



Source: Bloomberg

Prior to the first profit downgrade, UnitedHealth had a market capitalisation of around \$550 billion, and even today it is around \$280 billion. To give a sense for scale, today's market capitalisation is more than 30 times that of Medibank Private.

Not only is the **business large, but it is also extremely complex and opaque**. UnitedHealth has been impacted by sector issues including reduced reimbursement rates from Government sources as well as increased medical expenses. In our view UnitedHealth is also dealing with a number of company-specific operational issues. **Prior to recent events, UnitedHealth had a very strong reported financial track record. However, recent events have caused us to lose confidence in our assessment of the business and management.** Some of the key senior management team have either resigned, been fired or murdered (the CEO of the insurance division, Brian Thompson, was tragically killed in late 2024 on his way to the UnitedHealth's Investor Day, an event we were attending). We are unsatisfied with some of the explanations given by management for the series of profit downgrades and consider there may be **more bad news to come**.

**Having confidence in management is a threshold issue for our assessment of Quality** and making or holding an investment in a company. When we lose confidence in management, we will divest the investment, and UnitedHealth is no exception. We were late to recognise our over-estimation of our understanding of the business, and our over-estimation of the capabilities of management, but we have now acted with decision. The Fund no longer holds an investment in UnitedHealth and currently we do not consider the company to be investable for us.

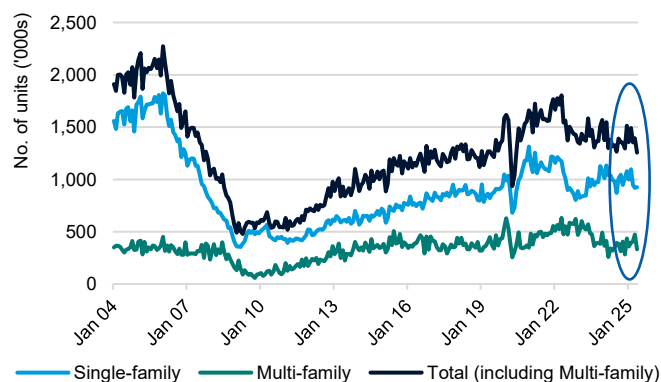
**Marsh & McLennan's** share price underperformed due to concerns that the insurance cycle is softening. Marsh & McLennan does not provide insurance, but rather is the world's largest insurance advisor and risk consultant. Part of the company's revenue is linked to insurance premiums, and the company also derives significant advisory revenues that are not directly linked to the cost of insurance. Since the tariff policy extensions post Liberation Day, the market has been 'risk on' or in other words the share price of faster growth businesses has generally outperformed more steady, macro-insensitive businesses. While Marsh & McLennan does have some businesses that benefit from a healthy economy, insurance in general is an essential business requirement and less macro-sensitive than most industries. In this market environment where many market participants are chasing artificial intelligence and crypto exposure with little if any regard to valuation considerations, the defensive nature of the business has also contributed to the relative underperformance of Marsh & McLennan's share price when measured over a brief 3-month period.

Current operating conditions are likely to lead to a slight reduction in profitability compared to our prior expectations, but we **continue to have conviction in the quality of the Marsh & McLennan business, and its experienced management team.** The share price has only fallen around 10% from record highs and is trading within our base case view of fair value. We have not adjusted the position size of our Marsh & McLennan investment.

There were no company-specific issues associated with **Eagle Materials**, but rather the company's share price was impacted by sector concerns regarding a broad softening in U.S. new residential construction conditions. As illustrated in Figure 10, there has been a relatively modest pull back in new residential construction activity, with greater pressure on multi-family construction compared to single family housing.

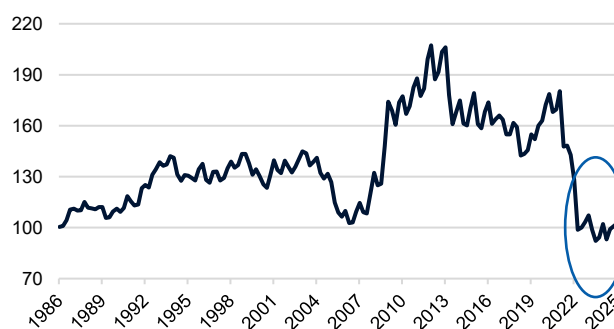
**Housing is a highly cyclical industry.** The recent pullback is nothing like the industry correction following excessive construction in 2005 and 2006. While there are regional pockets of excess inventory, in general it is universally accepted that there is a shortage of housing in the U.S. following an extended period of under-building post the Global Financial Crisis. Prior to the recent correction, we assessed market conditions as broadly mid-cycle. As illustrated in Figure 11, while housing affordability is low, it has not worsened over recent months. Mortgage rates and house prices have both been relatively stable. In our view, the recent downturn in housing activity reflects caution by prospective buyers as a result of the recent macroeconomic and tariff uncertainties, lower consumer confidence and an expectation that mortgage rates will stay higher for longer, reducing the potential to refinance mortgages at a lower rate in the nearish term.

**Figure 10: U.S. housing starts**



Source: U.S. Census Bureau

**Figure 11: U.S. housing affordability index**



Source: National Association of Realtors

**Eagle Materials has significant exposure to infrastructure construction where demand conditions remain strong**, and commercial construction where operating conditions are patchy but solid overall. That said, new residential construction is an important end market, particularly for Eagle Materials' wallboard operations.

Eagle Materials has **highly strategic** raw materials reserves to manufacture cement and wallboard, low-cost manufacturing facilities, established market positions and a highly experienced, aligned management team which has seen many operating cycles over prior decades. Near term, the softening operating conditions will result in reduced profitability for Eagle Materials. Longer term, our assessment of the earnings power of the business is undiminished.

We sold part of our investment in Eagle Materials in late 2024 at a near record high share price which was at the high end of our assessment of fair value. Since then, the share price has fallen around 30%. While partially justified, **we consider Eagle Materials is now trading at or below the bottom end of our assessed fair value range.**

We reiterate: **three months is an excessively short period to assess the performance of an investment. Since Inception of the Fund on 1 March 2019, Eagle Materials has been a top 5 contributor to overall Fund returns, Marsh & McLennan is just outside the top 10 contributors since Inception, and even UnitedHealth has made a small positive contribution.**

## Portfolio adjustments

While having a **longer-term investment horizon is critical to delivering strong risk adjusted returns over time**, we are not 'buy and hold forever' investors. We actively manage investment position size, having regard to the share price compared to our assessed valuation and alternative investment opportunities. **Active portfolio management is critical to improving returns and reducing investment risk**, particularly in today's highly volatile, uncertain investment environment.

The period of market volatility in early April 2025 around Liberation Day presented the opportunity to make relatively modest, but targeted portfolio changes.

In early April 2025, investors were very concerned about tariffs and the potential for a sharp contraction in the global economy. More macro-sensitive businesses were dumped and investors sought safety outside of the U.S. and in defensive, macro-insensitive companies. **Cellnex**, a very stable European telecommunications tower infrastructure business, ticks these boxes. The share price increased when the share price of other high-quality businesses fell materially. While our assessment of Cellnex was (and is) unchanged, we took advantage of the change in relative valuations to divest our investment in Cellnex and use the proceeds to invest in existing Portfolio or Bench companies where we saw better relative value.

Examples of businesses where we increased our investment during the June quarter include **AerCap, American Express, Danaher, Intuit, Jacobs and TSMC.**

**Artificial Intelligence is no fad or bubble.** AI will drive and reshape many industries over the coming decade. While we are seeing some areas of market exuberance in the AI and crypto sectors, the leading large technology companies are exceptionally well placed to maintain their leadership in AI. Investing is remarkably easy with hindsight. Everyone has their "coulda woulda shouldas". We aim to maintain a balanced "all weather" portfolio and not have "all our eggs in one basket", even if that basket is as exciting and prospective as AI. We already have significant exposure to AI through some of the Fund investments. That said, we aim to learn from our investing mistakes, and not investing in **Nvidia** when it was trading below our assessment of fair value in April was a material mistake of omission.

**HCA Healthcare (HCA)** is the leading for-profit hospital operator and outpatient services provider in the U.S. In our [December 2024 Quarterly Report](#) we outlined our thoughts on why we considered the 25% fall in the share price due to healthcare policy concerns was excessive, and that the share price had fallen to a level where base case risk adjusted returns were compelling and downside risks were manageable, and that we had been using the share price weakness to increase our investment in this very high-quality business. Over the first half of 2025 healthcare policy has become clearer and is less negative for HCA than the market had feared. **HCA's share price has subsequently increased materially, and we have sold part of our investment**, again to actively manage risk adjusted returns. HCA remains a top ten Fund holding at the end of the June 2025 quarter.

Prior to release of the first quarter 2025 results we were reducing our investment in **UnitedHealthcare** due to valuation considerations. We deeply wish we had sold the full investment then rather than when we did later in the quarter following the profit downgrades and management changes.

We initiated investments in a couple of new businesses, and we expect to further increase the investment position size in these companies over time.

Cash weighting at the end of the June 2025 quarter was 4%. However, most of this cash has been earmarked to **fund the 2025 financial year distribution**, payable in July 2025. **The Fund is close to fully invested and we expect the Fund to be fully invested at most times.**



## Portfolio investment – Jacobs Solutions

### Introduction

Jacobs Solutions (Jacobs) was founded in 1947 by Joseph Jacobs as a one-man chemical engineering consulting business. Over the next nearly 80 years the business has grown through international expansion and strategic acquisitions to become one of the largest engineering design firms globally with over 45,000 employees.

Management and their **capital allocation decisions** are central tenets to how we assess **Quality** businesses. Many management teams are focused on growth. **Fewer management teams are willing to divest their way to greatness.** Over the past decade, initially under the leadership of Steve Demetriou and subsequently by current Chairman and CEO Bob Pragada, **Jacobs has undergone a drastic strategic shift in business profile**, pivoting from its historically more cyclical and lower margin businesses.

If you are a close follower of ASX-listed companies, you may have heard of Jacobs before. Indeed, Australia is one of Jacobs' significant international markets.

In 2014, Jacobs significantly expanded its Australian presence through the \$1.1 billion acquisition of Sinclair Knight Merz, a Sydney based engineering solutions business with around 7,000 employees. However, the key Jacobs connection to Australia was in 2018 when Jacobs announced the divestment of its Energy, Chemicals and Resources operations to WorleyParsons for \$3.3 billion (completed in 2019).

The business transformation was completed in 2024 when Jacobs separated its Critical Mission Solutions government services operations through a merger with another business to form a separately listed company, Amentum.

**Today, Jacobs is a focused, capital-light, technology-forward provider of engineering services concentrated on higher-growth, higher-margin markets such as infrastructure, water, advanced manufacturing and life sciences.**

### Sustained long-term growth drivers

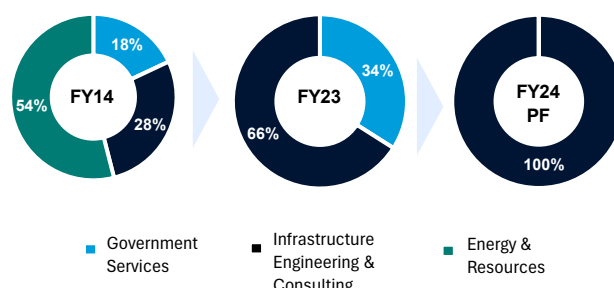
**Jacobs' leading market positions in the secularly growing Critical Infrastructure, Water & Environmental Solutions, and Life Sciences & Advanced Manufacturing sectors are expected to support mid-single digit-plus revenue growth.**

### Critical infrastructure

Global infrastructure renewal remains a key priority. In the U.S., the US\$1.2 trillion Infrastructure Investment and Jobs Act (IIJA) is still in the early stages of deployment and expected to underpin infrastructure spend growth for years. Much of America's core infrastructure was built in the mid-20th century with the American Society of Civil Engineers highlighting in its 2025 Infrastructure Report Card the need for substantial modernisation investment. This is a pattern mirrored globally.

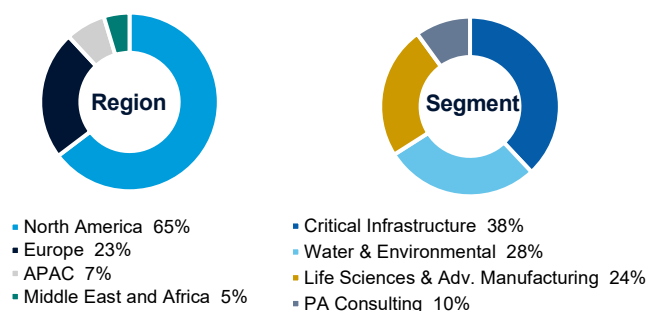
The U.K. Treasury has committed £725 billion over 10 years to national infrastructure renewal, while in Australia the Government has committed to a 10-year, \$120 billion Infrastructure Investment Program. Jacobs holds leading market positions in the transportation, airports, highways and mass transit subsegments, and is deeply embedded in delivering these large-scale programs.

**Figure 12: Jacobs Solutions business mix transformation (revenue)**



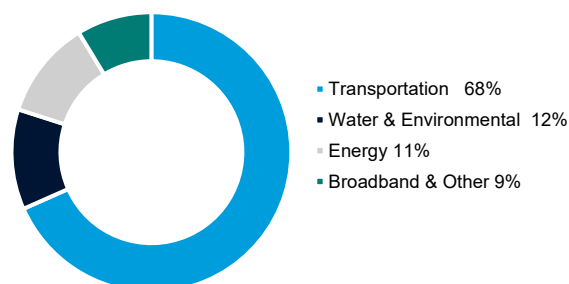
Source: Jacobs Solutions, L1 Capital International. Region and segment are based on gross revenues.

**Figure 13: Jacobs Solutions 2024 revenue**



Source: Jacobs Solutions, L1 Capital International. Region and segment are based on gross revenues.

**Figure 14: IIJA total project awards by category**



Source: Brookings Institution – Federal Infrastructure Hub (November 2024)

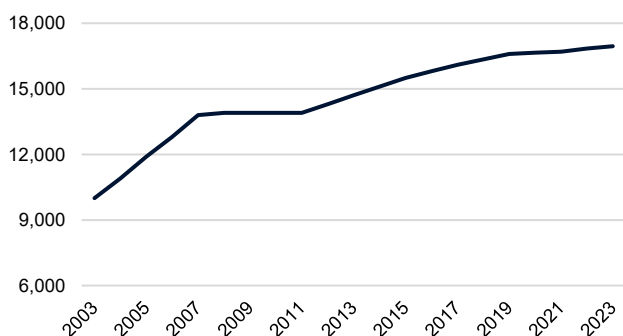
## Water and Environmental

Rising climate volatility, water scarcity, aging infrastructure, urbanisation and shifting demographics are driving sustained investment in water systems and environmental resilience.

**The American Society of Civil Engineers estimates a US\$3.7 trillion gap between current planned infrastructure investments and what must be spent to have U.S. infrastructure in good working order.**

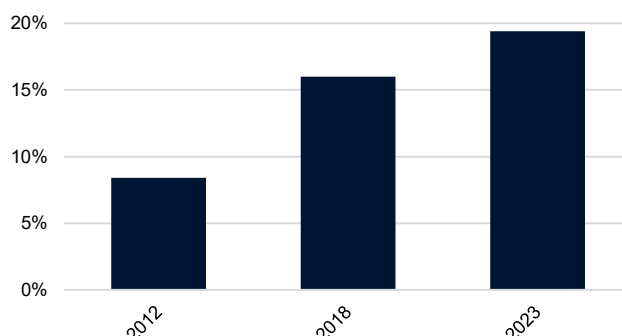
Growing complexity combined with concerns over emerging contaminants, increasing instances of system failures and worsening risk assessments (dams are on average 64 years old in the U.S.) will support increased engineering consulting spend in wastewater treatment, water supply and water transmission segments where Jacobs holds market leadership positions.

**Figure 15: Number of U.S. high hazard potential dams**



Source: ASCE 2025 Infrastructure Report Card

**Figure 16: Percent of water mains beyond useful life but lacking funds to replace (U.S. and Canada)**



Source: Utah Water Research Laboratory – Water main break rates in the U.S. and Canada (December 2023)

## Life sciences and advanced manufacturing

Structural demands driven by aging populations, chronic disease growth and the need for innovation, are catalysing investment in life sciences manufacturing. Jacobs is ranked #1 globally in pharmaceutical facility design, having supported clients like Pfizer and AstraZeneca in scaling vaccine production, and Eli Lilly and Novo Nordisk in delivering GLP-1 therapies.

The CHIPS Act, as well as President's Trump's carrot and stick approach to encouraging domestic semiconductor manufacturing is also driving investment in the U.S., including the \$100 billion capex commitment by TSMC. Jacobs is also the #1 ranked firm in data centre and semiconductor facility engineering, having designed over half of the world's advanced fabs. The company is currently partnering with NVIDIA on implementing a digital twin solution to improve the design, simulation, deployment and operation of AI factories. Jacobs services also extend to power requirements, wastewater systems and data centre liquid cooling, all critical to support the development of next generation AI infrastructure.

## Critical, specialised knowledge and successful track record leads to entrenched client relationships

**Engineering advisory services play a pivotal role in shaping major infrastructure and construction projects, despite typically representing a small portion of a project's total cost.** These engagements are often complex, multidisciplinary and high stakes, acting as the fulcrum upon which project performance, cost and risk balance. Consider the construction of a bridge: the engineering solution must address technical challenges (e.g. geotechnical analysis, structural design, digital modelling), logistical and operational constraints (e.g. traffic forecasting, construction staging), environmental compliance and stakeholder alignment. Given the consequences of failure, ranging from safety risks to cost overruns and reputational damage, the selection of engineering consultants is driven more by specialised expertise, track record and delivery capability than price.

Client turnover is low. Management estimates around 90% of revenue is generated from repeat customers, with Jacobs developing strong client relationships over decades of service, from early-stage advice through to program implementation and operations. This provides a **multi-year backlog and visibility on future revenue opportunities**.

*Engineering News Record* is widely considered the industry benchmark and annually ranks hundreds of engineering firms based on revenues for design-specific services. **Jacobs consistently ranks as the #1 or #2 in overall engineering design** and holds #1 to #3 rankings in key sub-segments.

Figure 17: Jacobs sub-segment market rankings

#1	#2	#3
<b>2024</b> Aerospace Data Centers Electronic Assembly Government Offices Healthcare Nuclear Plants Nuclear Waste O&M - Power Pharmaceuticals Pulp & Paper Sanitary & Storm Sewers Semiconductors Sewer & Waste Towers & Antennae Wastewater Treatment Water Transmission <b>2025</b> Manufacturing	<b>2024</b> Solar Power Airports Auto Plants Bridges Chemical & Soil Remediation Co-Generation Construction Management/PM Entertainment Marine & Port Facilities Mass Transit & Rail Site Assessment & Compliance Transmission Lines & Cabling Wind Power <b>2025</b> Clean Air Compliance Design Firms Industrial Process/Oil & Gas Transportation	<b>2024</b> Chemical Plants Environmental Firms - Wastewater Treatment Environmental Firms in Non-U.S. Locations Highways Water Supply Water Treatment, Desalination Plants Water <b>2025</b> General Building Telecommunications

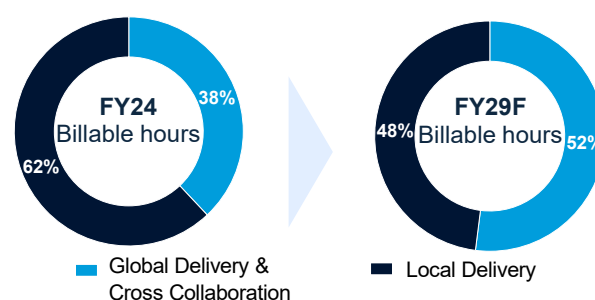
Source: Engineering News Record, Jacobs Solutions

### Underappreciated margin expansion potential

**Jacobs is well positioned to expand margins meaningfully following the simplification of its business model and operational structure.** Following the government services divestment, the company is now focused on a streamlined engineering services portfolio. There is a clear path to margin expansion through several credible levers in addition to operating leverage:

- **Global delivery centres:** Scaling low-cost delivery hubs in India, Poland and the Philippines enables 24/7 project execution, improved utilisation and cost efficiency
- **Digital and AI productivity:** Embedding generative AI and proprietary IP into workflows from proposal generation to permitting and design
- **Commercial model innovation:** Shifting toward higher-margin commercial structures (e.g., alternate delivery models, software-enabled offerings) that better capture the value Jacobs creates for clients
- **Favourable mix shift:** Increasing early-stage advisory, consulting, and digital content in project engagements, where Jacobs can command higher margins and deliver more value-add

Figure 18: Leveraging Jacob Solutions' global platform to drive cross-collaboration



Source: Jacobs Solutions, L1 Capital International

AECOM, a key competitor to Jacobs, provides a tangible roadmap for Jacobs to follow. AECOM completed its restructuring efforts earlier, divesting its oil & gas assets in 2019 and its government, services and construction business in 2020. It now operates as a pure-play engineering services firm focused on similar end markets to Jacobs with materially higher margins. **In our assessment, Jacobs is still in the early stages of realising the full margin potential of its transformed portfolio.**

### Attractive valuation

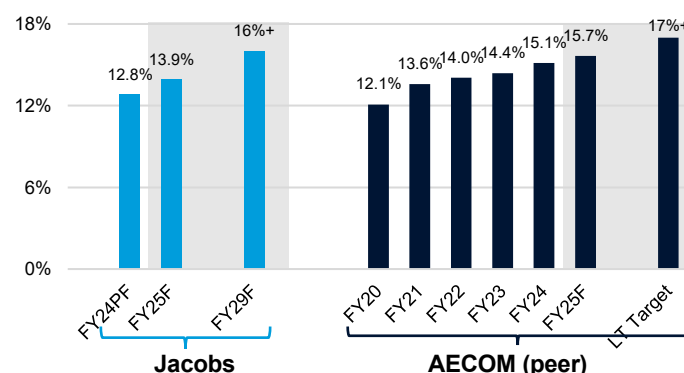
Jacobs has a solid balance sheet with strong free cashflow and portfolio optimisation reducing net debt. The company has an investment grade credit rating. Looking forward, capital allocation has been simplified, with management committing to return at least 60% of free cash flow to shareholders through dividends and share repurchases.

Sustained industry growth tailwinds, leading market positions, a well-defined margin expansion plan and shareholder returns combine to support our base case for Jacobs to deliver double-digit earnings per share growth over the medium term.

Jacobs is currently trading on a 19x forward P/E ratio, around a 5% free cashflow yield and offers a 1% dividend yield. We consider these valuation metrics undemanding, with the potential for Jacobs' market valuation to close the gap compared to listed peers such as AECOM, Stantec and WSP.

**We believe Jacobs is well positioned to deliver strong returns to shareholders.**

Figure 19: Jacobs Solutions – potential EBITDA margin expansion



Source: Jacobs Solutions, AECOM, L1 Capital International

## Fund Information

<b>Name</b>	L1 Capital International (Unhedged) Active ETF
<b>Portfolio Manager</b>	David Steinthal, Chief Investment Officer
<b>Types of investments</b>	Listed securities globally. Developed market focus. No shorting, no leverage.
<b>Number of investments</b>	20 to 40
<b>Cash weighting</b>	0% to 25%
<b>Minimum initial investment</b>	\$25,000
<b>Hedging</b>	Unhedged
<b>Structure</b>	Dual Registry
<b>Inception</b>	Unit Trust: 1 March 2019. ETMF: 22 November 2023
<b>Domicile/currency</b>	Australia/\$
<b>Management fee*</b>	1.20% p.a.
<b>Expenses</b>	Nil (included in Management Fee)
<b>Benchmark</b>	MSCI World Net Total Return Index in \$
<b>Performance fee**</b>	15% over Benchmark
<b>High watermark</b>	Yes
<b>APIR / ISIN / ASX Ticker</b>	ETL1954AU / AU0000302960 / L1IF
<b>Platform Availability</b>	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](http://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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