

# L1 Capital Catalyst Fund

June 2025

- The L1 Capital Catalyst Fund returned 3.8%<sup>1</sup> for the June quarter (ASX200AI 9.5%).
- Since inception the L1 Capital Catalyst Fund has returned 7.6%<sup>1</sup> p.a. (ASX200AI 8.2% p.a.).
- The Fund's performance in the June quarter was driven by strong updates across multiple stocks and a takeover bid for Santos.
- We invite you to view our recent Catalyst webinar in which James Hawkins, Partner and Head of Catalyst Fund, shared insights on the portfolio and the equity markets. To watch the replay, please [click here](#).

Equity markets rebounded strongly in the June quarter following a selloff that began in March and continued into early April. The S&P500 Index and the MSCI World Index returned 10.9% and 11.5%, respectively, whilst the ASX200AI returned 9.5% in the June quarter.

Volatility spiked on 2 April as the U.S. tariffs announced by President Trump were far greater and widespread than the market was expecting. After declining more than 11% in April, the S&P500 then recovered through the June quarter after the U.S. announced a 90-day pause to the tariffs and subsequent trade negotiations boosted investor sentiment. Since the April low, the S&P500 has rallied 25% – a spike that ranks above the 99th percentile of 3-month returns in the last 50 years and is the sharpest rebound that has happened outside of a recession in 20 years.

In Australia, the Federal election had a muted impact on equity markets. Following a 6% drop in the ASX200AI in early April, investor optimism followed the lead of the U.S. market and was boosted further by the RBA's second 25bp rate cut in May to 3.85% (following an initial cut in February). The continued easing of inflationary pressures (CPI falling to 2.1% in May from 2.4% in March and April) increased investor confidence in the likelihood of further rate cuts. Australian government bond yields reflected these dynamics with the 10-year yield falling 26bps in the quarter to 4.16%.

Growth and momentum factors continue to lead markets domestically, with Technology and Communication Services continuing to outperform while the Materials sector remains out of favour. Australian banks also continued to move higher on further interest rate cut expectations.

The strongest sectors in the ASX200AI for the June quarter were Information Technology (+28.4%), Financials ex property (+15.8%) and Communication Services (+14.1%), whilst Materials (-0.7%), Utilities (+2.0%) and Healthcare (+2.7%) lagged.

## Returns (Net) (%)<sup>1</sup>

	Catalyst Fund	S&P/ASX 200 AI	Out-performance
<b>3 months</b>	3.8	9.5	(5.8)
<b>1 year</b>	1.0	13.8	(12.9)
<b>3 years p.a.</b>	6.6	13.6	(7.0)
<b>Since inception* p.a.</b>	7.6	8.2	(0.6)
<b>Since inception* cumulative</b>	34.1	37.0	(2.9)

Figures may not sum exactly due to rounding.

The L1 Capital Catalyst Fund continues to find value in low P/E stocks with undergeared balance sheets, strong cash flow generation and realisable near-term catalysts. We remain confident in our portfolio and are focused on identifying and enacting catalysts through active engagement with company management and Boards. We continue to believe this engagement will ultimately create better shareholder returns for investors and outcomes for the companies themselves.

<sup>1</sup> All performance numbers are quoted net of fees. Figures may not sum exactly due to rounding. Inception date: 1 July 2021. **Past performance should not be taken as an indicator of future performance.** Note: Fund returns and Australian indices are shown in A\$. Returns of U.S. indices are shown in US\$. Index returns are on a total return (accumulation) basis unless otherwise specified.

## Portfolio commentary

Whilst the Catalyst Fund performed well on an absolute basis for the quarter (+3.8%), it underperformed the ASX200AI (+9.5%), largely due to having no exposure to the Banking or Technology sectors and due to weakness in Mineral Resources.

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

- **Favourable portfolio company trading updates:** Several portfolio companies continued to perform and meet stated targets, increasing investor confidence. In particular, Qantas benefitted from ongoing robust demand, prudent changes to its network to meet the strong demand and generally lower fuel prices during the period. We believe the market is still in the early stages of appreciating the growth runway that lies ahead for Qantas given its strong market position, differentiated product and ongoing benefits from its fleet renewal program.
- **Santos takeover offer:** Santos rallied owing to a takeover offer from ADNOC and Carlyle. In our view, the bid underlines the disconnect between the company's market valuation and the intrinsic worth of its portfolio of assets. L1 had publicly advocated for the demerger of Santos' LNG assets in late 2023 and sees the Barossa and Pikka projects as driving a significant uplift in near-term earnings and cash flow. We provide further detail on Santos in the following section of this quarterly report.

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

- **Sector positioning:** Together, the big 4 banks in addition to Macquarie, which comprise ~27% of the ASX200AI by weight, contributed ~45%+ of the total ASX200AI performance for the June quarter. In our view, the outperformance of the domestic banking sector has been driven by sentiment and flows rather than fundamentals. The earnings outlook for the domestic banking sector has not changed meaningfully relative to 18 months ago, yet many of these share prices have rallied, primarily through a re-rate in valuation. These stocks do not meet the Quality, Value and Catalyst criteria required to enter the Catalyst portfolio and whilst the strict adherence to our investment style and approach has impacted performance in the recent past, we remain confident that over the longer term it will be the key to delivering on our investment objectives.
- **Mineral Resources:** Mineral Resources' underperformance for the June quarter occurred primarily in April when the shares declined 14% as cautious investor sentiment around the company's gearing levels was exacerbated by extreme market volatility, widening high yield bond spreads and weakness in commodities markets (iron ore and lithium spodumene prices declined ~3% and ~6%, respectively, during April). Nevertheless, the company's Q3 25 results were well received by the market as the company provided more granular guidance for shipment improvements from its Onslow Iron project in May-June and reported material improvements in the operating costs of its lithium assets. In addition, Mineral Resources stated explicitly that an equity raising is not currently under consideration despite its elevated leverage given '*the strong liquidity and a number of other levers at MinRes' disposal*'. The share price ended the quarter down 10%.

We continue to believe that each of the company's core segments should see material improvement from current levels over the medium term. As a result, we find the risk-reward at current share price levels to be compelling, with significant upside potential as Mineral Resources executes its key growth projects.

### Webinar Replay | July 2025

James Hawkins, Partner and Head of Catalyst Fund, recently discussed portfolio performance, provided observations on the equity markets, explained how the portfolio is positioned and outlined several of our key stock picks.

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

## Stock Spotlight | Santos

We have previously outlined our investment thesis in Santos (ASX:STO), including our advocacy for a structural separation of the company's Liquefied Natural Gas (LNG) assets (see [September 2023 Quarterly Report](#)) and our belief that these assets could attract corporate interest amid a broader trend of consolidation in the global energy sector (see [March 2024 Quarterly Report](#)).

During the June quarter, Santos was a strong contributor to Fund performance as the company's share price rose 15%, despite a ~9% decline in oil prices. This outperformance was primarily driven by a non-binding, indicative takeover proposal from a consortium led by the Abu Dhabi National Oil Company (ADNOC), alongside Carlyle, a leading U.S. private equity firm. The offer values Santos at US\$5.76/share (equivalent to A\$8.89/share at announcement date), representing a 28% premium to the company's last undisturbed trading price. We have publicly stated our support for the transaction, with James Hawkins stating to the AFR on 18 June 2025 *"The price offered is reasonable, given geopolitical events and the oil price"*.

The ADNOC/Carlyle proposal includes a six-week due diligence period, with four weeks of exclusivity granted under a Process Deed signed by both parties on 27 June 2025.

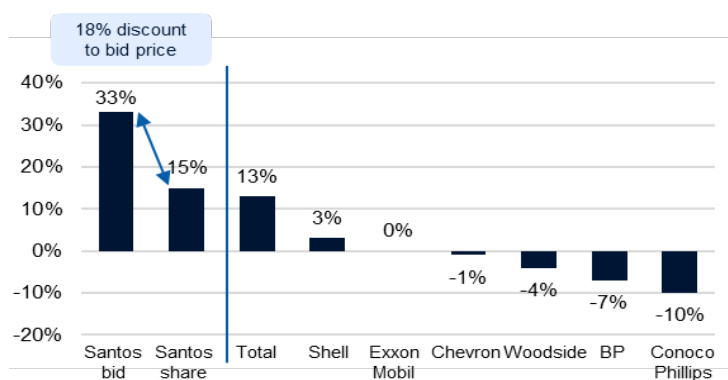
As of 30 June 2025, Santos shares were trading at around a ~18% discount to the offer price, greater than the time value and dividend adjusted implied price. This is a reflection, first of all, that the proposal is currently indicative and non-binding, and second of all, that market uncertainty surrounds the likelihood of the Foreign Investment Review Board (FIRB) approving any binding offer. However, we believe FIRB approval could ultimately be forthcoming for the following reasons:

- Asset footprint:** A large portion of Santos' asset value is now located offshore, with their most valuable asset in Papua New Guinea (PNG), and a growing presence in Alaska (U.S.). The Australian assets themselves primarily serve the export market (via export of liquid natural gas from Darwin and Barossa), not the domestic gas market. Furthermore, certain domestic assets could be sold in order to obtain FIRB approval.
- Consortium composition:** The proposal is backed by both ADNOC and Carlyle – key strategic partners to Australia from the UAE and the U.S., respectively. In November 2024, Australia and the UAE signed a Comprehensive Economic Partnership Agreement, under which this type of investment aligns with stated policy objectives and the U.S. has been a long-time friend and partner of Australia.
- Existing UAE investments and precedent transactions:** Abu Dhabi Investment Authority (ADIA) already holds significant investments in critical Australian infrastructure (e.g. TransGrid, Port of Botany, Port of Brisbane). In addition, FIRB did not block the recent Brookfield/EIG/Origin deal, despite Origin supplying more gas domestically than Santos. Santos supplies just 10% of the Australian East Coast gas market.
- Domestic energy benefit and security of supply:** Crucially, a successful acquisition by ADNOC/Carlyle may lead to new domestic supply (e.g. from Narrabri) being brought online more quickly due to the consortium's lower cost of capital – a benefit for Australian consumers given the looming domestic gas shortfall. Santos has been explicit on prioritising shareholder returns over new growth projects and as a result Santos in its listed form is likely to proceed with new domestic supply investments at a slower pace than if it was owned by ADNOC/Carlyle. While, we do not believe the transaction poses a risk to domestic gas supply, FIRB always has the option to secure appropriate guarantees to ensure the current supply arrangements remain in place.

We view the proposal as supportive of our thesis that Santos' assets, particularly its LNG assets, have been materially undervalued by the market. The company continues to execute on key growth initiatives: the Barossa project is now over 95% complete, with first production expected in the second half 2025, whilst the Pikka project is more than 82% complete, with first production expected in 2026. The completion of these projects marks the end of a multi-year phase of elevated capital investment by Santos and a clear inflection point for free cash flow and potential capital returns to shareholders.

Looking ahead to 2026 and beyond, we believe Santos is positioned to deliver sector-leading returns globally. Regardless of the outcome of the ADNOC/Carlyle takeover proposal, Santos has a strong strategic footing and multiple pathways to unlock additional value, including selective asset sales. We continue to engage with Santos' Board and Management to advocate for the best possible outcome for shareholders.

**Figure 1: Santos 2025 CYTD share price performance vs. major global oil and gas peers**



Source: Factset as at 30 June 2025

## Stock Spotlight | Chorus

### Company overview

Chorus is the incumbent fixed line telecommunications network owner and operator in New Zealand. Its world-class fibre-to-the-home (FTTH) network passes 1.5m premises and currently has 1.1m connections, operating on a wholesale-only, open-access basis. It also operates New Zealand's legacy copper network, which is being progressively decommissioned.

Chorus was formed in 2011 by the de-merger from Spark (formerly Telecom New Zealand). At the time, Chorus's national network was entirely copper. The de-merger allowed the company to participate in the Government's process to build a national FTTH network called the Ultra Fast Broadband network (UFB). Chorus was successful in this tender process, attaining the rights to approximately 75% of the UFB footprint.

Following on from that process, Chorus began construction of the FTTH network in 2011. To date it has spent over NZ\$4b on this endeavour. Capital spend on the rollout peaked in FY19. Today, the rollout is essentially complete apart from a recently announced rural extension to ~10,000 homes and businesses and modest remaining growth capex for future connections.

### Investment highlights

Chorus remains a well placed business and attractive investment for a number of reasons:

- **Regulated business model brings earnings certainty:** The Chorus UFB network is regulated by New Zealand's Commerce Commission. This model delivers clarity on returns and earnings over the long-term and the protection of real returns in differing macro backdrops that might impact inflation or interest rates.
- **Improving FCF profile as capex winds down:** Chorus has now essentially completed its network rollout and after a 10-year build is transitioning from 'network builder' to 'network operator'. This inflection point is driving a significant uplift in free cash flow which underpins increased shareholder returns. For the FY25 year, Chorus was able to increase its dividend by 21%, and we see scope for further increases going forward ahead of market expectations.
- **Improving fibre adoption rates going forward:** Management has recently implemented a number of strategies to drive fibre adoption in its UFB footprint from current levels of 72% today, to 80% by the end of the decade. These include proactive programs to re-activate premises that previously been connected to the network and also by facilitating increased speeds on its current plans to improve differentiation against fixed wireless offerings. Fibre adoption will also benefit from the final stages of copper switch-off in this footprint.
- **Business simplification:** With the network construction winding down and the copper network being de-commissioned, Chorus is well positioned to continue seeking operational improvement through business simplification.
- **Defensive characteristics:** As the provider of an essential service (broadband) and given the strength of the regulatory model, Chorus is a well-positioned defensive infrastructure stock in the Catalyst portfolio. It has a high degree of earnings and cash flow certainty going forward and a business valuation that is positively disposed should the overall cost of capital reduce. Finally, the Reserve Bank of New Zealand has cut rates by 225bps over the last 12 months to circa 3.25% (Figure 4 on the next page) at the same time the company's dividend yield has risen steadily to reach 6.8% in FY25 (Figure 5 on the next page), giving Chorus a very attractive ~3.5% dividend yield spread.

Figure 2: Chorus capitalisation

Market cap (30 June 2025)	NZ\$3.7b
Last reported net debt*	NZ\$3.6b
Enterprise Value (EV)	NZ\$7.2b
FY26F EBITDA	\$705m
FY26F EV/EBITDA	10.2x
FY26F Dividend Yield	6.8%

Source: Based on consensus estimates. Company FY ends 30 June.

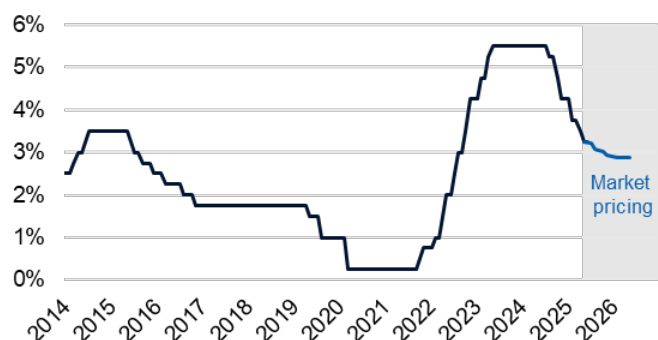
\* Last reported net debt was at 31 December 2024 and includes leases and the present value of Government funding arrangements.

Figure 3: Chorus share price



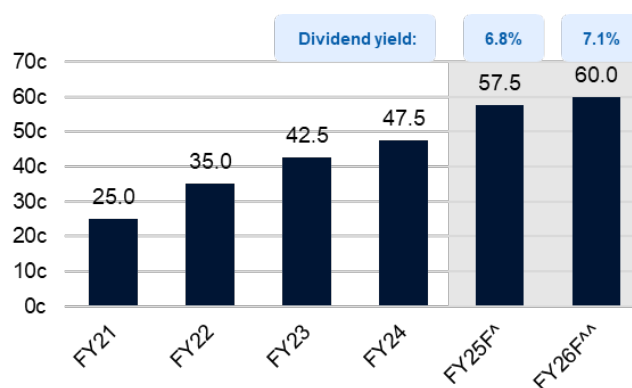
Source: Factset as at 30 June 2025

Figure 4: Reserve Bank of New Zealand cash rate



Source: Bloomberg, Macrobond, Macquarie Macro strategy

Figure 5: Chorus dividends (NZ\$)



Source: Company reports. <sup>^</sup> Company guidance, <sup>^^</sup>L1 Capital estimate.

## Catalyst Fund engagement

We see Chorus as a good example of how the Catalyst Fund can actively engage with regulators and companies in a constructive manner to help drive positive outcomes for all stakeholders.

- Regulatory submission:** We were pleased to make a submission to the Commerce Commission as part of last year's regulatory review into Chorus's pricing, offering our perspective as a significant long-term Chorus investor into this process. Our detailed submission was deeply researched using in-house knowledge and the engagement with an external consultant. This was in response to a Draft paper from the telecoms regulator, the Commerce Commission, that was proposing what we believed were punitive inputs in its pricing model around cost allocation and opex inflation that would have harmed the operating outlook for Chorus if implemented.

Pleasingly, the Commerce Commission's Final Decision was a material improvement on the Draft decision and largely consistent with the changes requested in our submission. This was not the first time we have made regulatory submissions to support Chorus and is one example of how active management can contribute to positive outcomes in a highly constructive way.

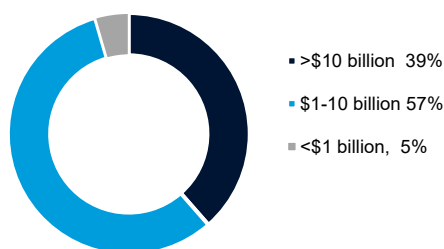
- Capital management engagement:** As Chorus approached the inflection in its free cash flow generation and transitioned from 'network builder' to 'network operator', de-risking the business substantially, we held a number of meetings with Chorus's Chair and management to share our views on how its capital management framework could be adapted to this new environment. We encouraged the company to move to a dividend level that appropriately reflected the cash generation of the business, setting appropriate hurdles for any future growth capex and optimising the balance sheet to reflect the strong predictable nature of the business. We also sent a letter to Chorus's Board which articulated our views.

Ultimately, at its August 2024 result, Chorus announced its intention to pay a 57.5cps dividend in FY25, up 21% compared to FY24. It also increased its long-term payout ratio from 60-80% to 70-90%, reduced its outlook for sustaining capex and reaffirmed high hurdles for growth capex to which the market responded positively. The updated financial framework was also delivered alongside a refreshed and simplified corporate strategy focussed on exiting copper, driving fibre penetration to 80% and managing the business efficiently.

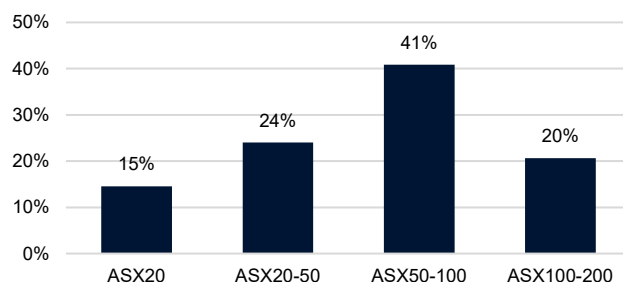
Portfolio exposures by primary catalyst as at 30 June 2025

	Strategic	Financial	Operational	Governance
Stock 1	✔			
Stock 2	✔			
Stock 3		✔		
Stock 4	✔			
Stock 5		✔		
Stock 6				✔
Stock 7			✔	
Stock 8		✔		
Stock 9	✔			
Stock 10			✔	

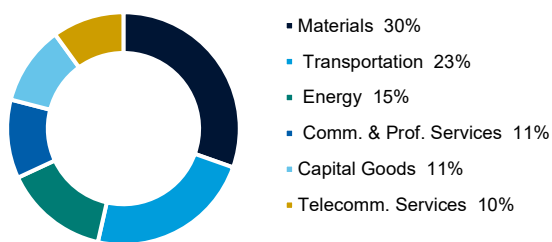
Market capitalisation exposure (%)



Market constituents exposures (%)



Sector exposure – GICS Level II (%)



Research Rating



Awards

Money management Fund of the Year awards  
Innovation Award of the Year 2023



Note: All breakdowns shown are for stocks only (i.e. excluding cash).

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## Fund Information

<b>Fund/Class Name</b>	L1 Capital Catalyst Fund – Retail Class
<b>Currency</b>	AUD
<b>Investment approach</b>	The Investment Manager seeks to deliver private equity-style returns with listed market liquidity by taking a hands-on 'owner's mindset' to each investment in a tightly focused portfolio of up to 10 companies.
<b>Investment objective</b>	To deliver strong positive risk adjusted returns over the long term.
<b>Benchmark</b>	S&P/ASX 200 Accumulation Index
<b>Minimum investment</b>	\$25,000
<b>Management fee*</b>	1.28% p.a.
<b>Performance fees**</b>	20.5% (inclusive of GST and net of RITC) over benchmark, subject to any underperformance being recouped
<b>Vehicle</b>	Australian Unit Trust
<b>Fund identifiers</b>	ISIN: AU60ETL12936, APIR: ETL1293AU
<b>Launch date</b>	1 July 2021
<b>Platform availability</b>	Australian Money Market, BT Panorama, CFS FirstChoice, CFS FirstWrap, HSBC, Hub24, Macquarie Wrap, Mason Stevens, Xpand, Netwealth, North^, Powerwrap, Praemium

## L1 Capital overview

L1 Capital is a global investment manager with offices in Melbourne, Sydney, Miami and London. The business was established in 2007 and is owned by its senior staff, led by founders Raphael Lamm and Mark Landau. The team is committed to offering clients best of breed investment products through strategies that include long short Australian equities, international equities, activist equities, a global multi-strategy hedge fund and U.K. residential property. The firm has built a reputation for investment excellence, with all L1 Capital's strategies delivering strong returns since inception. The team remains dedicated to delivering on that strong reputation through providing market-leading performance via differentiated investment approaches with outstanding client service, transparency and integrity. L1 Capital's clients include large superannuation funds, pension funds, asset consultants, private wealth firms, financial planning groups, family offices, high net worth investors and retail investors.






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\* Fees are quoted inclusive of GST and net of RITC. \*\* Performance fee is quoted inclusive of GST and net of RITC over benchmark, subject to any underperformance being recouped. ^ Managed account holders only.

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

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