



**L1 CAPITAL  
INTERNATIONAL**

# **L1 Capital International Fund**

**Investment Environment and Portfolio Update**

**September 2024**



# Important information

## L1 Capital International Pty Limited



### Information contained in this publication

Equity Trustees Limited (“Equity Trustees”) (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the L1 Capital International Fund (Managed Fund) ARSN 631 094 141 (ASX:L1IF). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).

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 accepts 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 before making a decision about whether to invest in this product.

The L1 Capital International Fund (Managed Fund)’s Target Market Determination is available at <https://l1.capital/3NOi7oB>. A Target Market Determination is a document which was required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.



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# Macroeconomic investment environment

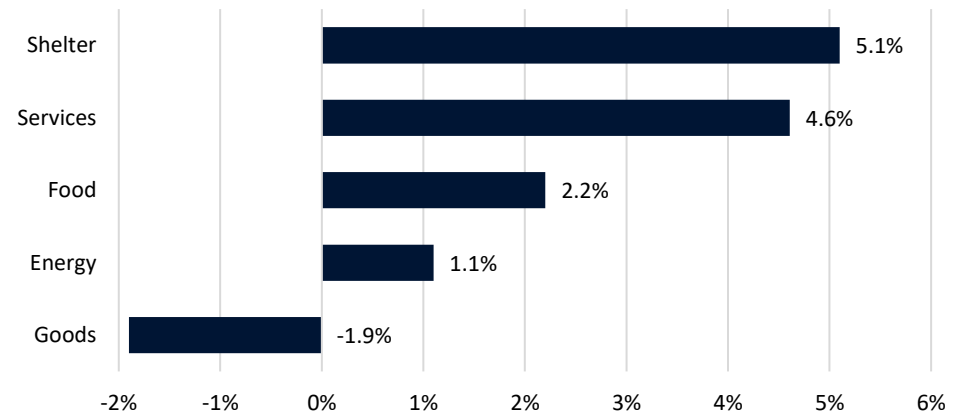


# Investment environment

Inflation is under control and there are clear signs of an economic slowdown

- 1 Inflation in most developed countries has stabilised in the 2% to 3% range (Australia 3.8%), still modestly Central Bank targets**
- 2 Areas of inflation becoming more narrow – Housing accounts for 60% of total inflation), Goods inflation is negative**
- 3 Gradual cooling of employment markets, unemployment ticking up**
- 4 Fiscal and immigration policies remain expansionary**
- 5 Consumer pressures becoming more obvious**
  - **Centred on lower socio-economic but spreading into middle**
  - **Affluent remain well positioned**

**U.S. CPI components – total inflation c. 3%**

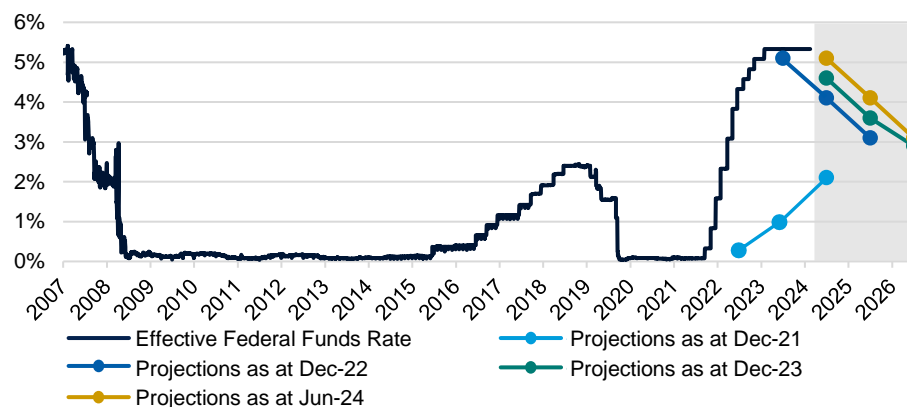


# Investment environment (cont.)

Economy still trending towards a 'soft landing' particularly the U.S., expect industry and business divergence

- 6 Clear signs of economic softening, risk to the downside, particularly if Central Banks are too reactionary
- 7 A soft landing remains our base case – U.S. best placed – but near term activity is weakening
- 8 Rate reduction cycle has commenced or about to commence in most developed countries
- 9 Performance divergence between industries, and by companies within industries
- 10 AI is a standout growth opportunity – investors chasing, limited investment alternatives
- 11 Geopolitical risks remain intense, unpredictable and are unlikely to go away, although US domestic politics will likely dominate near term financial market headlines

### Federal Reserve Funds Rate and expectations





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## **L1 Capital International Fund (Managed Fund) (ASX:L1IF)**



## L1 Capital International Fund performance objectives

- Deliver attractive risk-adjusted returns over a medium to long term investment horizon whilst lowering the risk of a permanent loss of capital
- To outperform the benchmark over rolling 5-year periods (net of all fees and expenses, before tax)

### Fund Performance (Net)\* (%)

As at 31 July 2024	Fund	Index**	Alpha
1 month	5.8	4.1	+1.7
3 months	6.6	7.9	(1.3)
1 year	26.5	22.1	+4.4
3 years p.a.	10.4	11.1	(0.7)
5 years p.a.	13.9	13.3	0.7
Since inception p.a.	15.0	13.9	+1.2
Since inception cumulative	113.8	102.2	+11.6

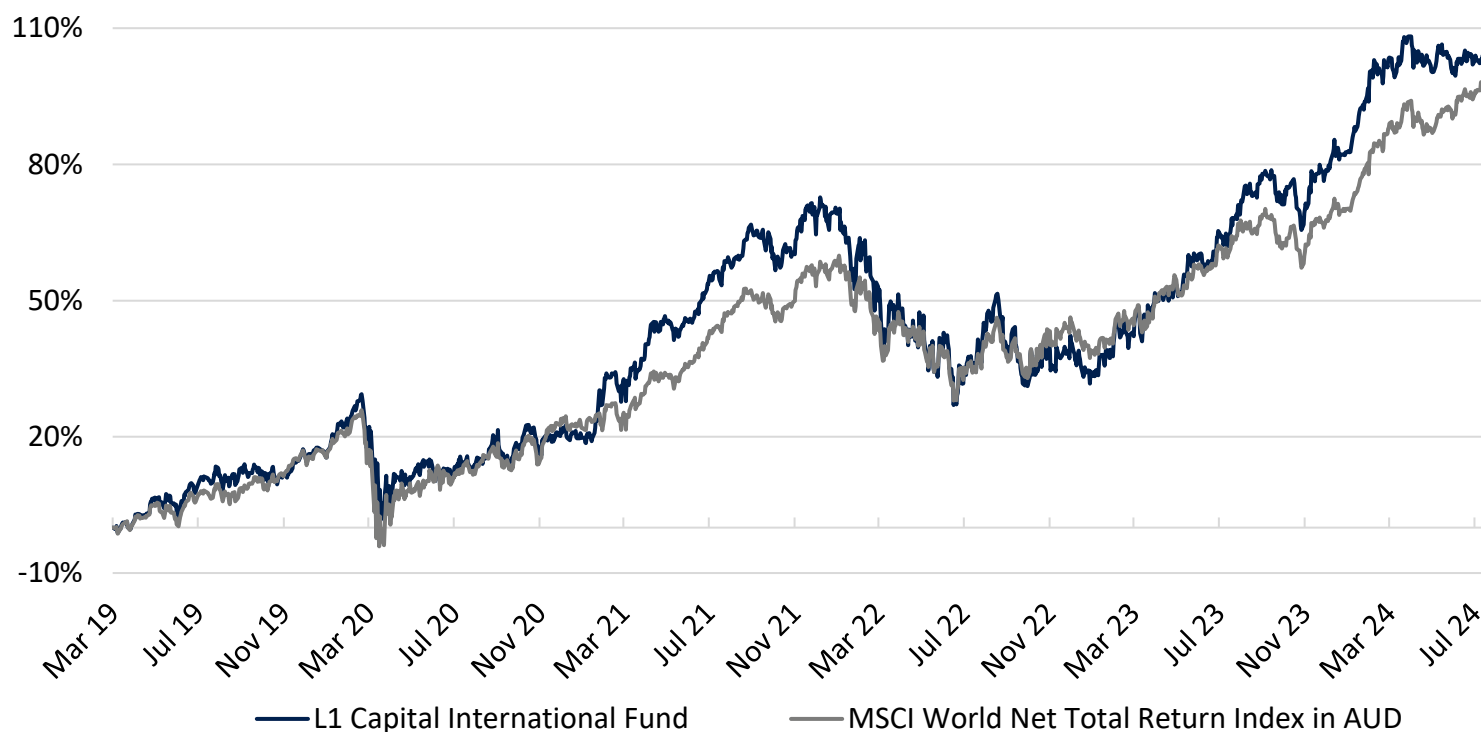


# Performance (net of all fees)

From inception on 1 March 2019 to 31 July 2024



## Returns since inception (net)



**113.8% return**  
net of fees,  
versus  
the Benchmark  
return of  
102.2%

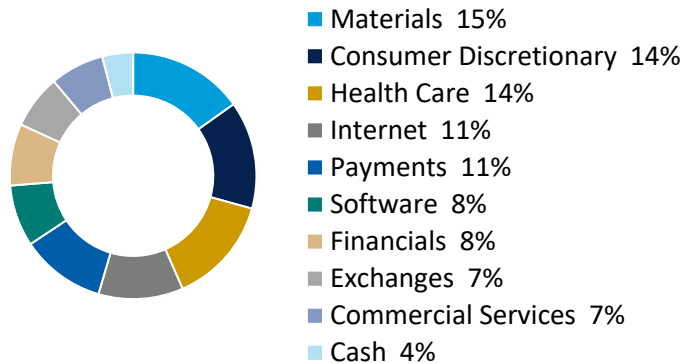
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# Current portfolio positioning

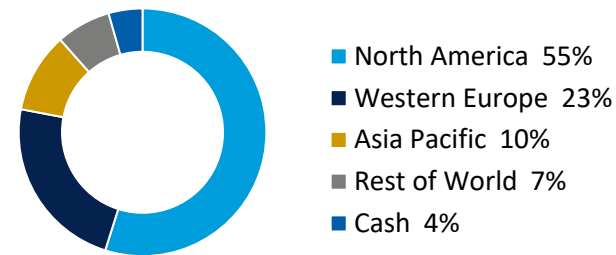
Diversified by industry, region and company size

Portfolio focused on high quality companies in developed markets in a range of generally capital light, well structured and growing industries

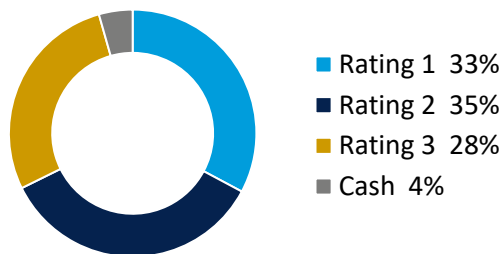
## Sector exposure



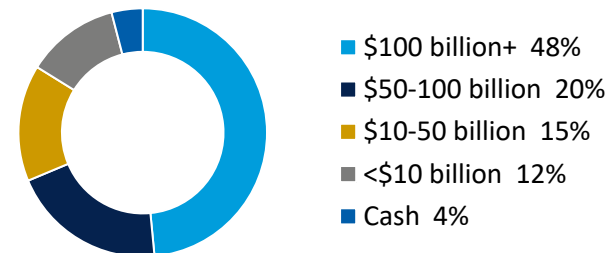
## Revenues exposure by region<sup>1</sup>



## L1 Capital International Quality Rating



## Market capitalisation exposure (in US\$)<sup>2</sup>

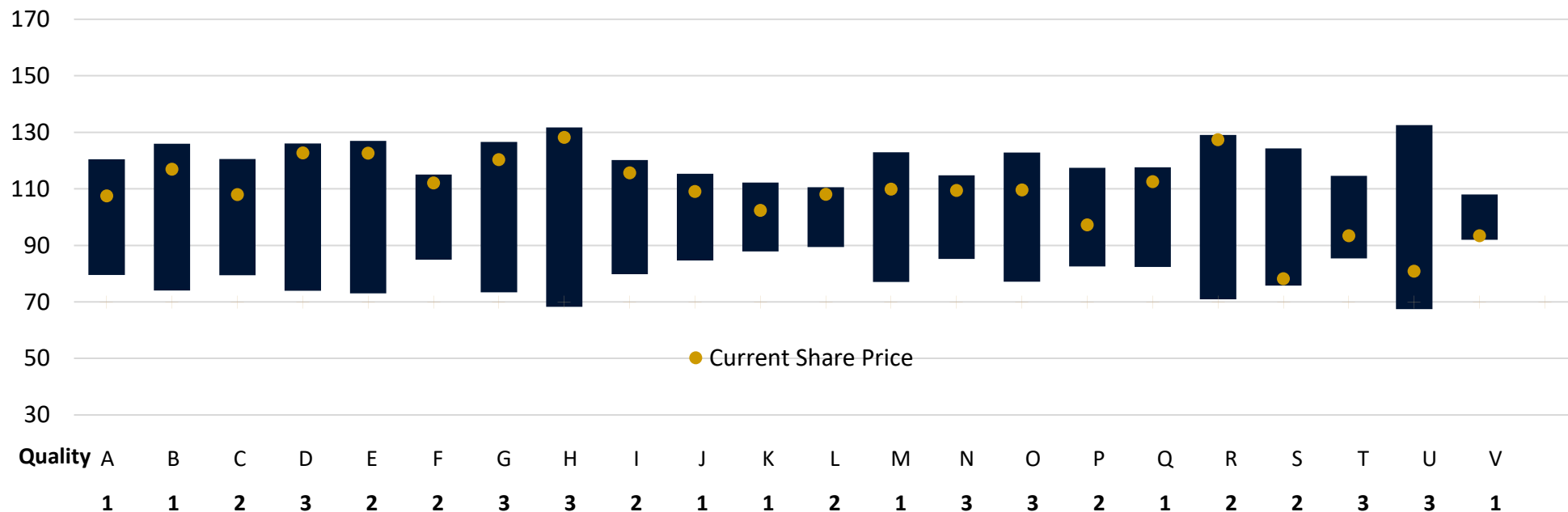


# Portfolio valuation compared to 12 month trading range

Share price volatility creates opportunities

- Portfolio has traded on average over 20% from mid-point of 12 month trading range
- Portfolio currently trading on average in upper half of 12 month trading range, but wide-dispersion
- Starting to build positions in companies that are out of favour and near term outlook is challenged

## Portfolio investments – Share price compared to 12 month trading range (rebased)

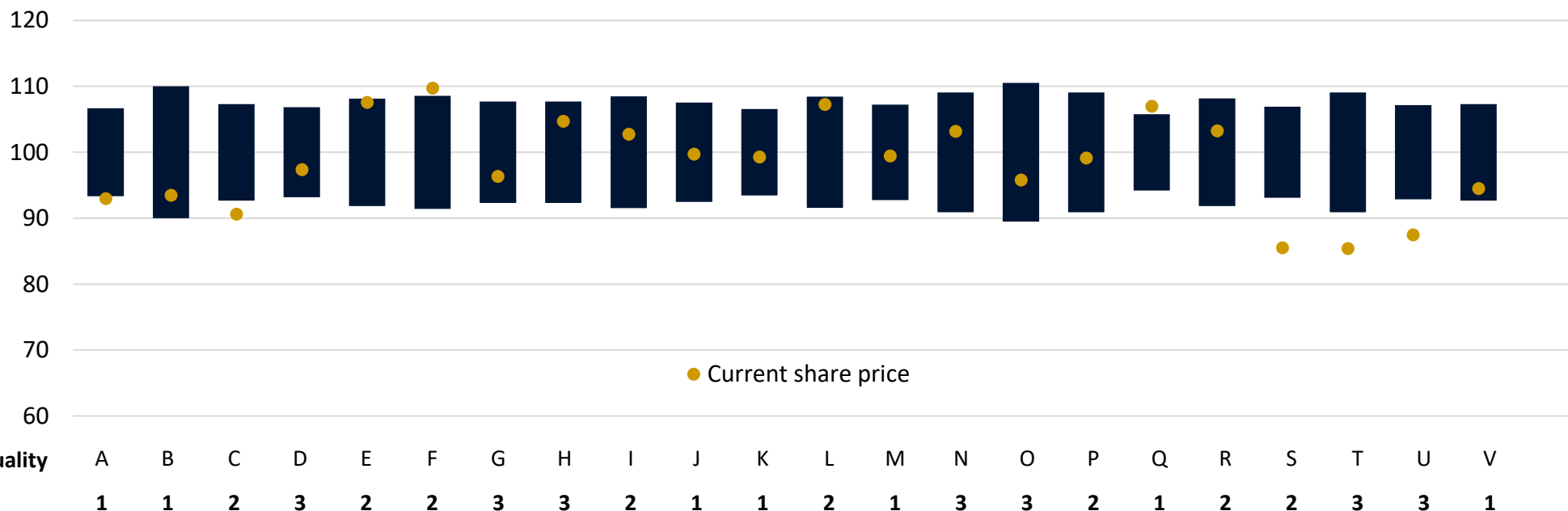


# Portfolio valuation compared to share price

Attractive base case returns across the Portfolio

- **High conviction in largest positions** – top 10 over 60% of total portfolio
- **Modest changes to Portfolio** since last update – 1 new holding and modest position size changes
- **Large cap tech** more attractive following general sell off
- Finding **opportunities in Europe** where near term industry/business outlook is challenged

## Portfolio investments – Share price compared to valuation range (rebased)













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## **Results season takeaways**



# Top 10 holdings – Performance and outlook

Performance in line or ahead of our base case expectations

	Quarter results	2024 Outlook
 AERCAP	✓	=
 amazon	AWS: ✓ eCommerce: =	AWS: ✓ eCommerce: =
 Booking.com	✓	Slight -
 CRH	✓	✓
 Eagle Materials	=	=
 HCA Healthcare	✓	✓
 Ice	=	=
 mastercard	=	=
 Microsoft	=	=
 United Healthcare	=	=



# Mastercard and Visa

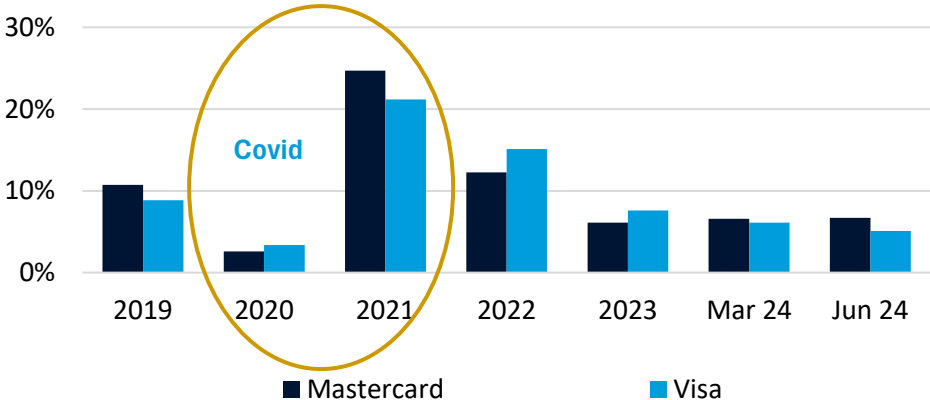


Total purchase volume growth remains solid, no material deterioration in aggregate in 2024

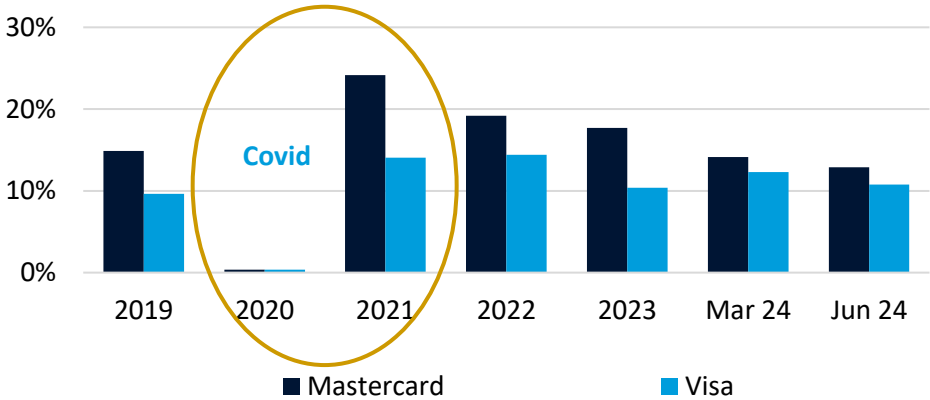
## Overall consumer spending remains robust

- COVID materially disrupted **consumer purchasing** activity but has since **normalised**
- **U.S.** total purchase volume growth has **stabilised** at around 6% – no material deterioration in 2024
- **Non U.S.** total purchase volume growth has **moderated slightly**, but remains comfortably double digits

### U.S. purchase volume growth



### Non-U.S. purchase volume growth (local currency)

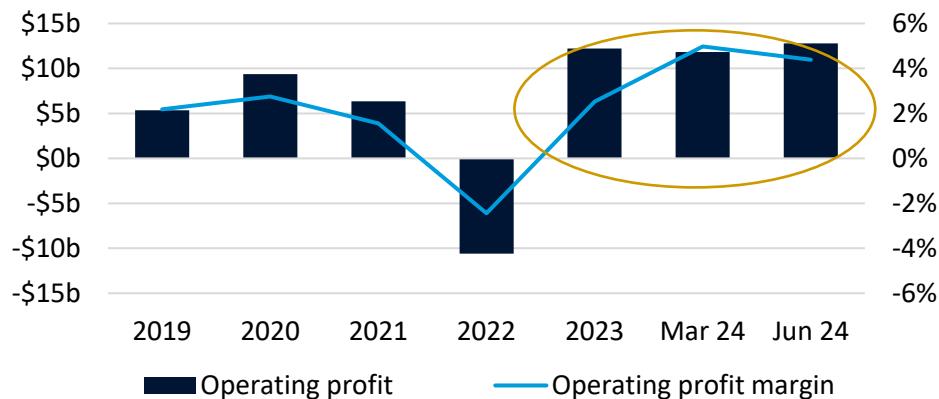


Source: Company reports and L1 Capital International. Mastercard has a December year end. Visa has a September year end.

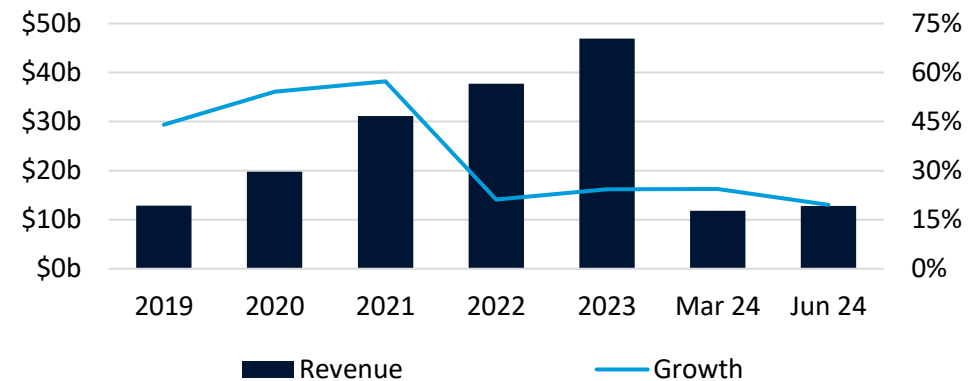
## Amazon's profitability has inflected

- **Amazon's retail (non-AWS) revenue increased c. \$200bn to \$430bn in the 3 years to 2022 but inefficiencies led to losses**
- **2024 non-AWS revenue in 2024 around \$530bn. Retail operations are now sustainably profitable, absorbing losses in less mature international growth markets**
- **Q2 2024 profitability and near-term earnings impacted by growth investments**
- **\$50 billion plus advertising revenue growing 20%, with Prime advertising upside**

### Amazon Retail operating profit and margin



### Amazon advertising revenue



# Intercontinental Exchange

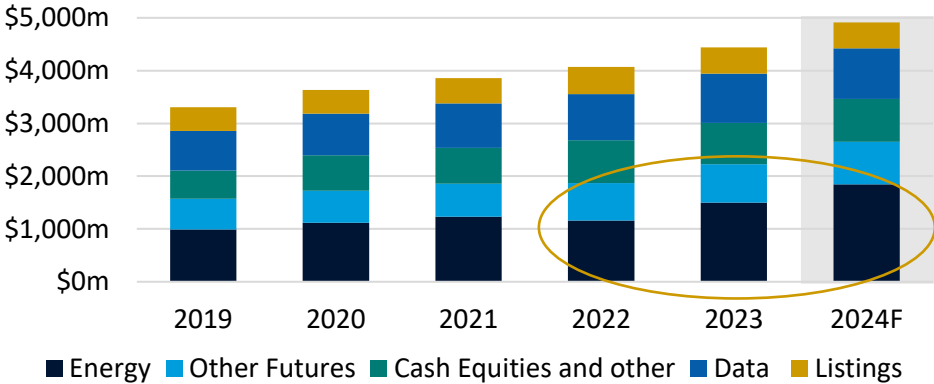
Exceptionally well managed business, multiple growth drivers



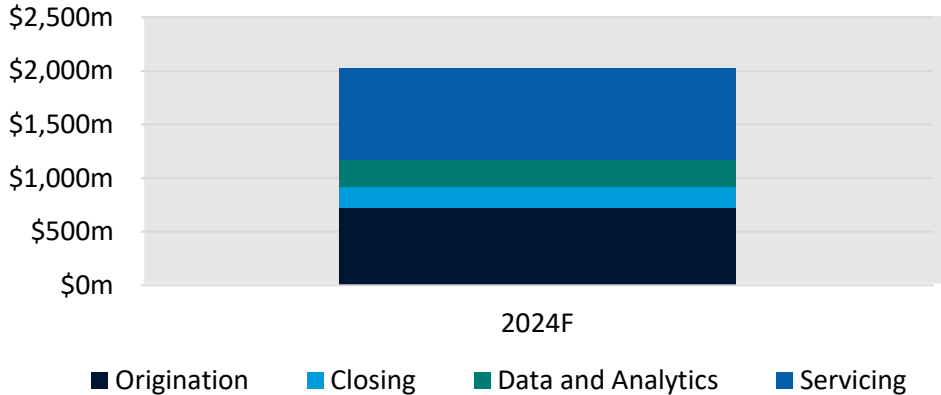
## Step-change in growth of Energy derivatives, mortgage technology under-earning

- Intercontinental Exchange’s 2024 revenue split
  - Exchanges (53%), Fixed Income and Data (25%), Mortgage Technology (22%)
- **Energy derivatives franchise broadened**, driving 29% growth in 2023 and 23% forecast for 2024
- ICE is well-positioned to **digitalise the US mortgage industry**, but is **under-earning** due to low existing home sales and refinancing activity

ICE – Exchanges revenue



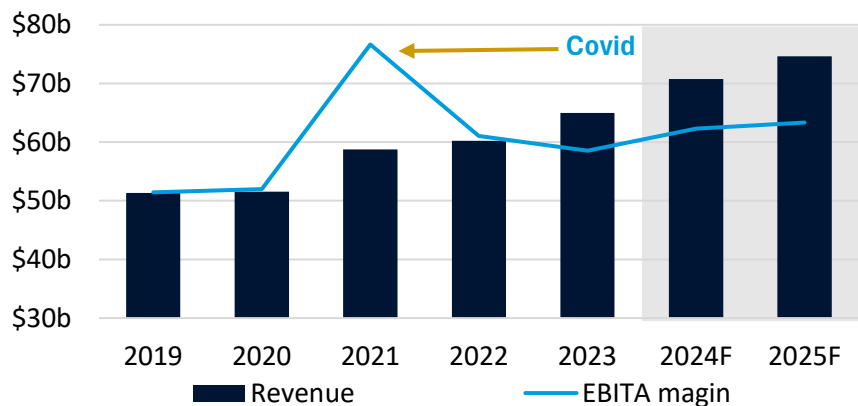
ICE – Mortgage Technology revenue



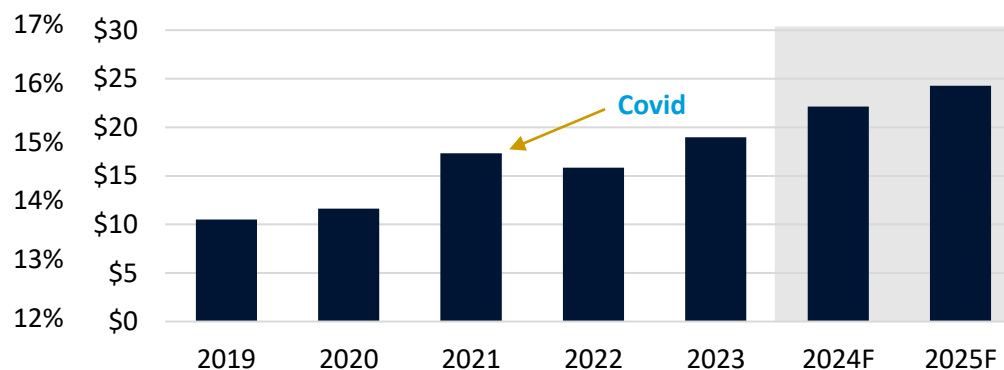
## Consistent execution leading to strong share price performance

- Management continues to deliver strong operational performance
- Robust occupancy** and **well-managed expenses** leading to **sustainable margin improvement** and attractive EPS growth
- Share price increased 40% in 2024 YTD**, 15.5x 2025F PE

### HCA – Revenue and EBITA margin



### HCA – Earnings per share (EPS)



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## Summary



# Summary

Economic environment slowing but not crashing, rate reduction cycle has commenced

- 1 **Inflation** has **stabilised** around 2-3% in most developed countries, **modestly above** Central Banks' 2% target. **Areas of inflation are narrow**
- 2 **Cooling of employment markets**, unemployment ticking up
- 3 **Consumer income and wealth divergence continues**
- 4 Rate reduction cycle has commenced in many markets, **risk that some Central Banks are behind the curve**
- 5 **Soft economic landing expected**, particularly in the U.S.



# Summary (cont.)

Business selection critical. Diversified portfolio with a range of long-term drivers of business growth



- 6 **Divergence in business performance**, including within industries, expected to continue
- 7 **AI and Nvidia** have become the **market's latest TINA** (there is no alternative)
- 8 **Quality** matters – not **'Growth'** vs. **'Value'** or **'Large-cap'** vs. **'Small-cap'**
- 9 **Portfolio performing strongly**, meeting or exceeding base case expectations
- 10 **Geopolitical risks** remain **intense, unpredictable** and are unlikely to go away, although **US domestic politics** will likely dominate near term financial market headlines

I

## **Appendix ETMF and Fund terms and contact details**



# L1 Capital International Fund (Managed Fund) (ASX:L1IF)

Increased investment flexibility



## In November 2023, the Fund became available as an Exchange Traded Managed Fund (ETMF)

- Investors can now buy and sell units on the ASX (**L1IF**) in addition to trading via the unit registry
- Manager pays the costs of listing and maintaining the Fund on the ASX

## A 3:1 conversion of existing units in the Fund occurred on 17 Nov 23

- Unitholders allotted a Securityholder Reference Number (SRN)
- Revised unitholding confirmed
- The conversion was not a trade
- There is no taxation event associated with this consolidation
- The fund investment value was unaffected

For further information please contact the Unit Registry Office

- Ph: 1300 133 451
- Email: [L1@ApexGroup.com](mailto:L1@ApexGroup.com)

# L1 Capital International (Hedged) Active ETF (ASX:L1HI)

Same Portfolio, currency hedge overlay



## In July 2024, the Fund became available as an Exchange Traded Managed Fund (ETMF) - Hedged

- Same portfolio as L1 Capital International Fund but with a currency hedge overlay
- Investors can buy and sell units on the ASX (**L1HI**) in addition to trading via the unit registry
- Manager pays the costs of listing and maintaining the Fund on the ASX

For further information please contact the Unit Registry Office

- Ph: 1300 133 451
- Email: [L1@ApexGroup.com](mailto:L1@ApexGroup.com)

# L1 Capital International Fund (Managed Fund)

## Fund terms



### Fund terms

<b>Type of investments</b>	Listed securities
<b>Benchmark</b>	MSCI World Net Total Return Index in AUD
<b>Time horizon</b>	5+ years
<b>Investment objective</b>	<ul style="list-style-type: none"><li>▪ To outperform the benchmark over rolling 5-year periods (net of all fees and expenses before tax)</li><li>▪ To deliver attractive risk-adjusted returns over a medium to long term investment horizon whilst lowering the risk of a permanent loss of capital</li></ul>
<b>Management fees*</b>	1.24% p.a.
<b>Performance fees*</b>	15% over benchmark, subject to any underperformance being recouped and there must be positive absolute performance (adjusted for distributions) in the Performance Period (otherwise positive relative performance is carried forward to the next Performance Period)

\* Fees calculated as % of the net asset value of the Fund (including GST and RITC).

# L1 Capital International Fund (Managed Fund)

## Key parameters



## Guidelines

<b>Number of positions (typical)</b>	20 to 40 positions
<b>Target investment universe (typical)</b>	High quality global listed equities (L1 Capital International rating 1, 2, or 3)
<b>Target geography (typical)</b>	Developed markets: North America, Europe, Asia, Aust/NZ
<b>Minimum position size (typical)</b>	2%
<b>Position sizes (typical)</b>	3% to 7%
<b>Maximum position size</b>	Maximum 10% (at time of initial investment)
<b>Cash levels</b>	0 – 25%, typically <5%
<b>Leverage</b>	No
<b>Shorting</b>	No
<b>Applications/redemptions</b>	Dual registry structure available via daily dealing Australian Unit Trust and ETMF (unhedged strategy ASX:L1IF and hedged strategy ASX:L1HI)



## Contact Us



**Chris  
Clayton**

Head of Distribution  
+61 (3) 9286 7021  
cclayton@L1.com.au



**Aman  
Kashyap**

Deputy Head of Distribution  
+61 (0) 477 341 403  
akashyap@L1.com.au



**Bryce  
Leyden**

Investment Specialist  
+61 (0) 407 876 532  
bleyden@L1.com.au



**Alejandro  
Espina**

Investment Specialist  
+61 (0) 423 111 531  
aespina@L1.com.au



**Hugo Brettingham-  
Moore**

Head of Private Wealth  
+61 (0) 408 371 473  
hb-m@L1.com.au



**Alexander  
Ordon**

Investment Specialist  
+61 (0) 413 615 224  
aordon@L1.com.au



**Jeffrey  
Lau**

Investor Services Manager  
+61 (0) 403 194 728  
jlau@L1.com.au

Find out more online

[www.L1.com.au](http://www.L1.com.au)



**L1 CAPITAL  
INTERNATIONAL**



**L1 CAPITAL  
INTERNATIONAL**

ABN 21 125 378 145 | AFSL 314302

Level 32, 1 Farrer Place, Governor Phillip Tower  
Sydney NSW 2000

Phone +61 2 8067 7090

Web [L1international.com](http://L1international.com)