L1 CAPITAL INTERNATIONAL

L1 Capital International Fund

Quarterly Report | March 2020

Introduction

Much has been written about COVID-19, the "one-in-a-hundred year" "black swan" event. COVID-19 is having an unprecedented, extreme and far reaching impact on the world from a health, social and economic perspective.

Rather than replicate R_0 graphs, summarise medical opinions and macro-economic scenario analysis, in this Quarterly Report we have outlined:

- How we are incorporating COVID-19 in our investment framework and well-established investment process.
- The fundamental importance of capital preservation to our investment philosophy.
- Why financial strength is a key tenet of our investment process and a threshold issue for a company to be included in our portfolio.
- Adjustments to the portfolio to reflect current conditions and our future expectations.
- Additional commentary on businesses in the portfolio, in particular how we expect they will be impacted both in the near term and once operating conditions normalise.
- The importance of having a "Bench" of investment opportunities to take advantage of volatile market conditions.

Fund Performance

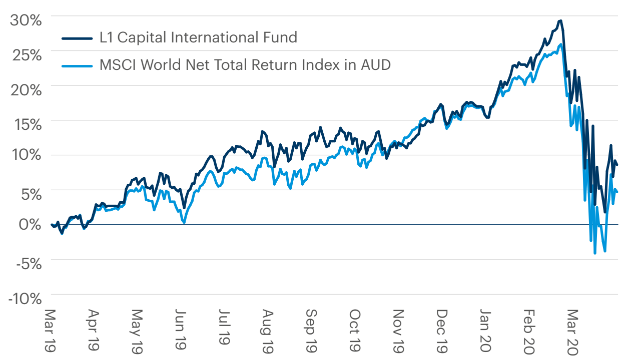
Fund Performance*	(%)	Index** (%)	Excess (%)
1 Month	–8.9	–8.6	–0.3
3 Month	–5.9	–9.3	3.4
1 Year	7.7	4.0	3.7
Since Inception – 1 March 2019	8.6	4.7	3.9

* Rounded to one decimal place. Numbers may not add due to rounding.

** MSCI World Net Total Return Index in AUD. Return measured from Index close on 1 March 2019.

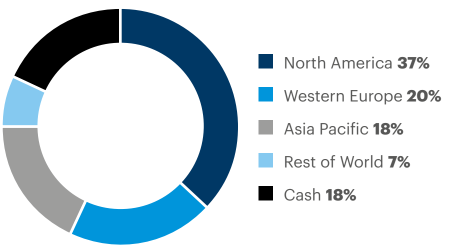
Largest 3 Contributors	Largest 3 Detractors
CME	Booking Holdings
Microsoft	Discover Financial Services
Tencent	Tyman

Fund Performance since Inception



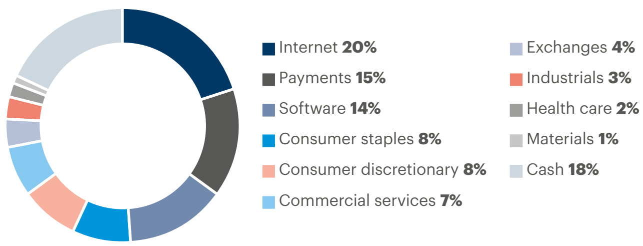
Top 10 Holdings (in alphabetical order)	Sector
Alibaba	Internet
Alphabet	Internet
Aon	Consumer Services
Booking Holdings	Consumer Discretionary
Facebook	Internet
Fidelity National Information Services	Software
Intercontinental Exchange	Exchanges
Mastercard	Payments
Microsoft	Software
Visa	Payments

Revenue Exposure By Region*



* Revenue exposure by region is internally estimated on a look-through basis based on the underlying revenues of the individual companies held in the portfolio.

Sector Exposure**



** Industry classification is defined by L1 International to best describe the nature of the underlying businesses.

L1 Capital International Investment Philosophy – incorporating COVID-19

Capital preservation over the investment horizon is central to our investment philosophy. Our investment process is designed to minimise the risk of capital loss. We view risk as a permanent loss of capital rather than volatility in share prices – pertinent in recent times given that daily double digit movements in share prices (both up and down) has become the norm.

When we assess a business, we formulate scenarios and ranges for outcomes and valuations rather than point estimates. The actual outcome often seems obvious with hindsight, but unfortunately never so obvious when forecasting the future. Our best analysis and associated decisions are when our forecasts resemble how the future unfolds.

COVID-19 has dramatically increased future uncertainty. As investors, we are now forced to consider not only an unprecedented health crisis, but also varying and inconsistent Government policies around the world, as well as varying and inconsistent population responses to these Government policies.

We believe COVID-19 is a humanity defining event, with much broader ongoing implications than just the first order health and economic impacts. Focusing just on the first order impacts, COVID-19 is first and foremost a health issue with economic implications. Trying to mitigate the economic impacts of COVID-19 without first addressing the disease itself to us seems an exercise in futility.

We are deeply concerned that while many jurisdictions are belatedly heading down the path of necessary lock-downs and stringent social distancing enforcement, US policy continues to lag behind with potentially devastating social and economic implications. Given the importance of the US to the world economy and our portfolio of investments, the unclear (at best) US government policy to COVID-19 increases uncertainty and materially increases downside risks. In addition, while the monetary and fiscal response to the COVID-19 crisis is absolutely necessary, we are concerned there has been inadequate focus by the market on the cost of this intervention.

We are therefore erring on the side of caution. We acknowledge that this crisis will not last forever and that markets will at some point start to prioritise the recovery well before infection rates reduce to low levels or a vaccine is available. However, consistent with the critical importance we place on capital preservation, we focus on protecting our investors' capital during these turbulent times, even if that stance proves to be too conservative. As at 31 March 2020, 17.7% of the portfolio is in cash (US dollars). We later discuss the portfolio decisions to assist to protect capital and our continued focus on high quality, financially strong businesses that are positioned to continue to deliver strong returns to shareholders over the long term.

Financial Strength

Our investment framework is focused on four key areas:

- Business drivers
- Industry structure
- Management
- Financial strength and business economics

In this quarterly report we have outlined how we assess financial strength, and the implications for our portfolio.

Please refer to our website www.L1international.com and our prior quarterly reports for additional detail on our investment framework.

Financial strength is at its simplest the amount of financial debt that a company owes relative to its future cashflow, and in some instances, assets. However, we assess financial strength at a much deeper level. We assess the financial risk to equity investors from absolute debt levels as well as also operating leverage, debt structures, off balance sheet liabilities, liquidity considerations and the degree of variability of cashflow.

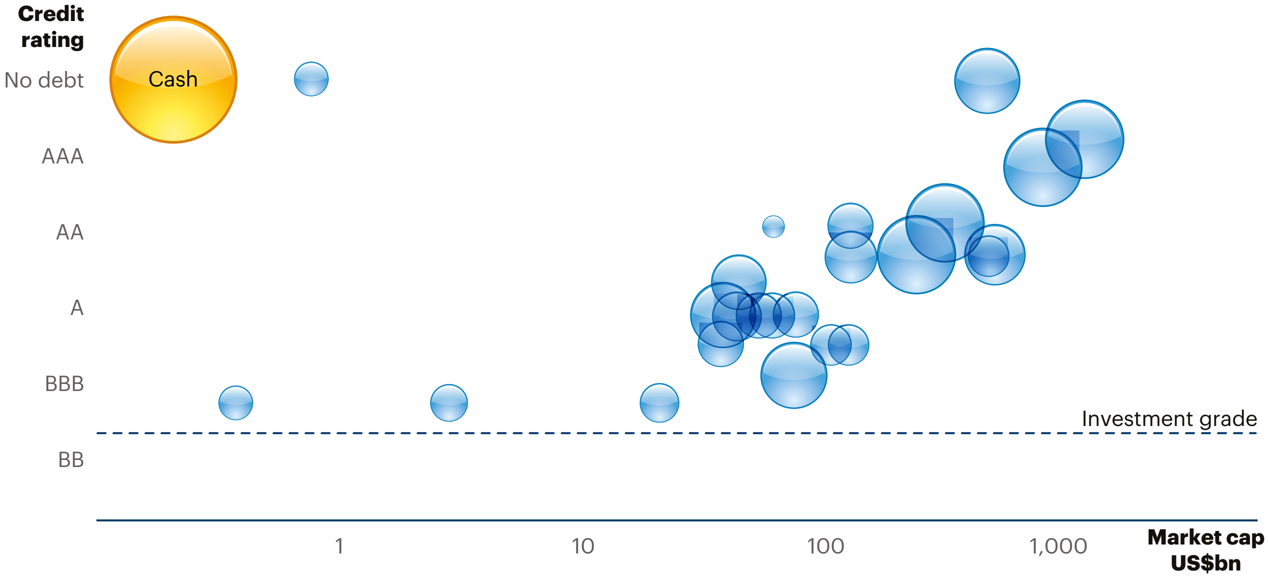
If we are uncomfortable with the financial strength of a business, it is excluded from our investment universe. Businesses which satisfy our stringent financial strength requirements but fall towards the lower end of our criteria will be smaller positions (even if the potential return is higher). For us the focus is not maximising potential returns, but rather optimising risk adjusted returns.

Due to the escalating severity of the economic impact of COVID-19 we have re-evaluated whether any of our investments or prospective investments have the potential for a permanent loss of capital due to financial leverage in a temporarily highly distorted operating environment.

Financial strength of L1 Capital International Portfolio

Summarised below is the credit rating for each company in the portfolio, with the size of the position reflected by the bubble size:

Credit rating (size of bubble = portfolio weight)



- **100%** of the portfolio is invested in cash, companies with no debt or companies with an investment grade credit rating[1]
- **86%** of the portfolio is invested in cash or companies with a credit rating of A – or higher (or have no debt).

1. One small investment (1.4% position size) has bank and private placement debt which is unrated. We internally assess the debt rating to be investment grade based on the amount of debt relative to current and expected cashflow.

An almost endless supply of liquidity by central banks globally will assist banks and companies with financial leverage, but it will not repay the debt. In addition, we expect the inevitable economic downturn and lower for longer interest rate environment is going to cause additional financial problems for some companies.

We assess in detail all liabilities of the companies we consider for investment (including "hidden" liabilities buried in footnotes to financial accounts), not just debt. For example, some major companies have huge pension plan liabilities which will be further stressed by lower returns on investments, lower discount rates increasing liability obligations and potentially adverse health developments for the employees and ex-employees covered by their plans.

Financial strength is not valued as highly as it should be when operating conditions are benign and financial markets are accommodative. In times like these, we believe financial strength will be critical to preserving capital in the event there is a further deterioration in economic conditions. Companies with fortress balance sheets are also more likely to retain top talent and continue to invest throughout these turbulent times – further reinforcing their competitive advantage when normality eventually returns.

How COVID-19 is applied to company analysis

We consider a range of scenarios for a company's business drivers whenever we consider a potential investment. COVID-19 has increased uncertainty and the range of potential outcomes, with a materially expanded downside skew.

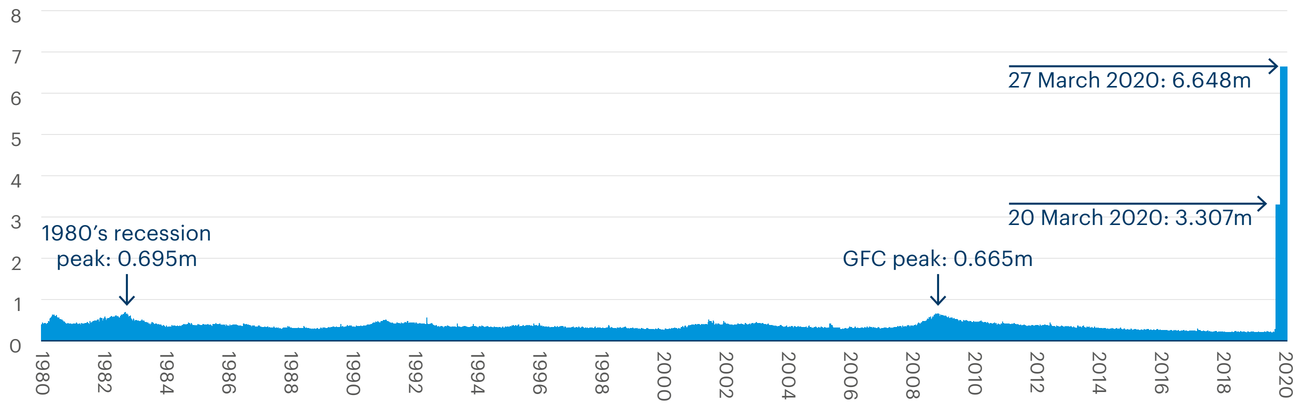
COVID-19 Stress Testing Stage 1: Financial Strength

All businesses are now operating in a new world. Despite unending predictions, no-one knows how long the shut-downs to control the spread of COVID-19 will remain in place or the severity of the associated economic impact. Financial strength is paramount and is the first stage of our "COVID-19 stress testing". Some businesses that were assessed to be financially strong pre COVID-19 now may not have financing that is sufficiently conservative to survive in all scenarios post COVID-19.

One key lesson from the Global Financial Crisis is that even well capitalised banks with prudent risk management systems can be financially stressed in a severe economic downturn, particularly when liquidity of capital markets is distorted.

There is currently no bank exposure in the portfolio. We divested US Bank at a near record high price, while Discover Financial Services was divested crystallising a permanent capital loss at a share price well below what we consider to be fair value in more normal circumstances. Discover Financial Services' business principally involves the provision of unsecured credit through credit cards and personal loans and is highly sensitive to employment conditions. US unemployment was at record lows in February 2020 and credit performance was ahead of our base case expectations. Due to the impact of COVID-19 we expect an unprecedented increase in US unemployment almost overnight and expect unemployment to stay elevated even after the worst of the current health crisis has passed. In our view the spike in Americans filing for unemployment benefits to around 10 million over 2 weeks is unfortunately just the start of a surge in sustainably higher unemployment. We are disappointed with the outcome for our investment in Discover Financial Services as the investment case was tracking ahead of our expectations. However, it became clear to us that the US had mis-managed (and still is) the containment of COVID-19 with potentially devastating social and economic implications.

US weekly initial jobless claims (millions)



Source: Bloomberg

Lock-downs are likely to be gradually lifted and the working environment will progressively normalise, but we do not expect a "V-shaped" recovery in employment (or the economy in general). We have high confidence in the management team of Discover Financial Services and expect the company to manage their business and financial position well in the circumstances. However, the risks created by COVID-19 are too great for us to remain comfortable with Discover Financial Services' financial position given the unprecedented change in employment levels.

We have also divested another business (operating within the Consumer Discretionary sector) at below our assessment of fair value due to concern the business could have too much financial debt if there is a severe downturn in some of the markets it is exposed, even though the business has a high percentage of business through renewals and revenue for the business increased in the last recession. There is a high chance we reinvest in this business once the economic impact of COVID-19 becomes more certain.

Having considered financial strength, we move to the impact of COVID-19 on the financial performance of the business. We assess this impact in two additional stages:

COVID-19 Stress Testing Stage 2: Near Term Financial Impact

COVID-19 will not impact all businesses equally. Recognising the high degree of uncertainty as the world faces an unprecedented event, we have modelled downside scenarios for the businesses in the portfolio to assess the potential financial impact in the near term while still focusing on our rolling 3 to 5 year investment time horizon.

Businesses such as Diageo and Pernod Ricard will be materially impacted in the near term as on-premise consumption of alcohol (around 25% of total consumption normally) falls to zero as pubs, clubs, and restaurants are temporarily closed globally. There will likely be a partial offset through increased consumption at home, although normal social gatherings like weddings and home parties are also being disrupted. Diageo and Pernod-Ricard have historical business connections dating back to 1759 and 1805 respectively. These two companies are the clear global leaders in the spirits industry, with unparalleled brands and global distribution. Notwithstanding substantial near term pressures, we have retained our investments in Diageo and Pernod Ricard as we believe the market is overly focusing on the short to medium term implications of COVID-19 on these businesses resulting in the current share price trading materially below fair value.

Some of the businesses in our portfolio may even benefit in the near term from COVID-19. Increased volatility in asset prices has led to increased trading on the CME Group and Intercontinental Exchange's platforms, as demand for hedging and speculation across a range of assets has increased. CME is discussed in more detail later in this quarterly report.

COVID-19 Stress Testing Stage 3: Structural Financial Impact

The businesses that we have invested in have long operating histories and are positioned to continue to grow over the long term, notwithstanding major disruptions such as COVID-19 which will lessen over time. However, we think the impact will last longer and be more substantive than the impact forecast by many market commentators. While almost all businesses will be impacted materially in the near term, a sharp reduction in financial performance for one or two years is unlikely to substantially reduce our valuation of a business.

It is therefore more critical to form a view on whether COVID-19 will cause a structural impact on the earnings power of a business. COVID-19 will result not only from the loss of business and employment in the near term, but also economic impact of people having less money to fund purchases and for businesses to invest in the future. Once COVID-19 is under control, there will be a rebound in demand and economic activity. The strength and degree of the rebound will vary by industry and business, and will also depend on whether the reduction of social restrictions causes potential secondary infection outbreaks.

The businesses in our portfolio operate in well-structured and resilient industries. Marsh & McLennan and AON are the two global leaders in professional non-discretionary services such as insurance risk management, healthcare and other human resources services. These companies service the largest businesses in the world. We expect these businesses will be more resilient in the near term, and in the medium to long term Marsh & McLennan and AON should recover to broadly in line with trends pre COVID-19.

Other industries are likely to have more long-lasting impacts from COVID-19. The travel industry is facing unprecedented disruption with almost all international air travel and a significant proportion of domestic air travel shut down. The travel industry has a history of major disruptions from which it has recovered strongly, but nothing of the order of magnitude and intensity as that caused by COVID-19. Any business exposed to the travel industry is in the eye of the COVID-19 storm and deterioration in industry conditions has occurred at a rapid pace.

Booking Holdings is the largest online travel agent in the world. We profiled the investment case for Booking Holdings in the June 2019 Quarterly Report – https://l1international.com/wp-content/uploads/2019/10/L1-Capital-International-Fund-Quarterly-2019-06.pdf.

Prior to the COVID-19 induced downturn we had trimmed the position size of Booking Holdings as the share price had increased strongly since our initial investment. In the earlier stages of the development of the COVID-19 pandemic we considered our investment in Booking Holdings and decided to retain the remaining investment. While near term operating conditions were known to be extremely challenging, Booking Holdings has no debt and will be able to capitalise on its strong financial position and weak competition to structurally gain market share. Competitors, both offline and online, will not be able to retain their existing business footprint, employees and invest in growth initiatives. Many smaller competitors will not survive the downturn. Expedia Group, Booking Holdings' largest online competitor, was under intense pressure prior to COVID-19 and is deeply focused on internal restructuring and cost cutting. Airbnb is also focused on cost cutting. Hotels will be increasingly reliant on Booking.com to source demand.

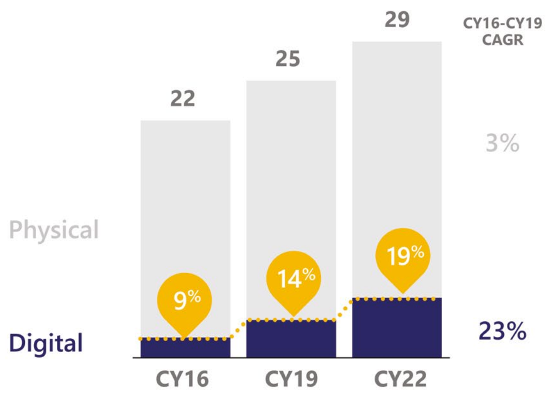
However, as the COVID-19 pandemic spread, travel restrictions have increased, and we now expect the economic damage to be more acute and sustained. We therefore further reduced our investment in Booking Holdings. Our views on the strategic advantages of Booking Holdings are undiminished, and we expect to increase our investment in Booking Holdings once there is greater certainty.

Mastercard and Visa remain two of the largest investments in the portfolio. Near term there will be material pressure on spending on Mastercard and Visa cards, particularly travel related expenditure, although general day to day spending and demand for credit (provided by banks, not Mastercard and Visa) will also contract. Longer term we expect spending activity will largely recover, although like Booking Holdings, there will likely be some ongoing impact on travel activity as well as other discretionary spending.

There will likely be some offsets that positively support long term growth for Mastercard and Visa. Some shops are no longer accepting cash due to the perception cash may be contaminated, causing an acceleration towards a cashless society to the benefit of Mastercard and Visa.

The trend from traditional retail to eCommerce is also likely to accelerate. Visa has almost 3x share in digital spending compared to physical spending:

Total global retail spend ($T)[1]



Visa's share of every $1 spent

Source: Visa Investor Day presentation.

Note 1. Total global retail spend excludes travel and event ticket sales. CAGR represents dollar growth of digital spend.

The importance of patience, preparation, flexibility and the "Bench"

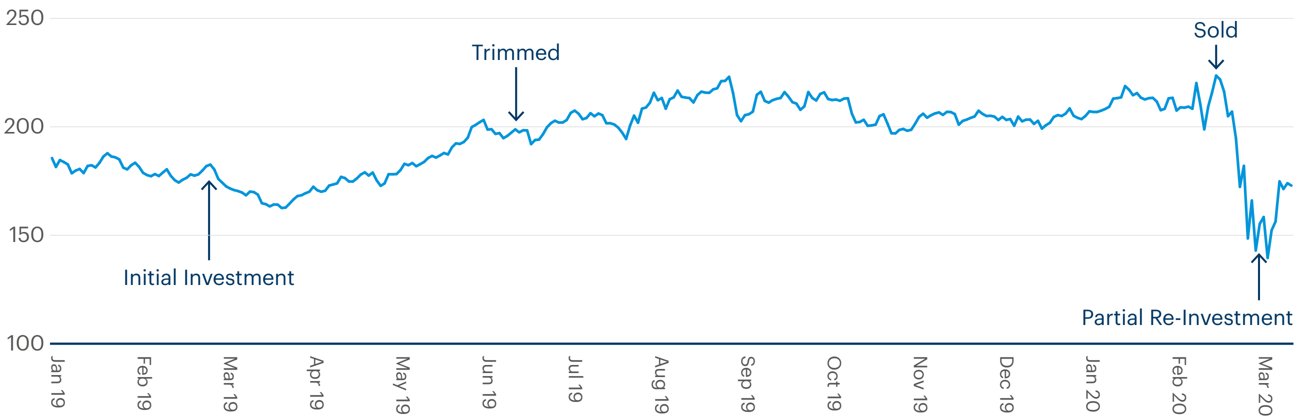
Our "Bench" is a critical component of our investment process, consisting of companies that we analyse as closely as the companies in our portfolio. Having a bench enables us to be ready to invest should the opportunity arise.

CME Group is a diversified marketplace for the trading of derivatives in a range of asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, agricultural products and metals.

In the early stages of the COVID-19 crisis, market volatility increased. Increased volatility is positive for CME and led to increased trading volumes on CME's exchanges. The share price of CME reached a record of over $220, despite equity markets falling. We fully divested our investment in CME as the share price was meaningfully above our view of fair value. We were also concerned that an expected reduction in US Federal Fund interest rates to near zero would reduce trading activity in derivatives (this occurred in the prior period of near zero US interest rates a few years ago).

CME was then placed on our bench. The share price subsequently fell over 30%, below our view of fair value. We were able to partially buy back our investment in CME at a meaningfully lower share price and will continue to add to our investment should the share price again fall back to our buy price.

CME share price ($)



Source: Bloomberg

It is rare to complete analysis on a business and for the share price to be trading below fair value. It is one thing for a business to pass our quality requirements, but the business must also provide a satisfactory risk adjusted return. More often than not, for the few businesses that pass our stringent diligence process, we will complete our analysis, add the company to our bench, and set a buy price which is below the trading share price.

Markets continuously present opportunities to investors who are unemotional and long term in their assessment of business potential and key issues. A longer-term investment horizon creates investment opportunities. We are able to benefit from the excessive short-term focus of the market. We do not consider ourselves to be 'contrarian' per se, but we are not afraid express a view that is contrary to 'conventional' opinion.

This philosophy is deeper than simply buying warm clothes on clearance in Spring. We focus on longer term business drivers and wait for the market to be overly pessimistic resulting in discounted share prices.

Our bench consists of a similar number of companies to our portfolio, where we understand the industry and business well and are waiting for a more attractive investment price. COVID-19 panic and short-term focus is likely to present opportunities for patient, long term investors.

For example, in March 2020 we took advantage of weak equity markets to make an initial investment in Verisign. Verisign is a global provider of domain name registry services and internet infrastructure for the .com and .net top-level domains and enables internet navigation for many of the world's most recognized domain names, supporting the majority of global e-commerce. We have patiently waited for Verisign's share price to fall to our targeted buy price and will seek to increase the investment size should the share price fall further.

Financial headlines are full of references to how far equity markets have fallen. However, like most analysis of financial strength, we consider these comments to be superficial. Changes in share prices or the total market capitalisation of a business is only one component of the equation to assess whether a share price now represents value. Rarely do you hear commentary on how much the enterprise value of a business has fallen (enterprise value is the total market value of the capital of the business, including equity, net debt and other "hidden" liabilities such as pension obligations), or the fixed cost base and operating leverage of a business.

Our focus for increasing investment in companies in our portfolio or bench will be financially strong companies where there has been a material reduction in the enterprise value of the business, not just the share price or market capitalisation.

Additional information

We believe transparency of investment philosophy and investment decisions is always important, but particularly so in these times of volatility and uncertainty. In this new world of social distancing we remain available to discuss the L1 Capital International Fund in further detail. Please use either the contact form available at https://l1international.com/contact/ or email info@L1international.com

L1 Capital International Fund

Quarterly Report | March 2020

L1 Capital International Overview

L1 Capital International is an independent active manager of global equities established as a joint venture with L1 Capital. 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 that we understand. 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

L1 Capital is a global investment manager established in 2007 with offices in Melbourne, Sydney, New York and London. L1 Capital manages money for a range of clients including large superannuation funds, endowment funds, pension funds, financial planning groups, asset consultants, family offices, high net worth individuals and retail investors.

Additional information on L1 Capital is available at www.L1.com.au

Fund Information

Name	L1 Capital International Fund
Portfolio Management	David Steinthal (Chief Investment Officer) David Khaw (Portfolio Manager)
Types of investments	Listed securities globally, developed market focus. No shorting, no leverage
Number of investments	20 to 40, typical position size 3% to 6%
Cash weighting	0% to 25%
Minimum initial investment	$25,000
Hedging	Unhedged
Structure	Unit Trust
Domicile/Currency	Australia/AUD
Inception	1 March 2019
Management Fee	1.2% p.a inclusive of GST and RITC
Expenses	Nil (included in Management Fee)
Benchmark	MSCI World Net Total Return Index in AUD
Performance Fee	15% over Benchmark, subject to any underperformance being recouped. There must be positive absolute performance (adjusted for distributions) in the performance period*
High Watermark	Yes
APIR	ETL1954AU

* Otherwise positive relative performance is carried forward to the next Performance Period

Service Providers

Responsible Entity	Equity Trustees
Fund Administrator	Mainstream Fund Services
Fund Auditor	EY
Fund Custodian	Mainstream Fund Services
Legal Advisor	Hall & Wilcox

L1 CAPITAL INTERNATIONAL

Level 13, 139 Macquarie Street
Sydney NSW 2000 Australia

Phone +61 2 8067 7090
Email info@L1international.com

www.L1international.com