L1 Capital U.K. Residential Property Fund I

Investor Update | SEPTEMBER 2021

We are pleased to provide you with your 30 June 2021 Net Asset Value (NAV) and distribution statement for your holding in the L1 Capital U.K. Residential Property Fund I. The Fund made a distribution of 2.25c per unit for the current period.

We provide below an update of the U.K. residential property market backdrop, together with an overview of the portfolio's performance and key investments.

U.K. macroeconomic update

As a result of suffering the highest COVID-19 death toll in Europe, the U.K. adopted a rapid vaccine rollout which has allowed the U.K. government to remove all social restrictions and reopen all sectors of the economy as of 19 July. Consumer-facing service sectors such as hospitality and accommodation, alongside travel have now restarted and consumer spending is at a yearly high.

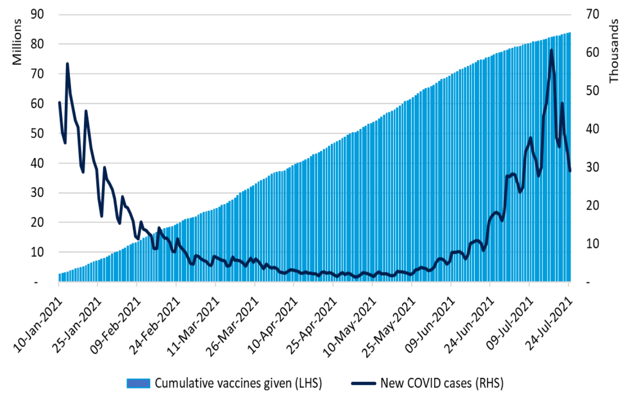
As of July, the annualised U.K. GDP growth was 6.7% for the year to date – up from the 6.2% in June. However, we continue to remain cautious around the Delta variant and the potential for future lockdowns in the U.K. in the event that hospitalisation rates increase. At the time of writing this report, new COVID-19 cases in the U.K. still remain relatively high at 30,000 per day, there still remains a risk of future lockdowns which may weigh on the economic recovery.

To date the furlough scheme (similar to the Jobseeker Scheme in Australia), continues to cushion the blow to the labour market, with unemployment under 5% and job vacancies on the rise.

Like its European and continental peers, the U.K. has been subject to steep inflationary pressures as the pandemic continues to create supply chain disruptions. Inflation was expected to average 2.2% this quarter and peak at 2.7% next quarter (based on consensus Bloomberg data).

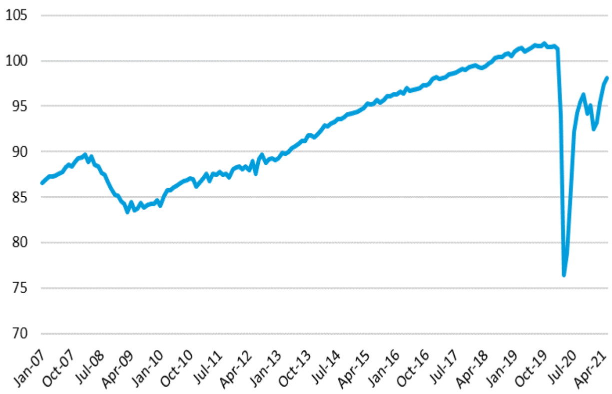
Whilst forecasts are well above the Bank of England's 2.0% inflation target, at this stage the central bank is not expected to increase interest rates from their record low of 0.10%. However, the Bank of England has suggested that the central bank could decide to stop its current programme of government bond purchases early due to the unexpectedly sharp rise in inflation.

Figure 1: Vaccinations and COVID-19 cases



Source: Deloitte

Figure 2: U.K. Monthly GDP (Index 2018 = 100)



Source: U.K. Office of National Statistics

Update on the U.K. residential property market

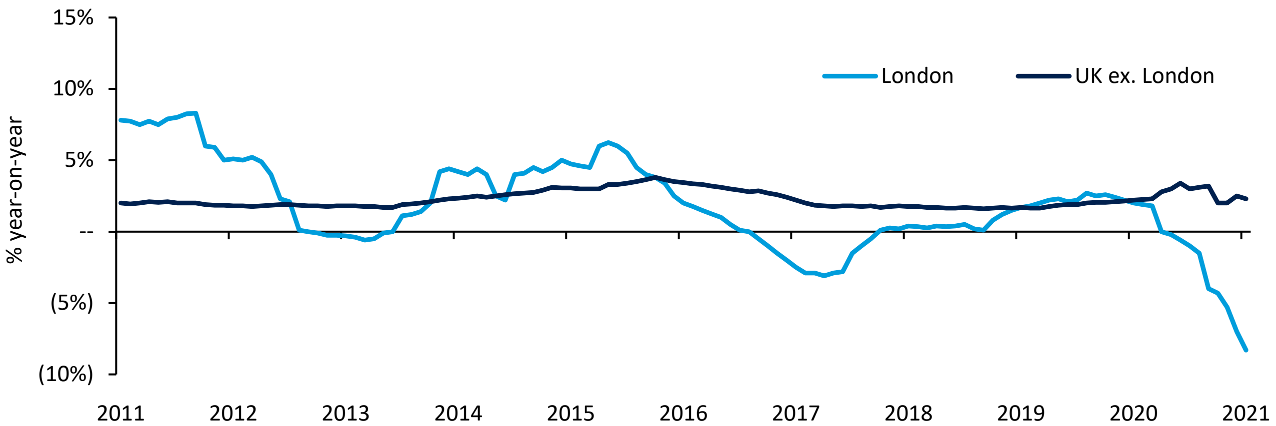
The U.K. residential market has remained resilient due to the Government's stamp duty tax concessions aimed at boosting the housing market. In May, house price inflation reached its strongest level for almost seven years, according to both Halifax and Nationwide. Bolstered by the stamp duty holiday, house prices increased by 1.3% month-on-month in May, taking annual house price growth to 9.5%.

Mortgage approvals rose in April, up 4% on a month earlier, for the first time since November 2020. However, a shortage of homes to buy is placing a limit on the number of loans that lenders can grant. However, as the stamp duty concessions ease off in September 2021, house price growth is expected to be more subdued going forward.

Growth is also evident in the private rental markets. Across the U.K. outside of London, there is strong rental demand amid constrained supply and rents are already up 3% on the year. Rental growth in the regions of Northeast, Southwest and East Midlands is at its highest since March 2011. North of England rents are 5.5% up annually. The rental increase has been assisted by the gradual reopening of the leisure and retail economy through gradual lockdown eases, but also as many offices are slowly increasing daily capacity, with more people being allowed to be in the office at a given time.

Despite resilience in the overall U.K. rental market, the least growth has been seen in London. London was the only region to see rental falls over the last month and quarter.

Figure 3: Change in U.K. average rental prices



Source: Zoopla

The relative rental affordability in the regions, the area that has shown the highest rental growth, means there has been more headroom for rents to rise. Furthermore, consistent demand and supply imbalances continue to drive rents. For example, rental demand outside of London in April 2021 has increased more than 50% over the last few years.

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Portfolio update as at 30 June 2021

Returns	FY 21			Since Inception		
(% in AUD)	Total	Distributions*	Capital growth	Total	Distributions*	Capital growth
Fund I Unhedged	**1.2**	4.7	-3.6	**28.4**	21.5	7.0
Fund I Hedged	**-0.1**	4.5	-4.5	**34.0**	21.5	12.5

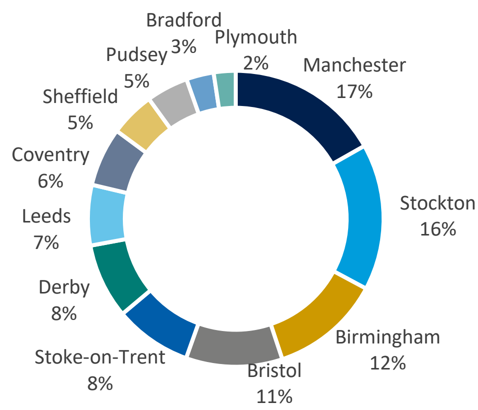
Fund inception is September 2017.

Performance drivers and outlook

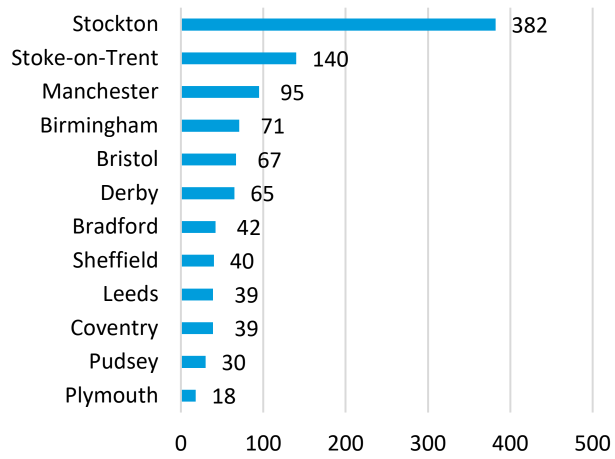
- Both distributions and capital growth made meaningful, positive contributions to returns since inception.
- The fall in capital value of ~4% in the last 12 months was a result of the impact of the pandemic on student property values (~25% of the portfolio's NAV).
- As at 30 June 2021, the Fund's residential assets had an occupancy rate of 94% and a collection rate of 95%.
- During the last 18 months, the portfolio's two student assets (Rialto and Lomax) have been soft in terms of income, detracting from returns.
- At the end of the financial year, the occupancy rate for Rialto was 28% and for Lomax was 90%.
- Regarding Rialto, we are currently in negotiations with Study Group to extend the guaranteed income agreements (for providing flexibility to Study Group for not enforcing the nominations agreement during Covid), which will enhance longer term returns from the student assets.
- We expect that as students return and life normalises post COVID-19, the Fund will see positive revaluation and steady improvement in income.

Assets	No. of assets	No. of units**	Value (£m)
Total assets	**21**	**1,028**	**78.7**
Residential	19	506	59.4
Student	2	522	19.2

Value of assets by city



Number of units** by city



** Distribution includes income, capital gains from asset disposals and/or return of capital, as applicable.*
*** Count includes individual residential flats and individual student rooms.*

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Fund I featured properties

Eastbrook Hall, Bradford

In October 2017, the Fund completed an investment of 58 apartments and 2 commercial units on Chapel Street in the city centre of Bradford.

- **58 apartments in Bradford**
- **2 commercial units**
- **£4.5m purchase price in October 2017**
- **£5.2m sale price in March 2021**

The building was located 2 minutes from the main train station, and in close proximity to the £260m Westfield Shopping Centre complex, which has helped support gentrification in the area.

During ownership of the building, the Fund was able to refurbish and let the vacant commercial unit to a 6-year lease, whilst also lowering the cost base, resulting in the generation of strong and stable rental income.

The occupancy averaged around 95% during the Fund's ownership. Rental growth was modest at 2% p.a. and the Fund made the strategic decision to exit the investment in March 2021. The property was exited at £5.2 million which supported some capital uplift, whilst benefiting from the rental income that was generated in the in the 3.5 years of the Fund's ownership.

Lakeshore, Bristol

- **67 apartments in Bristol**
- **£7.8m purchase price in December 2018**
- **40 car park spaces**

In December 2018, the Fund completed an investment of 67 apartments in Bristol for a total consideration of £7.8m. The building contains a total of 219 apartments and is a conversion of a previous tobacco factory. The property is located 2.8 miles outside of Bristol City centre and typically tenants young professionals who commute to Bristol city centre for work.

Due to the location of Lakeshore, the property has benefitted from the ripple effects of COVID-19, where tenants are looking to trade out of city centre locations in favour of larger apartments as they shift to primarily working from home. A new price point of £850 per calendar month for 1-beds has been identified and achieved for units coming to market, up from the previous ERV of £800 (6%).

Additionally, the Copper Building, a site adjacent to Lakeshore which shares the estate service charges has recently been completed. Therefore, the service charge (the largest cost item in rental properties) for Lakeshore has been cut by 12%. Lakeshore currently generates a gross rental yield of 8.4%.

Fund I featured properties (continued)

Rialto Court, Stockton

The Fund completed a purchase of Rialto Court, a 382-bedroom student property based in Stockton-on-Tees, housing Durham University's International Study Centre students. The asset was acquired with a rental guarantee with the University until August 2019.

Subsequent to acquiring the property, the Fund successfully signed a new 5-year rental guarantee with Study Group (the higher education provider on Durham University's campus) for an annual gross rental income of £2 million starting in September 2019 and ending in August 2024.

- **382 student beds in Stockton**
- **£7.8m purchase price in December Oct-17**
- **Under nominations agreement with Study Group**

As the Stockton campus relies solely on overseas students, the building lay predominantly empty last year as COVID restrictions substantially impacted student volumes and in particular flights from China, Hong Kong and Southeast Asia, in general.

As a result of the challenging student market environment, the Fund elected to provide Study Group a concession from the rental guarantee which had a temporary impact on rental income. This weighed on the Fund's distribution for the half of 2021. Given the partnership arrangement, the Fund is now in active dialogue with Study Group to extend the duration of the rental guarantee to provide longer term certainty of income and enhance capital value.

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L1 Property | Overview

L1 Property is the residential property team of the L1 Capital Group, a global investment manager with offices in Melbourne, Sydney, Miami and London. The L1 Capital U.K. Residential Property Fund, launched in 2017, invests in a diversified portfolio of modern, high-yielding residential assets that is designed to deliver strong and growing income together with significant capital appreciation. The Fund acquires underperforming or undermanaged U.K. property assets outside of London at a discount, repositioning these assets and/or managing the assets more actively. At the appropriate time, the Fund sells these assets whether via break up to the retail market or as portfolios to institutional investors. By focusing on tenanted and day-one income generating assets in attractive city locations with supportive demographics and micro-location fundamentals, the Fund seeks to deliver on its objective of a total return of at least 10% p.a.

L1 Capital was established in 2007 and is 100% 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 only Australian equities, long short 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 versus both benchmarks and peers. 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, financial planning groups, family offices, high net worth individuals and retail investors.

Contact Us

Chris Clayton
Head of Distribution
M: + 61 417 279 183
E: cclayton@L1.com.au

Aman Kashyap
Investment Specialist
M: +61 477 341 403
E: akashyap@L1.com.au

Alexander Ordon
Investment Specialist
M: +61 413 615 224
E: aordon@L1.com.au

Wayne Murray
Investment Specialist
M: + 61 424 300 003
E: wmurray@L1.com.au

L1 CAPITAL

Level 28, 101 Collins Street
Melbourne VIC 3000 Australia

www.L1Property.com