

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 II. The Fund made a distribution of 1.5c per unit in 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.

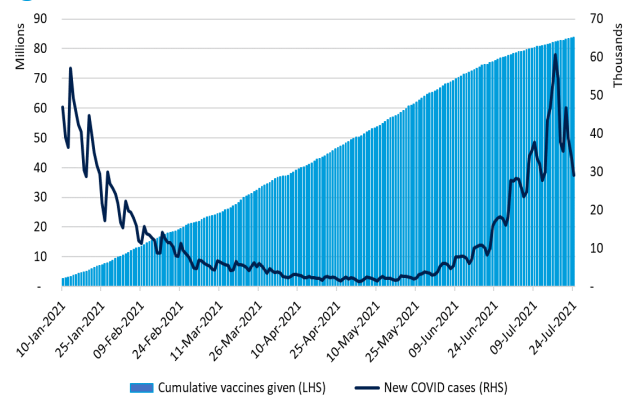
As of July, the annualised U.K. GDP growth was 6.7% for the year to date – up from the 6.2% in June. However, we continue to remain cautious around the Delta variant and the potential for future lockdowns in the U.K. in the event that hospitalisation rates increase. At the time of writing this report, 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.

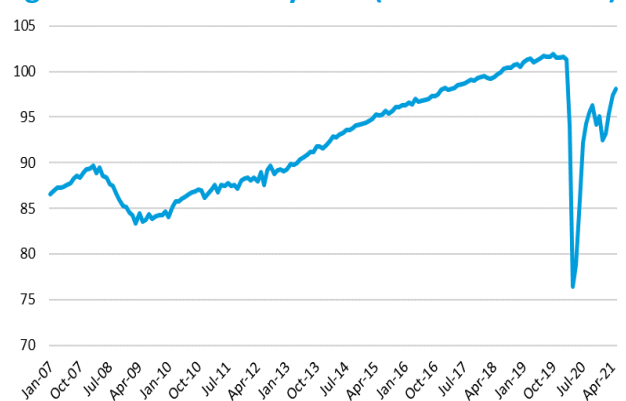
Figure 1: Vaccinations and COVID-19 cases



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

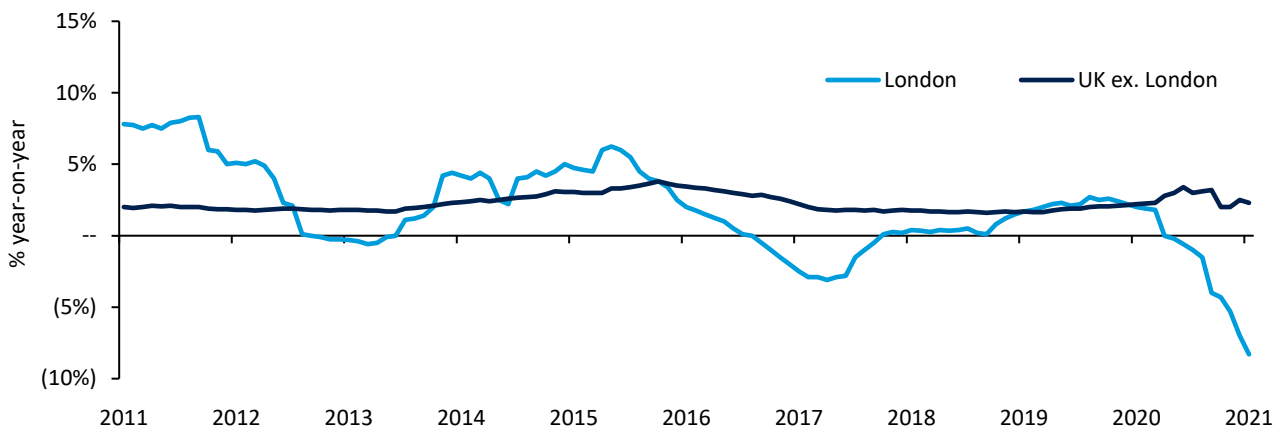
The U.K. residential market has remained resilient due to the Government’s stamp duty tax concessions aimed at boosting the housing market. In May, house price inflation reached its strongest level for almost seven years, according to both Halifax and Nationwide. Bolstered by the stamp duty holiday, 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.

Portfolio update as at 30 June 2021

Returns (% in AUD)	FY 21			Since Inception		
	Total	Distributions*	Capital growth	Total	Distributions*	Capital growth
Fund II Unhedged	-3.3	3.5	-6.9	19.5	13.8	5.7
Fund II Hedged	-3.3	3.6	-6.8	18.7	13.8	4.9

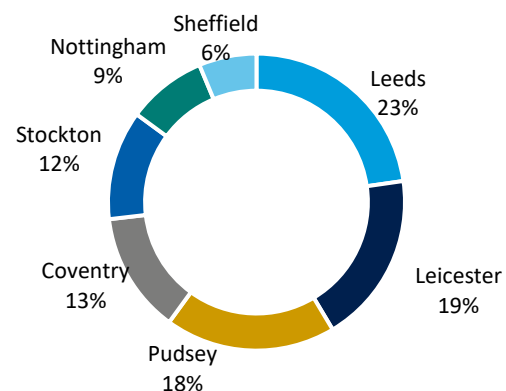
Fund inception is September 2018.

Performance drivers and outlook

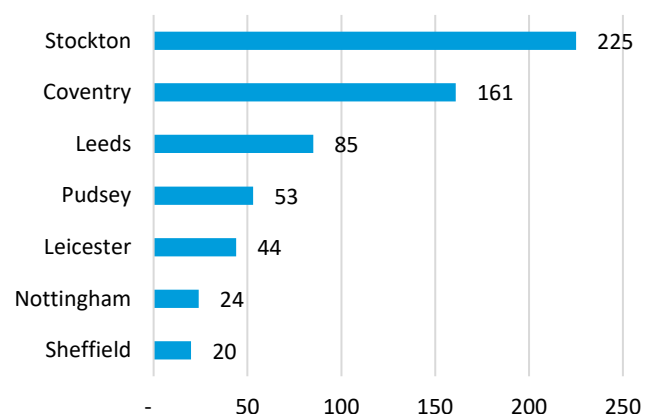
- Despite the impacts of Brexit and the global pandemic, the fund has returned ~19-20% since inception.
- The fall in capital value of ~7% in the last 12 months was a result of the impact of the pandemic on student property values (~25% of the portfolio's NAV).
- As at 30 June 2021, the Fund's residential assets had an occupancy rate of 92% and a collection rate of 97%.
- During the last 18 months, the portfolio's two student assets (Apollo House and Infinity House) have been soft in term of income, detracting from returns and, together with uncertainty around the outlook for student occupancy, impacted both properties' valuations negatively. Unlike residential units, student assets still carry ongoing operations and maintenance costs, which were a further drag on cashflow.
- At the end of the financial year, the occupancy rate for Apollo House was 60% and for Infinity House was 0%.
- Regarding Infinity House, we are currently in negotiations with Study Group to extend the guaranteed income agreements (previously put on hold due to COVID 19), 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	12	612	37.0
Residential	10	226	27.7
Student	2	386	9.2

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.

Fund II featured properties

Shoe Factory, Leicester

In January 2019 the Fund purchased 44 apartments in Leicester, approximately 2 kilometres from the city centre for a total consideration of £6.7m. The property was built in 2007 and comprises of large 2-to-3-bedroom apartments (900 square feet for 2-beds) and (1,200 square feet for 3-beds) with high ceilings.

Given the inherently large apartment size, the Fund identified an opportunity to refurbish each unit to make them the most premium offerings in Leicester. The Fund has since developed a strategy to replace furniture and redecorate internally to enhance the overall offering.

- 44 apartments in Leicester
- £6.7 purchase price in January 2019
- 6.8% gross rental yield



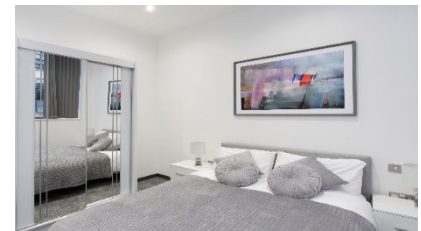
Pre refurbishment



Post refurbishment



Post refurbishment



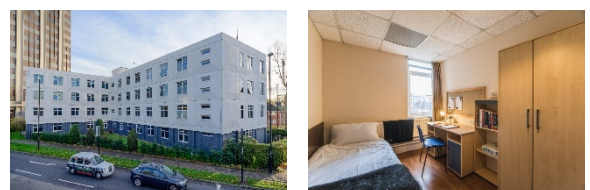
Apollo House, Coventry

In December 2018, the Fund purchased a 160-room student property in Coventry City Centre for a total purchase price of £4.0m. Apollo House tenants are students primarily from Coventry University and, to a lesser extent, students from the University of Warwick. Coventry University is consistently ranked in the top 50 universities in the UK, with approximately 40,000 students.

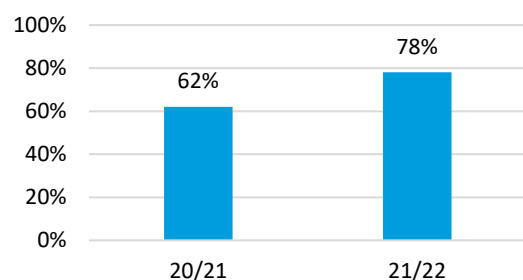
Whilst Apollo House caters to the affordable segment of the student market, due to the COVID-19, student volumes have been down substantially vs pre-covid levels, as many international as well as domestic students have chosen to study online. The occupancy rate for Apollo House in 2020 was substantially weaker than expected, finishing at 62% occupancy.

Performance in 2021 has improved, being stronger than the previous year with current rates at 78%. However, overall occupancy is still below the Fund's original targets. These lower occupancy rates have had a negative impact on returns given the fixed cost base student properties incur whether tenanted or not.

- 160 student beds in Coventry
- Total purchase price of £4m in December 2018



Occupancy



Fund II featured properties (continued)

Infinity House, Stockton

The Fund completed a purchase of Infinity House, a 225-bedroom student property based in Stockton-on Tees, housing Durham University's International Study Centre students. The asset was acquired as a vacant building at the time of purchase. Post acquisition of the property, the Fund successfully signed a 4-year rental guarantee with Study Group (the higher education provider on Durham University's campus) for an annual gross rental income of £1.2 million starting in September 2020.

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 income. 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.

- 225 student beds in Stockton
- Total purchase price of £1.7m in January 2020



Greenleigh Court, Pudsey (Leeds)

In August 2019 the Fund purchased 53 apartments in Pudsey.

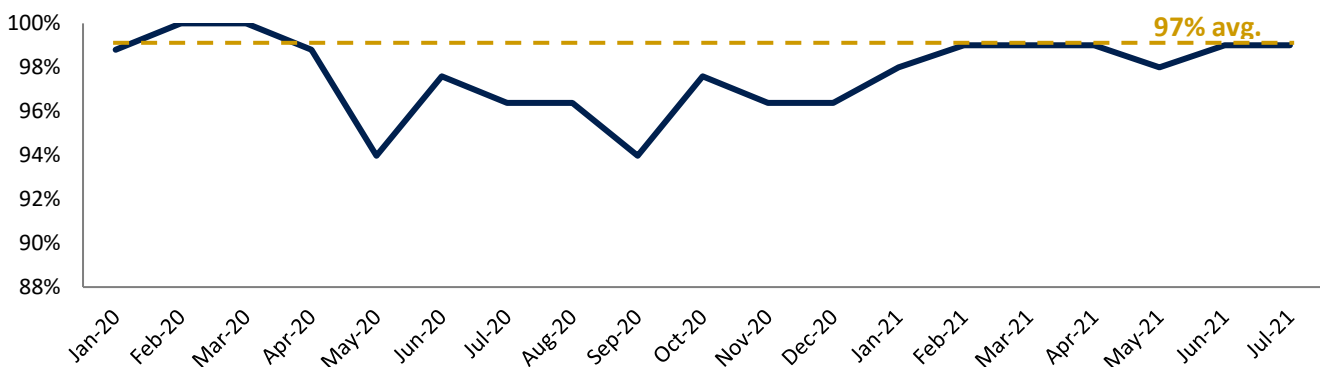
The property is located near transport links which offer a 10-minute commute into Leeds City Centre.

Similar to most UK cities, Leeds and the surrounding regions continue to have a housing supply shortage, building only approximately half of the housing vs household growth since the financial crisis.

- 53 apartments in Greater Leeds
- Total purchase price of £6.8m in Aug-19
- 6.6% gross rental yield



Occupancy





L1 Capital U.K. Residential Property Fund II

Investor Update | SEPTEMBER 2021

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: wmmurray@L1.com.au



Level 28, 101 Collins Street
Melbourne VIC 3000 Australia

www.L1Property.com

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 U.K. Residential Property Fund II. 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 U.K. Property Investments Pty Ltd (ACN 619 264 096), (an authorised representative (no. 1255692) of L1 Capital Pty Ltd (ACN 125 378 145, AFSL 314 302) and its officers and employees (collectively "L1 U.K."), 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 U.K., 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 ('PDS') before making a decision about whether to invest in this product.

The offer made in the PDS is available only to persons receiving this PDS in Australia and New Zealand (electronically or otherwise). The offer is not available to UK investors. This PDS does not constitute a direct or indirect offer of securities in the US or to any US Person as defined in Regulation S under the US Securities Act of 1933 as amended.

Copyright

Copyright in this publication is owned by L1 U.K. You may use this information in this publication for your own personal use, but you must not (without L1 U.K.'s consent) alter, reproduce or distribute any part of this publication, transmit it to any other person or incorporate the information into any other document.