

We are pleased to provide you with your 30 June 2021 Net Asset Value (NAV) for your holding in the L1 Capital U.K. Residential Property Fund III. The Fund did not pay a distribution during the second half of FY 2021, due to a combination of refurbishment costs, disappointing income from COVID-hit student revenue and depressed volumes of transactions delaying the deployment of capital.

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.

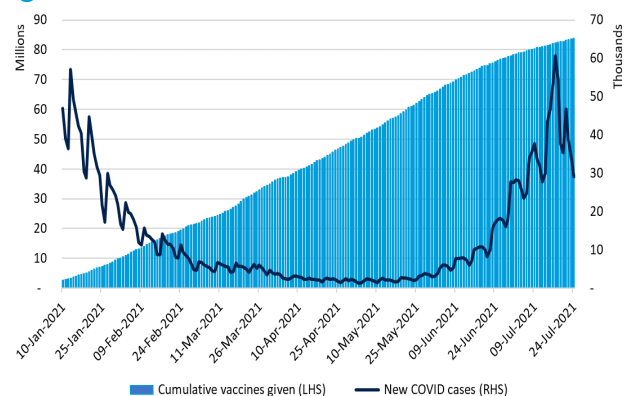
As of July, the annualised U.K. GDP growth was 6.7% for the year to date – up from the 6.2% in June. However, we continue to remain cautious around the Delta variant and the potential for future lockdowns in the U.K. in the event that hospitalisation rates increase. At the time of writing this report,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

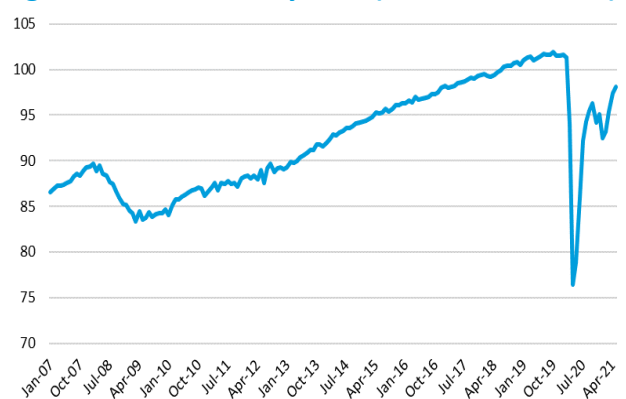
Whilst forecasts are well above the Bank of England’s 2.0% inflation target, at this stage the central bank is not expected to increase interest rates from their record low of 0.10%. However, the Bank of England has suggested that the central bank could decide to stop its current programme of government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

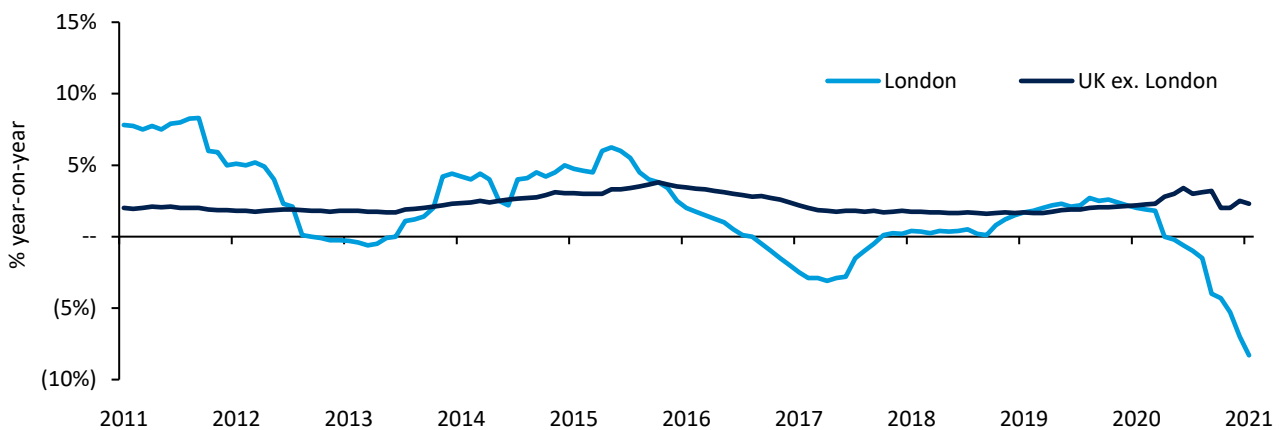
The U.K. residential market has remained resilient due to the Government’s stamp duty tax concessions aimed at boosting the housing market. In May, house price inflation reached its strongest level for almost seven years, according to both Halifax and Nationwide. Bolstered by the stamp duty holiday, 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 III Unhedged	0.5	2.1	-1.5	0.0	4.0	-4.0

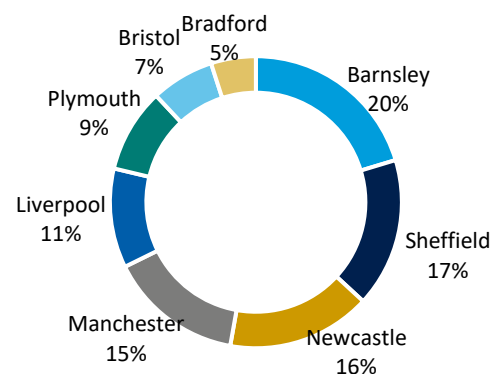
Fund inception is September 2019.

Performance drivers and outlook

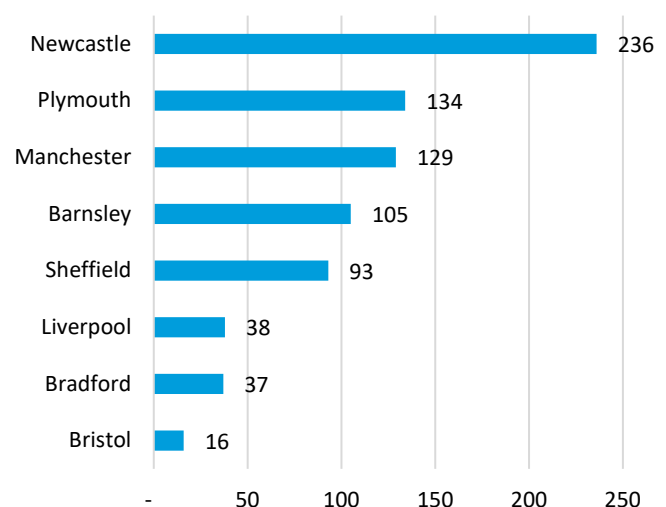
- Portfolio assets are now 100% deployed after COVID-19 caused delays to property transactions in 2020.
- As at 30 June 2021, the Fund's residential assets had an occupancy rate of 78% and a collection rate of 96%.
- The Fund elected not to pay a distribution in the second half of FY21 due to:
 - The impact of COVID-19 on the portfolio's only student asset, Leazes Parade,
 - The depressed volume of property transactions which also resulted from the pandemic, and
 - Significant expenditure for refurbishments on residential asset, Phoenix Court, which weighed on cashflows.
- Leazes Parade was settled in late 2019, just before COVID-19 hit, resulting in significantly reduced income from student occupancy rates around 43% for 2020. Pleasingly, as at Sep 2021 occupancy had increased to ~86%, an improvement likely to support a revaluation over the medium term.
- Phoenix Court, a residential asset in Sheffield that was bought vacant, is 75% through a substantial £2m refurbishment (an investment we expect to provide significant benefit over the medium term) and currently has 20% occupancy, which was positively reflected in the upward revaluation at 30 June 2021. The capital expenditure incurred this year for the refurbishment together with the low occupancy rate have been a drag on cashflows for this half year.
- Skyline, a residential asset in Manchester which is owned partially by Fund III and partially by Fund IV, was settled recently and it is too early to recognise an uplift in asset valuation.

Assets	No. of assets	No. of units**	Value (£m)
Total assets	8	788	45.7
Residential	7	552	38.4
Student	1	236	7.3

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. Manchester total represented by full number of units in Skyline, which is jointly owned by Funds III and IV.

Fund III featured properties

Leazes Parade, Newcastle

In October 2019, the Fund made an investment in a 236-bed student property in Leazes Parade, Newcastle for a consideration of £5.8m. The property is attractively located within walking distance to Newcastle University. It was a vacant building at purchase and needed refurbishment.

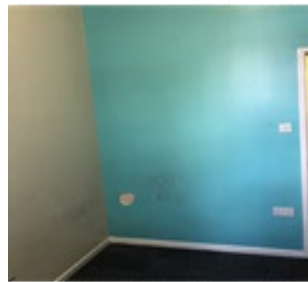
- **236 student beds**
- **Purchased in October 2019**
- **Total purchase price of £5.8m**

The Fund commenced a relatively modest refurbishment program to improve its appearance which included internal decoration, brand new furniture and, importantly, a new common area for the students which comprises of a new lounge and entertainment area (pictured below). A total of approximately £1.0 million has been invested in Leazes Parade relating to the refurbishment and as well as compliance and fire safety works.



Following refurbishment, the property has been ranked in Newcastle's top 3 student properties.

Pre-refurbishment

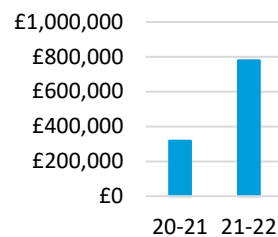


Post-refurbishment

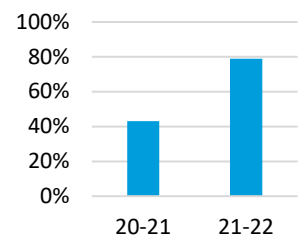


Lettings for the academic year in September 2020 to June 2021 were disappointing. This was due in part to the U.K. Government-imposed a national lockdown to contain the spread of COVID-19 in 2020, and in part due to the refurbishment process delaying the beginning of lettings. The overall student market in Newcastle suffered (in terms of student volumes) and was down approximately 35% vs prior years as many international students deferred their studies and some domestic students chose to adopt distance learning or stay at home.

Gross rental profile



Occupancy



In 2020, the property achieved a total of 101 lets (approximately 45% occupancy). Total gross rental income was only approximately £370,000 which, in addition to being disappointing, also weighed on the independent valuation of the asset as at 30 June 2021. Pleasingly, for the upcoming academic year Leazes Parade is on track to becoming fully occupied. As at the 31 August 2021, a total of 175 bookings have been achieved with a gross rental income of £590,000.

Based on the current bookings activity we expect Leazes Parade to be full by the end of September (total of 221 bookings) and generating a gross rental income of approximately £780,000 p.a.

Fund III featured properties (continued)

Gateway Plaza, Barnsley

In November 2019, the Fund made an investment in 105 residential units in Barnsley for a consideration of £8.6m.

Gateway Plaza is located in the city centre and is the most premium building in Barnsley. The building had been under-managed by the previous owner and therefore the Fund identified an opportunity to increase rents and reduce property costs.

Since purchase by the Fund, rents have grown by 11% (~6% p.a.), whilst costs have been cut by 25%. The property generates a gross yield of 9.2% based on the purchase price and supports the long-term income strategy of the Fund.

- 105 residential units
- Purchased in November 2019
- Total purchase price of £8.6m



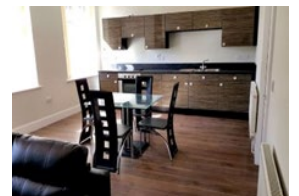
Grattan Road, Bradford

In December 2019, the Fund purchased Grattan Road in Bradford for a total consideration of £2.4m.

The property has delivered a consistent rental profile, with a gross rental yield of 8.7% p.a. Although rents across the units have not dramatically increased, occupancy is consistently above 97%.

Rental growth is somewhat constrained by the wider rental market in Bradford, however, the property is still supportive of the Fund's long-term income strategy.

- 17 residential units
- Purchased in December 2019
- Total purchase price of £2.4m





L1 Capital U.K. Residential Property Fund III

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.

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