



Australian
National
University

ANU Student Managed Fund

Rebalancing Report

Lendlease Group

ASX code: LLC

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Notes:

All dollar amounts in this report are Australian dollars.

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Glossary

AAE – Active Australian Equities

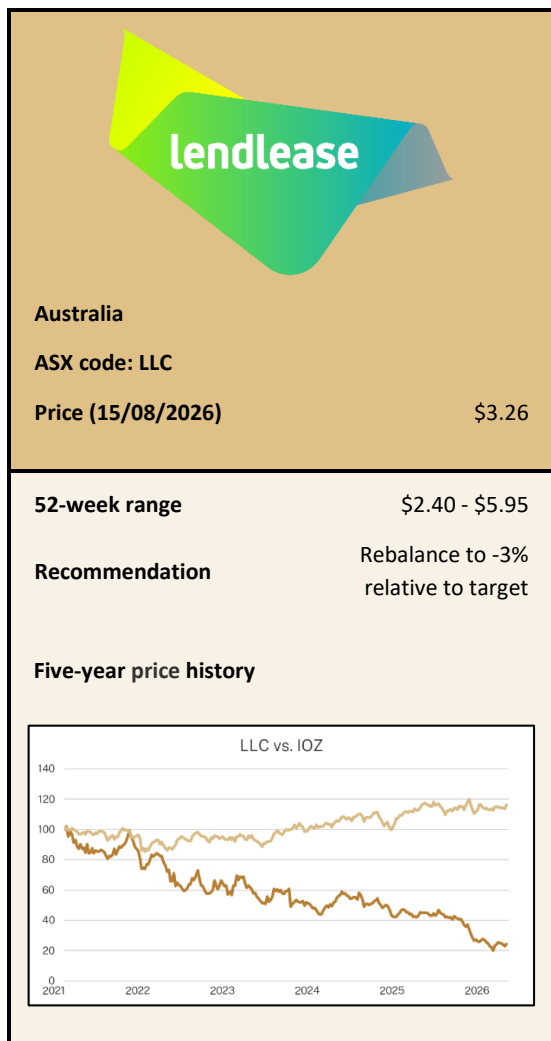
ANU – The Australian National University

ASX – Australian Securities Exchange

CRU – Capital Release Unit

IOZ – iShares Core S&P/ASX 200 ETF

SMF – ANU Student Managed Fund



Rebalancing Decision

On 30 July, 2026, Lendlease Group (LLC) was reviewed by the Active Australian Equities (AAE) team after the position breached the -5% threshold relative to its 10% target weighting in the AAE portfolio, in line with the SMF IPS. Under the IPS, a choice was required between rebalancing to target (10%) or rebalancing to -3% relative to target (7%) pending further review. Following this review process, the AAE team elected to rebalance the LLC position to -3% relative to target (7%), as opposed to the target weighting of 10%. The breach reflects a continued decline in LLC's share price since the SMF's initial purchase on 14 October 2024, in addition to the relative outperformance of other AAE portfolio holdings in recent months.

Investment Review & Position Update

The SMF's initial purchase of LLC occurred on 14 October 2024, at \$6.86 per share. The SMF's original investment thesis was based on LLC's Strategic Reset to realign operations toward higher-returning Australian construction and development businesses, the upside available from sector-wide depressed property valuations as the top of the interest rate cycle approached, and the value-accretive operating synergies of LLC's vertically integrated model.

Since the initial purchase of LLC, the share price has declined approximately 55%. The FY25 result on 18 August 2025 marked a return to statutory profit of \$225 million, but a

17% revenue decline, a 42% EPS miss against consensus, and limited progress on Capital Release Unit (CRU) divestments drove a negative market reaction.

The AAE team's most recent review of the LLC position occurred on 11 May 2026, at which point, the team elected to hold the position at its existing weight as opposed to rebalancing after LLC's weight within the AAE portfolio fell below -3% relative to target.

On June 1st, LLC reported a \$175 million loss on the sale of Milano Santa Giulia (MSG North), which was sold at a discount to book value, and attributed to the CRU's FY26 earnings. This loss on sale has led to an increased level of investor scepticism regarding LLC's reported asset book values, which are becoming an increasingly significant component of the company's valuation as LLC's operations continue to underperform. Following this announcement, on June 5th, LLC's share price closed at \$2.46, the lowest close in company history.

On June 25th, LLC's share price increased by approximately 9% following the announcement of the sale of its 25.1% stake in Keyton Retirement Living Trust to Aware Super for \$525 million, in line with the asset's reported book value, to be closed and reported in FY27. As CRU asset sales had marked significant deviations from book values, the sale of Keyton at par has partially eased investor distrust of LLC's reported book values for the CRU segment.

On 23 July 2026, LLC's weight within the AAE portfolio fell beneath the mandatory rebalancing threshold of -5% relative to target, and on 30 July 2026, the AAE team decided to rebalance the holding to -3% relative to target at a purchase price of \$2.96 per share.

Original Investment Thesis

The SMF's original investment thesis was based on three core attributes:

- Strategy update - realigning focus on Australian operations
- Depressed property valuations

- Operating synergies between segments

The strategic update was believed to lead to a stronger balance sheet by reducing gearing, improving returns, and recycling capital into higher return Australian development & construction opportunities. While the strategic shift away from international operations to focus domestically has occurred, the assumed financial benefits have been underwhelming, with gearing remaining above 30% compared to the initial FY26 target of 15%, which a \$500m repurchase program was contingent on, and the capital recycling initiative largely failing to sell assets at or near book value. Revenues derived from LLC's One Circular Quay are expected to be recorded in mid-to-late FY27, likely strengthening LLC's balance sheet.

The perception of depressed property valuations at the time of the initial purchase was linked primarily to the interest rate cycle, with rates expected to decline over the following years post-COVID. The core assumption of being at the top of the interest rate cycle has not materialised as expected, with increased inflationary pressure leading to a cumulative 75bps of rate hikes to date in 2026. While interest rates haven't moderated on the originally anticipated timeline, it is the view of the AAE team that recent rate hikes are reactive to near-term inflationary pressure as opposed to a permanent shift in the rate environment.

The structural rationale for LLC's vertically integrated model remains sound, with the strategic links between Development, Construction, and Investments largely intact. However, all three segments have faced concurrent operational difficulties over the ~2 years since purchase, and given LLC's reliance on inter-segment workflow, these difficulties have weighed on the operational synergies the integrated business model was designed to realise.

Factors to Monitor

Permanent CEO Appointment: Lendlease has appointed Nick O'Neal as group CEO, effective from September 10th. O'Neal was previously the head of real assets for AustralianSuper, and LLC shares rose by 4% on the day of the announcement, signalling positive market expectations. The AAE team is hopeful that O'Neil, Lendlease's first external CEO appointment in over 2 decades, will improve the company's capital allocation discipline. As O'Neil's tenure as CEO does not begin until September, it is unlikely that clarity regarding changes to the company's strategic direction and capital allocation will be included in the August 17th FY26 earnings report, and this will need to be monitored post-revaluation.

Gearing Trajectory: The AAE team will monitor LLC's gearing ratio and management's progress in deleveraging toward the stated 15% underlying FY26 target. The most recent management guidance for FY26 states that LLC's gearing ratio is likely to sit within the mid-30% range, as opposed to the 15% target.

Australian Property Cycle and Interest Rates: The AAE team will monitor RBA policy decisions, inflation prints, and Australian commercial property valuations as the key external indicators of when the cyclical recovery thesis may re-engage.

Capital Release Unit Discounts to Book Value: The AAE team will monitor for new Capital Release Unit developments and compare new sales against the book value of assets. After FY26 earnings are released, the team will scrutinise previous estimates of recoverable sales value for each asset.

FY26 Full Year Results (August 2026): The AAE team will assess management's delivery against its FY26 commitments, with particular focus on the credibility of FY27 guidance and the strategic direction communicated alongside the incoming CEO transition. Additional time has been allocated to complete this compared to the standard revaluation timeframe to ensure that a detailed assessment of the company's valuation is completed.

Conclusion and Recommendation

The AAE team recommends that the fund rebalance its position in Lendlease to -3% relative to target, the minimum rebalanced weight permitted under the SMF's IPS in this case, as opposed to the 10% target weighting.

The AAE team's most recent revaluation concluded that the original investment thesis remained intact, and this position will be formally reassessed during the next revaluation. Key compounding risks, such as the management transition, excessive leverage, and CRU asset sales consistently falling well below book value, have materially increased uncertainty regarding LLC's long-term trajectory. The AAE team has concluded that, to minimise potential capital losses, the best course of action is to wait until FY26 earnings are released on August 17th before committing further capital to the Fund's position in LLC. After FY26 results are released, the AAE team will conduct a formal

revaluation, at which point a decision will be made either to rebalance the position to its target weighting of 10% or to begin the divestment process.

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