



L1 CAPITAL

DAILY CLASS

Long Short Fund

Monthly Newsletter | DECEMBER 2020

Unit Price: 1.3566^{1,2} | Fund NAV: \$585m

Monthly Performance (Net) (%)*

PERIOD	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT*	NOV	DEC	YEAR
2014	-	-	-	-	-	-	-	-	(2.42)	3.03	2.85	1.61	5.07
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.61	60.52
2016	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.18)*	0.55	2.13	29.43
2017	2.48	1.79	2.83	1.01	4.14	1.68	2.61	1.67	1.91	2.50	0.86	3.50	30.50
2018	0.54	(0.49)	(1.68)	1.59	(3.77)	(6.31)	0.79	(5.93)	(2.13)	(4.01)	(2.62)	(6.07)	(26.60)
2019	4.33	5.14	0.19	2.82	(2.80)	3.84	1.16	0.41	2.59	3.34	0.30	2.19	25.87
2020	(7.83)	(7.11)	(23.04)	22.93	10.95	(2.21)	(1.96)	9.97	0.50	(2.64)	30.80	4.33	26.54

Past performance should not be taken as an indicator of future performance.

Market and Fund Review

The L1 Capital Long Short Fund returned 4.3% in December (ASX200AI 1.2%).

The Fund returned 26.5% for calendar year (ASX200AI 1.4%).

Since inception, the Fund has returned 20.9% p.a. (ASX200AI 6.8% p.a.).

The Fund's robust returns in 2020 were driven by strong stock picking across a wide range of sectors. Returns were further supported by decisive buying during the crisis in March and positioning the portfolio for vaccine success in November.

We believe the global vaccine roll-out will trigger a rotation into value and cyclical stocks (which lagged the market dramatically in 2020). This should be a major positive tailwind for performance.

Global markets continued to trend higher in December driven by vaccine approvals in the U.K. and U.S., as well as the finalisation of the long-sought U.S. fiscal stimulus package to provide ~US\$900b in aid. These positive developments were tempered by continued increases in COVID-19 cases, further global lockdowns and concerns about more infectious "mutant" strains of COVID-19. The ASX200AI returned 1.2% in December. The strongest sectors were Information Technology (+9.5%), Materials (+8.8%) and Consumer Staples (+2.3%) while Utilities (-5.4%), Healthcare (-4.9%) and Industrials (-2.7%) lagged.

The portfolio performed positively in December, continuing its strong outperformance over the last 9 months, with our aggressive and decisive buying of oversold stocks in March, as well as our intensive vaccine research, being the key reasons underpinning this result. We would like to sincerely thank the investors and advisors who supported us through this extraordinary year, and we could not be more pleased that your faith has been rewarded with this strong performance. 2020 represents the second consecutive calendar year where the portfolio has delivered net returns above 25%.

We continue to believe the market environment is one of the best we have seen in many years, with numerous exciting stock specific opportunities. We remain very positive on the outlook for equities (and especially cyclicals) given the combination of massive central bank and fiscal stimulus, defensive investor sector positioning and the likelihood of positive vaccine progress providing an attractive risk-reward into 2021.

Since Inception (Net)*

	CUMULATIVE RETURN	ANNUALISED RETURN (p.a.)
L1 Capital Long Short Fund	233.1%	20.9%
S&P ASX 200 Accumulation Index	52.0%	6.8%
MSCI World Index Total Return (USD)	53.8%	7.0%
HFRX Global Hedge Fund Index	10.5%	1.6%

* Returns are net since inception of the L1 Capital Long Short Fund Strategy in September 2014.

Performance (Net)

One year	26.5%
Three years (p.a.)	5.3%
Five years (p.a.)	14.6%
Since inception (p.a.)	20.9%
Since inception (cumulative)	233.1%

Portfolio Exposures

	CURRENT	AVG SINCE INCEPTION
Number of positions	94	79
Number of long positions	77	53
Number of short positions	17	27
Gross long exposure (%)	202%	147%
Gross short exposure (%)	78%	83%
Gross exposure (%)	280%	230%
Net exposure (%)	124%	64%

Portfolio Metrics

Percentage of positive months	73.7%
Sharpe ratio	0.9
Sortino ratio	1.9
Annualised standard deviation	21.7%
Annualised downside deviation	11.6%

We believe we are just at the start of the ‘vaccine trade’, given that we expect investors will now accept that they need to reposition their portfolios to reflect a much-improved outlook for COVID-19. As such, we expect a strong recovery in many oversold value and cyclical sectors (such as travel, energy, mining and industrials) with the Fund well placed to benefit from this recovery.

Some of the key contributors to Fund performance in December were:

Imdex Limited (long +26%) shares rose strongly after reporting solid FY20 results and a very positive start to FY21. Imdex is by far the global leader in exploration drilling technology for the mining sector. 80% of the business is exposed to gold, copper and iron ore with all three commodities having favourable medium term exploration and production outlooks. In particular, we have seen a significant uptick in capital raisings from junior gold miners for exploration purposes and we expect this to flow through to Imdex over the coming year. Imdex has incurred major R&D spend over the past five years (which it fully expenses through its P&L) and is in the early stages of launching the industry’s best suite of products. We have spoken with many mining companies, drilling companies and competitors to assess Imdex’s products and prospects and we believe the market underestimates the lead Imdex has over its peers. In our view, Imdex is one of the most exciting small cap stocks in Australia and is set to deliver earnings growth of more than 20% p.a. (well above consensus estimates) for many years to come. Finally, we believe IMDEXHUB-IQ (its secure, cloud-based portal for validating field data) will over time become a major contributor to client retention and increased product penetration per site.

Lyft (long +23%) is a ride-sharing company in the U.S. that competes with Uber. Since its IPO in 2019, the company has suffered from regulatory uncertainty (from California’s push to reclassify drivers as employees) and question marks over its ability to compete effectively with Uber. Together with the COVID pandemic curtailing demand, the stock had declined over 60% when we initiated a position in October. Our thesis was that with Uber and Lyft both prioritising profitability and no new competitors emerging, market share would remain stable while demand would recover rapidly post-COVID. Our thesis was further supported by early polling ahead of the U.S. elections which indicated that California would pass driver reclassification legislation, permanently enshrining drivers’ contractor status as part of the Prop 22 ballot. The November vaccine news and the passing of the Prop 22 ballot have resulted in the shares nearly doubling since we first invested. Despite this strong performance, we continue to see substantial upside in Lyft. We believe Lyft can generate significant earnings growth over the medium term with the ability to generate consistent top-line growth above 30% and deliver long term EBITDA margins of ~25%.

Teck Resources (long +10%) shares continued to trend higher driven by early signs of recovery in the coking coal market. Increasing seaborne demand from India and China (following a recovery in domestic steel production) has driven an increase in coking coal prices (ex-Australia) over the last few months. Teck is one of the world’s highest quality mining companies with very low-cost operations in coking coal, copper and zinc. All of Teck’s main assets are situated in low risk jurisdictions, such as Canada, the U.S. and Chile. Teck is currently building one of the world’s largest copper mines (QB2) at a time when the world is gradually becoming short copper, due to ongoing grade declines at the world’s largest mines. Copper demand continues to enjoy

secular growth due to rising living standards across Asia. We established a position in the company with the view that Teck was well placed to benefit from a recovery in copper and coking coal prices over the medium term, as spot prices were close to marginal cash cost for many mines and incremental supply has proven difficult to bring on in a timely manner. We have started to see early signs of this recovery and continue to believe Teck is exceptionally well placed to benefit from this going forward. Despite the strong performance to date, Teck continues to be materially undervalued. Even at today’s depressed commodity price assumptions, Teck trades on a P/E of only 11x FY21 (consensus earnings) with the benefits of QB2 earnings and a large cost out program still to come over the next few years.

Liberty Financial Group (LFG) (long +30%) shares performed strongly post its IPO in mid-December which we participated in as a cornerstone investor. LFG is a leading non-bank lender with a high quality loan portfolio of more than ~\$11b which has grown at a CAGR of close to 20% p.a. over the last ten years. The company has an exceptional management team and a strong owner/ operator mindset, with the founders continuing to hold ~77% of the shares on issue post IPO. Even with the recent rally, LFG remains undervalued in our view, trading on a PE multiple of only 14x based on the prospectus earnings forecast. We believe this forecast is conservative with upside likely on both net interest margins and loan growth. Furthermore, we expect industry tailwinds to support growth above market expectations over the medium term. Recent regulatory changes have led to an increase in risk weights for banks on non-standard housing loans. As a non-bank lender, LFG is not subject to the same increase in risk weights. This advantage, coupled with its strong broker relationships, should see LFG continue to take increased share from the major banks over the next few years.

Metcash (long +17%) shares rallied after reporting a stand-out 1H21 result which was ~20% ahead of consensus earnings. The company reported strong performance across all its key divisions (food, liquor and hardware) and flagged continued strong momentum into the new year. Metcash has benefitted from an improvement in food and liquor sales with an increase in domestic tourism and more consumers working from home. The hardware business has seen an uplift in DIY spend with a rise in home repair and renovation projects carried out through the pandemic. We expect these tailwinds to continue to benefit Metcash, which should drive strong second half earnings as the company cycles weak prior period numbers that were impacted by the bushfires. FY2021 is set to be a bumper cashflow period for the company, which, together with its under-gearred balance sheet, provides flexibility for capital management and/or further bolt-on acquisitions.

Cenovus Energy (long +16%) is an integrated energy company that develops, produces, and markets crude oil, natural gas liquids and natural gas, primarily in Canada. Cenovus shares rose as oil prices continued to recover and as discounts for their production compared to the WTI price narrowed, driving strong free cashflow generation in Q4 after very weak Q2 and Q3 performance. We increased our shareholding after Cenovus announced the acquisition of Husky Energy in late October 2020, to create the third largest Canadian oil and natural gas producer. We see strong strategic merits in the combination which unites high-quality and low-cost oil sands and heavy oil assets with extensive midstream and downstream infrastructure. The transaction should be highly accretive and lead to substantial synergies, increased scale, more stable cash generation and reduced group leverage.

The investment team significantly added to their investment in the Long Short strategy during the second half of the year and intends to continue doing so going forward, reinforcing our very positive outlook for the portfolio. Our expectations are underpinned by the unusually large number of stocks in the portfolio with significant upside to valuation and the extreme stock dispersion across the market, which provides attractive opportunities for stock picking.

Net and Gross Exposure by Region*

GEOGRAPHY	GROSS LONG	GROSS SHORT	NET EXP
Australia / NZ	132%	65%	67%
North America	31%	13%	18%
Europe	30%	0%	30%
Asia	9%	0%	9%
Total	202%	78%	124%

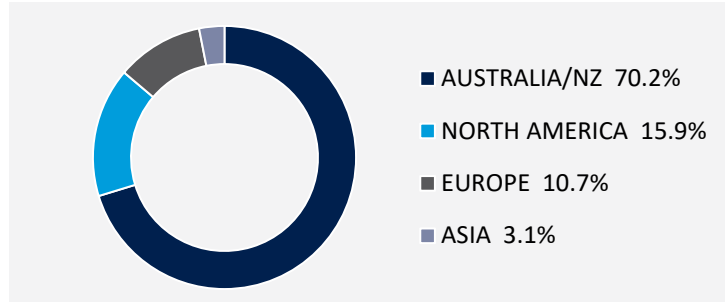
* Percentages have been rounded to the nearest whole number.

Fund Information

Class Name	L1 Capital Long Short Fund Daily Class
Structure / Currency	Australian Unit Trust / AUD
Inception	1 September 2014
Management Fee	1.54%
Performance Fee	20.50%
High Watermark	Yes
Buy / Sell Spread	25bps / 25bps
APIR / ISIN	ETL0490AU / AU60ETL04909
Minimum Investment	A\$25,000
Subscription / Redemption Frequency	Daily
Platform Availability	Asgard, BT Wrap, CFS FirstWrap, HUB24, IOOF, Mason Stevens, MLC, Macquarie Manager / Consolidator, Netwealth, North, Powerwrap, uXchange

We also expect much improved business, consumer and investor confidence as a result of the rollout of vaccines around the world. As people resume a near-normal (pre-COVID-19) way of living, we expect many oversold companies to recover further, which, along with a continued rotation into value and cyclical stocks, should be a tailwind to Fund performance.

Gross Exposure as a % of Total Exposure*



Service Providers

Responsible Entity	Equity Trustees Limited
Prime Brokers	Morgan Stanley, Credit Suisse
Fund Administrator	Mainstream Fund Services
Fund Auditor	EY
Legal Advisor	Hall & Wilcox

There have been no changes to key service providers since the last monthly report.

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* All performance numbers are quoted after fees. All performance in this update prior to 3 October 2016 (being the date that the first Daily class units were issued) relate to the monthly class units which are subject to a different fee structure. Sharpe ratio, sortino ratio, maximum monthly drawdown, annualised standard deviation and annualised downside deviation relate to the monthly class units. 1. The value of the Fund's assets less the liabilities of the Fund net of fees, costs and taxes. 2. The unit price is calculated by decreasing the NAV price by the sell spread (currently 0.25%). The NAV price is the NAV divided by the units on issue. Past performance is not predictive of future returns.

Information contained in this publication

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