

L1 Capital Long Short Fund

Monthly Report | MARCH 2022
Unit Price: \$1.9359^{1,2} | Fund NAV: \$897m

- The L1 Long Short Fund returned 1.4% (net)³ in March (ASX200AI 6.9%).
- The portfolio has returned 33.6% (net)³ over the past year (ASX200AI 15.0%) and 28.2% p.a. (net)³ over the past 3 years (ASX200AI 10.6% p.a.).
- The L1 Capital Long Short Strategy has been the best performing Australian long short strategy over 1, 3, 5 and 7 years and since inception in 2014.⁴

After a sharp sell-off in the first two months of 2022, global markets recovered some of the losses in March, however, still ended the quarter with the worst quarterly drop in two years.

Pleasingly, the portfolio returned 11.3% over the quarter, compared to 2.2% for the ASX200 Accumulation Index and sharply negative returns for U.S. and global markets (NASDAQ -9.0%, MSCI World -5.2%, S&P500 -4.6%).

The U.S. Federal Reserve implemented a 25bps rate rise during the month, with an increasingly hawkish tilt leading to a surge in both U.S. 10-year yields (up 49bps to 2.32%) and Australian 10-year yields (up 69bps to 2.83%). Commodity prices continued to rise due to the Russia/Ukraine conflict and the potential disruption of key commodity exports.

The S&P/ASX 200 Accumulation Index recovered in March. The strongest sectors were Information Technology (+13.2%), Energy (+9.8%) and Materials (+8.9%), while Property (+1.2%), Healthcare (+2.5%) and Consumer Discretionary (+4.2%) lagged.

We expect equity markets to remain volatile due to geopolitical tensions, the ongoing fragility of global supply chains, reduction in central bank liquidity and increasing interest rates. After a period of stronger than normal equity returns in 2021, our expectations for market performance over the coming year remain more subdued. While these periods of heightened market volatility can be unnerving, we believe they present us with outstanding opportunities to generate alpha for our investors.

Fund Returns (Net) ³ (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 year	33.6	15.0	+18.7
2 years p.a.	67.1	25.7	+41.3
3 years p.a.	28.2	10.6	+17.6
5 years p.a.	15.6	9.2	+6.4
7 years p.a.	22.3	7.8	+14.5
Since inception p.a.	23.1	8.2	+14.9
Since inception cumulative	384.0	82.2	+301.8

Returns Since Inception (Net) ³ (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	384.0	23.1
S&P ASX 200 Accumulation Index	82.2	8.2
MSCI World Index Total Return (USD)	74.6	7.6
HFRX Global Hedge Fund Index	13.0	1.6

Key contributors to portfolio performance during the month of March were:

Turquoise Hill Resources (Long +44%) is a mining company focused principally on the development of the Oyu Tolgoi copper-gold mine in southern Mongolia, which is expected to become a top tier copper producer by 2024/2025. During March, Rio Tinto, the majority shareholder in Turquoise Hill, made a C\$2.7b cash offer (C\$34.00 per share, a 32% premium on the pre-offer share price) to buy out minority shareholders, seeking full control of the operation. We have followed the Oyu Tolgoi project closely for many years as it is one of the most exciting copper developments globally, however, it has been impacted by several cost blow-outs, construction delays and disputes with the Mongolian Government. In late January, the Government of Mongolia reached an agreement with Rio Tinto and Turquoise Hill to move the project forward, resetting the relationship between the partners. We saw the agreement as a significant milestone to clear the path forward for project completion. The offer from Rio Tinto reaffirms our constructive view on Oyu Tolgoi, as well as our positive view on long-term copper demand.

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. 3. All performance numbers are quoted net of fees. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. Strategy performance and exposure history is for the L1 Capital Long Short Fund – Daily Class since inception on 3 Oct 2016 (being the date that the first Daily Class units were issued). Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014) which is subject to a different fee structure. 4. FE Investment performance database since strategy inception in Sep 2014.



L1 CAPITAL

Daily Class

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SES (Long +11%) shares rallied over the month after the company announced the receipt of a US\$170m payment from Verizon to accelerate U.S. C-band clearing (which facilitates the rollout of 5G in the U.S.). This was one of the monetisation opportunities we highlighted in our previous reports. SES also announced an agreement to acquire DRS Global Enterprise Solutions, a retailer of satellite services to the U.S. government. We think the deal has sound strategic logic and will be highly EPS accretive over time. We believe SES remains extremely undervalued due to the limited value that the market currently ascribes to the scheduled C-band spectrum payments. SES is set to receive ~US\$2.4b in cash payments (after tax) over the next two years, amounting to ~60% of the company's current market cap.

ALS Limited (Long +13%) shares rallied with the company upgrading FY22 NPAT guidance by ~6%. ALS's geochemistry business is the global leader for copper and gold sample testing across greenfield and brownfield mining operations. We have previously written about our positive views on both ALS and Imdex (the global leader in mining drilling technology), with growth underpinned by the significant uptick we have seen in junior miner capital raisings and exploration spending. The positive commodities backdrop coupled with this additional capital inflow has started to translate into increased drilling activity and significant sample flow growth for ALS's geochemistry business. We believe we are at the start of a multi-year bull cycle for exploration spending which will support a sustained double-digit EPS growth outlook for ALS, driven by the strong operating leverage evident in its geochemistry business.

A key detractor from portfolio performance during the month of March was:

Flutter (Long -18%) shares fell after reporting U.K. and Ireland earnings below consensus expectations as well as flagging a potential £60m revenue impact from its Russia and Ukraine operations due to the current conflict. The softer performance in the U.K. and Ireland was primarily driven by adverse sports results during the final quarter and from the pro-active implementation of safer gambling measures ahead of the U.K. gambling regulatory review (due to be released in May 2022). As the leading player in the market, we believe Flutter is taking early action to mitigate the potential impact from the review. We continue to believe clarity on the regulatory outcome will remove a key overhang on the stock. On the U.S. sports betting and gaming side, FanDuel continues to extend its leadership position in the market, with Flutter reaffirming its target to be EBITDA positive in 2023. Trading on only 18x consensus FY23 P/E, we think Flutter remains significantly undervalued given the decade of strong growth the company has ahead of it. We have used the recent share price fall to add to our position.

Fund Returns (Net)⁵ (%)

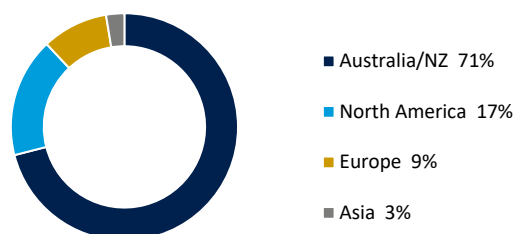
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	–	–	–	–	–	–	–	–	(2.42)	3.03	2.85	1.61	5.07
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.61	60.52
2016	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.18) ⁵	0.55	2.13	29.43
2017	2.48	1.79	2.83	1.01	4.14	1.68	2.61	1.67	1.91	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
2021	(0.14)	9.06	(0.14)	4.96	4.08	(0.56)	1.81	5.22	4.79	2.29	(7.20)	3.56	30.35
2022	2.72	6.98	1.45										11.48

Portfolio Positions	Current	Avg. Since Inception
Number of total positions	87	81
Number of long positions	69	56
Number of short positions	18	25
Number of international positions	32	24

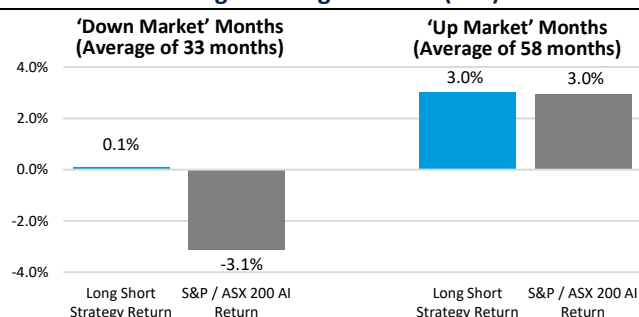
Net & Gross Exposure by Region⁵ (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	114	68	46
North America	36	8	28
Europe	23	1	22
Asia	7	0	7
Total	180	77	103

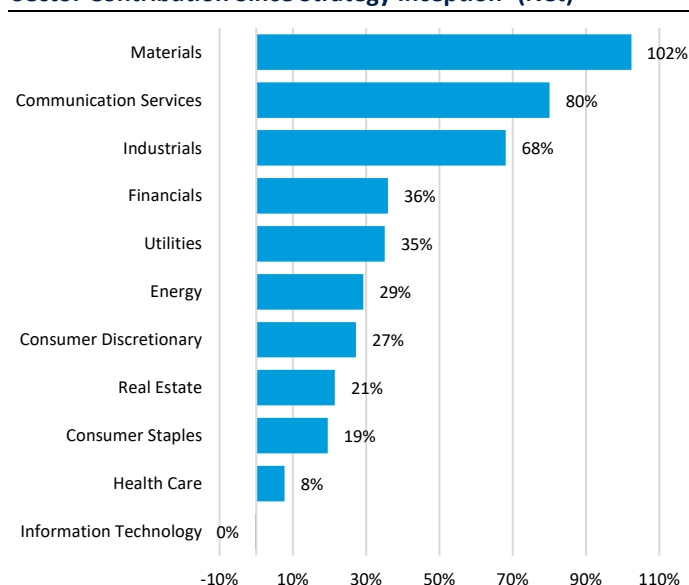
Gross Exposure as a % of Total Exposure⁵



Performance in Rising & Falling Markets⁵ (Net)



Sector Contribution Since Strategy Inception⁵ (Net)



5. All performance numbers are quoted net of fees. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. Strategy performance and exposure history is for the L1 Capital Long Short Fund – Daily Class since inception on 3 Oct 2016 (being the date that the first Daily Class units were issued). Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014) which is subject to a different fee structure.

Fund Information – Daily Class

Class Name	L1 Capital Long Short Fund – Daily Class
Structure / Currency	Australian Unit Trust / AUD
Inception	1 September 2014
Management Fee	1.54% p.a. inclusive of GST and RITC
Performance Fee	20.50% inclusive of GST and RITC ⁶
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 Panorama, CFS FirstWrap, HUB24, IOOF, Macquarie Wrap, Mason Stevens, Netwealth, AMP North, Powerwrap, uXchange

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L1 Capital (Investment Manager) Overview

L1 Capital is a global investment manager with offices in Melbourne, Sydney, Miami and London. The business 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 short Australian 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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Key service providers for the Fund are: Responsible Entity – Equity Trustees Limited, Prime Brokers – Morgan Stanley and 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.

6. The performance fee is equal to the stated percentage (inclusive of GST and net of RITC) of any increase in the NAV over any Performance Period (adjusted for applications and redemptions and before the payment of any distribution after the payment of the management fee and expenses) above the high-water mark.

All performance numbers are quoted net of fees. All performance prior to 3 Oct 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. Sources of information in this report are Mainstream Fund Services, Bloomberg and L1 Capital.

Information contained in this publication

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