

# L1 Capital Long Short Fund

Monthly Report | APRIL 2022  
Unit Price: \$1.9994<sup>1,2</sup> | Fund NAV: \$897m

- The L1 Capital Long Short Fund returned 3.3%<sup>3</sup> in April (ASX200AI -0.9%).
- The Fund has returned 31.5%<sup>3</sup> over the past year (ASX200AI 10.2%) and 28.4% p.a.<sup>3</sup> over the past 3 years (ASX200AI 9.4% p.a.).
- The portfolio performed well in April due to several positive stock-specific company updates, along with short positions in Nasdaq and non-profitable technology stocks.
- We invite you to join Mark Landau for a LSF investor webinar where he will discuss portfolio positioning and the outlook for equity markets at 11am AEST on Thursday 19 May. Please register [here](#).

Global markets fell sharply in April as rising inflation fears and a more hawkish U.S. Federal Reserve escalated concerns of a slowdown in economic growth. U.S. stocks have experienced their worst ever start to a calendar year with the Nasdaq falling 13.2% in April, its biggest monthly drop since 2008, and the S&P 500 falling 8.7%, its biggest monthly drop since March 2020. Technology stocks and COVID ‘winners’ were the hardest hit during the month with U.S. bond markets pricing in over 200bps of interest rate rises over the next 12 months.

The S&P ASX 200 Accumulation Index fell 0.9% in April outperforming most major developed markets, primarily due to its greater exposure to Resources and lower exposure to Technology stocks. The strongest sectors were Utilities (+9.3%), Industrials (+3.5%) and Consumer Staples (+3.3%), while Information Technology (-10.4%), Materials (-4.3%) and Consumer Discretionary (-3.1%) lagged.

The portfolio performed well during the month due to broad-based stock gains – 12 stocks contributed 0.3% or more to performance. The portfolio benefitted from short exposures to some profitless technology stocks whose share prices fell sharply in April. We believe this part of the market remains vulnerable to further large falls given how extreme and irrational the rally in their share prices has been over the past two years.

**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 over the past two years, our expectation is for market performance to be more subdued. While these periods of heightened market volatility can be unnerving, we believe they present us with attractive opportunities to generate alpha for our investors.**

Fund Returns (Net) <sup>3</sup> (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 year	31.5	10.2	+21.3
2 years p.a.	53.1	20.0	+33.1
3 years p.a.	28.4	9.4	+19.0
5 years p.a.	16.1	8.8	+7.3
7 years p.a.	22.6	7.9	+14.6
Since inception p.a.	23.3	8.0	+15.3
Since inception cumulative	399.9	80.7	+319.2

Returns Since Inception (Net) <sup>3</sup> (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	399.9	23.3
S&P ASX 200 Accumulation Index	80.7	8.0
MSCI World Index Total Return (USD)	59.9	6.3
HFRX Global Hedge Fund Index	12.2	1.5

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

**Ramsay Health Care (Long +25%)** shares rose in April following an \$88 per share take-over bid (~37% premium to pre-bid share price) from a KKR-led consortium. Ramsay is the largest independent hospital operator in Australia with over 70 hospitals and day surgery units nation-wide and a well-established global footprint that includes Europe, Indonesia, Malaysia and Hong Kong. We invested in the company as we believed it had a set of irreplaceable assets with several potential catalysts including extreme public and private sector wait lists, brownfield expansion opportunities, portfolio simplification, unlocking value from its Australian property portfolio and capital management opportunities. The takeover offer reaffirms our constructive view on Ramsay and recognises some of the value catalysts we saw above.

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.



L1 CAPITAL

Daily Class

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**Cenovus Energy (Long +14%)** shares rallied on the back of strong quarterly results demonstrating improved performance in the company's downstream (refining and marketing) business, solid upstream (production and operations) cash generation and enhanced capital management. The company announced a significant increase in dividends which gives us greater confidence on the potential for a 100% return of free cashflow generation via dividends and buybacks from early CY23 and into the medium term. Given the long-life nature of its oil sand assets and its low cost of production, we estimate the company is free cashflow break-even at an oil price of ~\$40/bbl. At present, oil prices are more than double this break-even point, implying considerable upside to consensus cashflow estimates (if prices remain near current levels). There are also additional value realisation catalysts with the company continuing to progress the de-gearing of its balance sheet via organic cash generation and asset sales.

**Shopify (Short -37%)** shares collapsed in April on broader weakness in the ecommerce market as well as Amazon's launch of 'Buy with Prime', which allows merchants to sell through Amazon on their own websites. Shopify enables small and medium size businesses to easily manage an online shopfront. We started shorting the company at ~US\$1,360 per share in December 2021, closing it out at the end of April around \$420-430 per share. Shopify was a significant 'COVID winner' as numerous businesses were forced to open online stores (driving up subscriptions) and consumers shopped more online (driving up payment volumes). Our view was that despite some demonstrable strengths, the company had become significantly overvalued with the market underestimating the risks around slowing growth as economies re-opened, as well as increased competition from ecommerce players and well-funded copycat platforms. In addition, Shopify, like many ultra-high P/E stocks, has also de-rated as a result of higher bond yields which essentially reduce the present value of 'long duration' cashflows (that are many years or decades in the future).

**SES (Long +9%)** shares rallied 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 the market currently ascribes to the scheduled C-band spectrum payments. SES has announced that it is set to receive a further ~US\$2.4b in cash payments (after tax) over the next two years, amounting to ~60% of the company's current market cap.

## Fund Returns (Net)<sup>4</sup> (%)

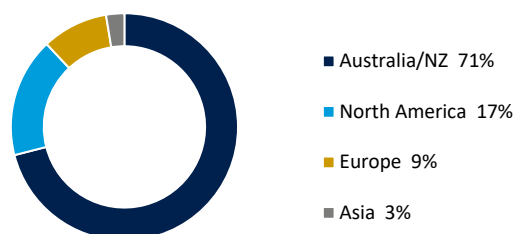
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>2014</b>	-	-	-	-	-	-	-	-	(2.42)	3.03	2.85	1.61	<b>5.07</b>
<b>2015</b>	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.61	<b>60.52</b>
<b>2016</b>	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.18) <sup>4</sup>	0.55	2.13	<b>29.43</b>
<b>2017</b>	2.48	1.79	2.83	1.01	4.14	1.68	2.61	1.67	1.91	2.50	0.86	3.50	<b>30.50</b>
<b>2018</b>	0.54	(0.49)	(1.68)	1.59	(3.77)	(6.31)	0.79	(5.93)	(2.13)	(4.01)	(2.62)	(6.07)	<b>(26.60)</b>
<b>2019</b>	4.33	5.14	0.19	2.82	(2.80)	3.84	1.16	0.41	2.59	3.34	0.30	2.19	<b>25.87</b>
<b>2020</b>	(7.83)	(7.11)	(23.04)	22.93	10.95	(2.21)	(1.96)	9.97	0.50	(2.64)	30.80	4.33	<b>26.54</b>
<b>2021</b>	(0.14)	9.06	(0.14)	4.96	4.08	(0.56)	1.81	5.22	4.79	2.29	(7.20)	3.56	<b>30.35</b>
<b>2022</b>	2.72	6.98	1.45	3.28									<b>15.14</b>

Portfolio Positions	Current	Avg. Since Inception
Number of total positions	91	81
Number of long positions	70	56
Number of short positions	21	25
Number of international positions	34	24

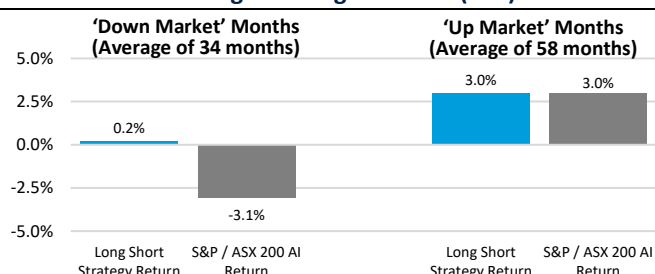
## Net & Gross Exposure by Region<sup>4</sup> (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	113	66	46
North America	34	10	24
Europe	23	0	23
Asia	6	0	6
<b>Total</b>	<b>176</b>	<b>76</b>	<b>100</b>

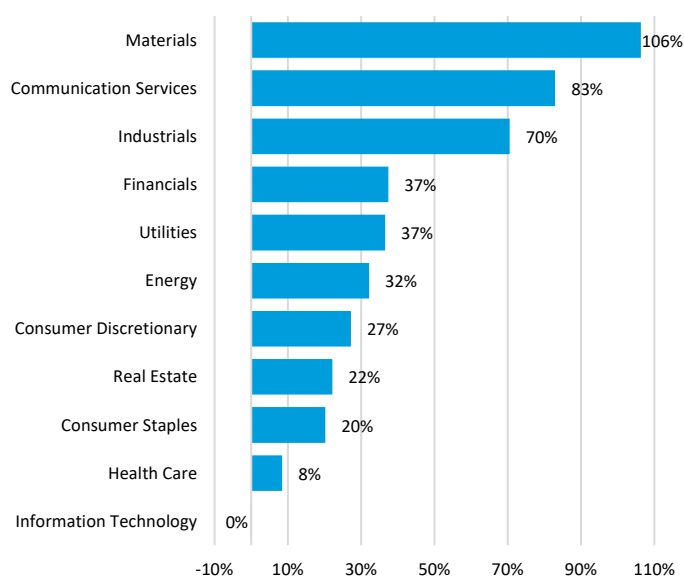
## Gross Exposure as a % of Total Exposure<sup>4</sup>



## Performance in Rising & Falling Markets<sup>4</sup> (Net)



## Sector Contribution Since Strategy Inception<sup>4</sup> (Net)



4. 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

<b>Class Name</b>	L1 Capital Long Short Fund – Daily Class
<b>Structure / Currency</b>	Australian Unit Trust / AUD
<b>Inception</b>	1 September 2014
<b>Management Fee</b>	1.54% p.a. inclusive of GST and RITC
<b>Performance Fee</b>	20.50% inclusive of GST and RITC <sup>5</sup>
<b>High Watermark</b>	Yes
<b>Buy / Sell Spread</b>	25bps / 25bps
<b>APIR / ISIN</b>	ETL0490AU / AU60ETL04909
<b>Minimum Investment</b>	A\$25,000
<b>Subscription / Redemption Frequency</b>	Daily
<b>Platform Availability</b>	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. 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.

5. 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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