

L1 Capital Long Short Fund

Monthly Report | JUNE 2022
Unit Price: \$1.7275^{1,2} | Fund NAV: \$841m

- The L1 Capital Long Short Fund returned -13.7%³ in June (ASX200AI -8.8%).
- The portfolio has returned -0.5%³ over the past 6 months (ASX200AI -9.9%), 9.8%³ over the past year (ASX200AI -6.5%) and 21.9%³ p.a. over the past 3 years (ASX200AI 3.3% p.a.).
- Global markets fell sharply in June on increasing concerns over central bank policy tightening and the possibility of a U.S. recession. The portfolio underperformed the market over the month largely due to its exposure to Materials and Energy stocks.

Global markets were very weak in June as a higher than expected U.S. May inflation reading exacerbated investor concerns over the possibility of further Fed tightening, which raised fears about a potential U.S. recession. The S&P 500 fell 8.3% in June, contributing to a 20% fall for the first six months of the year, the worst first half performance since 1970. The Nasdaq fell 8.7% for the month and has now declined 30% for the first half of the year.

The S&P ASX 200 Accumulation Index fell 8.8% during the month with all sectors coming under pressure. The ASX200 finished the first half of 2022 down 9.9%, while the portfolio was able to remain largely flat over the period (-0.2%), which was a relatively pleasing outcome considering the extreme weakness in global and domestic stock markets.

The portfolio performed poorly in June, largely due to the sharp correction in Energy and Materials stocks which fell much further than the underlying changes in commodity prices.

WTI oil prices fell ~8%, primarily on an expected softening in demand due to U.S. economic recession risks. This caused a more substantial drop in oil equities with the S&P Oil and Gas E&P index (XOP) down 23% over the month. We believe the physical energy market remains tight and that the recent pronounced sell-off in energy equities has been overdone due to a number of non-fundamental factors such as quantitative flows, hedge fund de-grossing, redemptions, ETF flows and margin calls. Given this backdrop, we remain positive on the outlook for Energy and have used the sell-off to add to several of our key positions.

A U.S. recession is likely to result in softer oil demand, however we believe this would be more than outweighed by China re-opening over the coming year. Oil supply continues to remain constrained with sustained declines in global inventories and OPEC+ remains unable to grow production significantly.

Fund Returns (Net) ³ (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 year	9.8	(6.5)	+16.2
2 years p.a.	36.7	9.3	+27.3
3 years p.a.	21.9	3.3	+18.6
5 years p.a.	11.5	6.8	+4.7
7 years p.a.	19.6	6.9	+12.7
Since inception p.a.	20.5	6.2	+14.3
Since inception cumulative	331.9	60.5	+271.3

Returns Since Inception (Net) ³ (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	331.9	20.5
S&P ASX 200 Accumulation Index	60.5	6.2
MSCI World Index Total Return (USD)	45.6	4.9
HFRX Global Hedge Fund Index	8.7	1.1

After two years of stronger than normal equity returns, our expectations for market performance over the coming year remain more subdued. We believe the recent market sell-off has been quite erratic and is providing us with a better than usual set of investment opportunities. We have been using this period of heightened market volatility to add to a number of our highest conviction positions at exceptional prices. Given our positive view of the portfolio, we have also been increasing our personal investment in the Long Short Strategy.

Key detractors to portfolio performance during the month of June were:

Mineral Resources (Long -24%) shares declined over the month due to a combination of a ~14% fall in iron ore prices, broad-based weakness in the junior miner space and two well-publicised, bearish lithium reports by major investment banks. We continue to believe that all key areas of Mineral Resources' business (iron ore, lithium and mining services) have favourable medium-term tailwinds.

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.

The long-life, low-cost Ashburton iron ore project is expected to soon receive formal sanction with production due in late CY23/early CY24. We believe the market has not yet priced in either the step-change it will deliver for the mining services business or the inherent optionality from a new, major iron ore region.

We also expect Mineral Resources to realise its massive lithium growth pipeline (full downstream integration for >100kt of lithium hydroxide production) over the next four years, funded by a recent, successful US\$1.25b bond issue and more subdued, but still 'stronger for longer', lithium prices. Our positive outlook for Mineral Resources was reinforced by our recent visit to their impressive, new, company-owned Perth headquarters which reflect management's vision to provide an industry-leading experience for both head office and mine-based staff.

Bluescope Steel (Long -13%) shares weakened over the month, along with most offshore steel-making companies as U.S. and Asian steel spreads declined. We took the opportunity to top up our position. While the sharp rise in bond yields quickly dampened sentiment to housing, steel demand in the U.S. and Australia remains robust. U.S. steel spreads have declined from record levels but remain healthy and are likely to stay around current levels near-term as the arbitrage on importing steel has now largely been eroded.

Bluescope recently completed the acquisition of MetalX, a scrap business, and Coil Coatings, the U.S.'s second largest metal coating and painting company, as well as an 850kt expansion of the North Star plant in Ohio, which will benefit earnings as it ramps up over 18 months. Given its strong net cash balance sheet, we expect Bluescope to continue its \$985m on-market share buyback program, along with a further low-cost expansion of up to 1.4mt of steel at North Star in the coming years. The company has also committed to a \$1b Port Kembla blast furnace reline and upgrade over the next four years, a solid step towards Bluescope's ESG and carbon abatement targets. The company currently trades on just 4x consensus FY23 EV/EBIT and 5.6x consensus FY23 PE, which we believe significantly undervalues Bluescope's unique and strategic asset base.

Meg Energy (Long -19%) shares fell heavily in June on the back of an ~8% decline in WTI oil prices, providing a good buying opportunity for us. While Meg delivered its turnaround at Christina Lake on time in May, an unexpected electrical outage slowed the ramp-up of energy production in June. Although the company trimmed production guidance for Q2 by ~12% to 67MB/d and for this financial year by ~3% to 92-95MB/d, we believe it is still capable of producing 100MB/d in

CY23 and adding a further 10-20% to production for limited capex in the medium term. Meg continues to repurchase shares on market and we believe the buyback program will accelerate as net debt declines, reducing shares on issue considerably in the coming years. Meg remains one of our preferred long-life energy companies, with strong cashflow generation, a de-risked balance sheet and a shareholder friendly management team.

Capstone Copper (Long -32%) shares fell substantially as copper prices declined by 13% in June. While the market is concerned by the possible impact of several new copper projects and expansions to be delivered in 2022 and 2023, this should not distract from the major supply shortfall that we expect in the medium to longer term, as the copper-intensive global energy transition gains momentum.

Capstone is a fast-growing copper mining company focussed in the Americas with four producing mines, one undergoing a major expansion (with capex largely fixed under a lump sum contract) and one awaiting final investment decision. The company currently has no net debt and is well funded to complete the currently approved project pipeline (even in a more adverse copper price environment). We expect Capstone to double production over the medium term with the commencement and ramp-up of the Santo Domingo copper and cobalt project. The company has a capable management team that has emphasised long-life projects as well as low-cost expansion opportunities (rather than risky M&A or capex-intensive growth projects). We took advantage of the large sell-off to top up our position, with Capstone currently trading on only 4x consensus FY24 P/E, when the projects currently under construction will be in full production.

Qantas (Long -19%) shares declined in June, despite reaffirming second half EBITDA guidance, due to a combination of market concerns over an economic slowdown and high jet fuel costs. We continue to view Qantas as having emerged from the pandemic period even stronger than before, given its \$1b cost out program, improved market position and the massive pent-up demand for business and leisure travel, which we believe will persist despite macroeconomic headwinds. The company has announced plans to combat near-term higher input costs through passing some costs on to travellers and through a modest reduction in its domestic travel capacity over the next 12 months. We have long viewed Qantas as one of the world's highest quality airlines, with its dominant industry position, high-growth loyalty (frequent flyer) division and well-regarded management team.

Fund Returns (Net)⁴ (%)

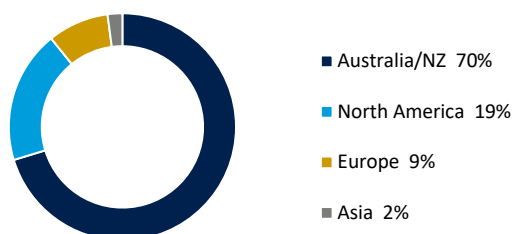
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	-	-	-	-	-	-	-	-	(2.42)	3.03	2.85	1.61	5.07
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.61	60.52
2016	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.18) ⁴	0.55	2.13	29.43
2017	2.48	1.79	2.83	1.01	4.14	1.68	2.61	1.67	1.91	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	3.28	0.10	(13.69)							(0.52)

Portfolio Positions	Current	Avg. Since Inception
Number of total positions	85	81
Number of long positions	62	56
Number of short positions	23	25
Number of international positions	31	24

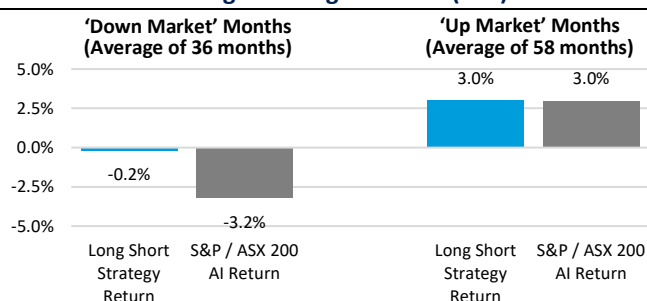
Net & Gross Exposure by Region⁴ (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	105	77	28
North America	35	14	21
Europe	22	0	22
Asia	5	0	5
Total	168	91	77

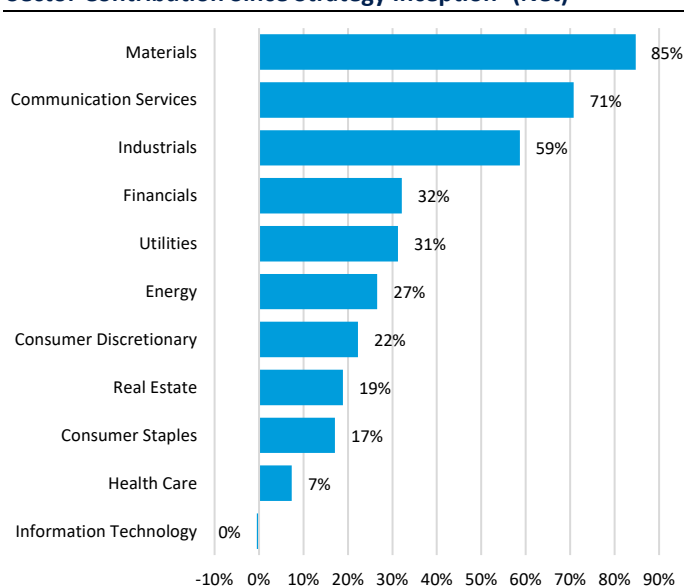
Gross Exposure as a % of Total Exposure⁴



Performance in Rising & Falling Markets⁴ (Net)



Sector Contribution Since Strategy Inception⁴ (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

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 ⁵
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. 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, Merrill Lynch, Goldman Sachs and Credit Suisse, Fund Administrator – Mainstream Fund Services, Fund Auditor – EY, Legal Advisor – Hall & Wilcox. Merrill Lynch and Goldman Sachs were added as prime brokers since the last 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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