Daily Class

L1 Capital Long Short Fund

Monthly Report | JULY 2022

Unit Price: $1.1621[1,2] | Fund NAV: $694m

- **The L1 Capital Long Short Fund returned -4.7%[3] in July (ASX200AI 5.7%).**
- **The Fund has returned 19.5%[3] p.a. over the past 3 years (ASX200AI 4.3% p.a.).**
- **Global markets rallied in July primarily due to a surge in 'expensive defensives' and speculative technology stocks. We continue to believe these parts of the market are overvalued and risky and remain comfortable not holding these stocks.**

Equities rallied in July, largely due to a fall in global bond yields. Rising recession concerns led to a reduction in medium-term interest rate expectations, with the market anticipating that the Fed would have to pivot earlier than previously expected.

Portfolio performance over the past two months has been disappointing, however we are consoled by the fact that this portfolio positioning has helped us deliver strong returns in recent years. The portfolio has returned 21.0% p.a. over the past three years compared to 4.3% for the ASX200 Accumulation Index. Our approach is to stay focused on the outlook for companies and industries over the next two to three years and to accept that share prices can be detached from fundamentals in the short term. This volatility provides opportunities for us to adjust our exposure and to benefit from erratic short term share price moves.

At present, investors have crowded into defensives, which ironically, has made those stocks risky (and expensive). We see numerous outstanding opportunities in cyclical companies that are now pricing in a severe economic downturn. We have used this sell-off to add to several of our highest conviction positions, including BlueScope, Capstone, MEG, Cenovus and Qantas (which were outlined in detail in our **June Quarterly Report**).

We believe copper and oil stocks are particularly oversold. Despite a 30-40% share price fall in our offshore copper positions over the past two months, expectations for the price of copper over the next three years have barely changed. The sell-off is not consistent with the prevailing market tightness and the strong demand growth we expect as the energy transition gains momentum.

Similarly, oil prices have fallen ~14% over the past two months, despite the oil market remaining physically tight. Our oil stocks have declined more severely than that and are now trading on 20-30% free cash flow yields and implying a US$60-$70 per barrel long-term oil price, compared to spot prices of ~US$95 per barrel.

Fund Returns (Net)[3] (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 year	2.8	(2.2)	+5.0
2 years p.a.	34.8	12.1	+22.6
3 years p.a.	19.5	4.3	+15.2
5 years p.a.	9.9	8.0	+1.9
7 years p.a.	18.2	7.1	+11.1
Since inception p.a.	19.6	6.9	+12.7
Since inception cumulative	311.8	69.8	+242.0

Returns Since Inception (Net)[3] (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	311.8	19.6
S&P ASX 200 Accumulation Index	69.8	6.9
MSCI World Index Total Return (USD)	57.1	5.9
HFRX Global Hedge Fund Index	9.3	1.1

We typically take a 2-year view, not a 2-month view, and remain confident that the fundamentals of our stocks remain firmly intact. We also remain comfortable having less exposure to high P/E stocks, which are still trading at a ~45% premium to their 20-year average, while low P/E stocks are trading at a ~15% discount to their 20-year average.

While the market remains volatile and our performance has experienced some short-term headwinds, we remain confident that we are in a stock pickers' market and that our stock selection and flexible portfolio design will drive performance over the medium term.

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

Safran (Long +14%) shares rose following a strong first half result and ~20% increase to full year free cash flow guidance. This is an exceptional result considering the headwinds impacting the company, including supply chain disruptions, cost inflation and COVID-19 restrictions in key markets such as China.

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. NOTE: Fund returns and Australian indices are shown in A$. Returns of U.S. indices are shown in US$.

In our view, Safran is the highest quality aerospace business globally, given it controls 60% market share of all jet engine sales for narrow-body aeroplanes and it has the most reliable and youngest engine fleet, which provides incredible predictability and visibility regarding its long term earnings outlook (from parts and maintenance of those engines). Safran remains well positioned to drive earnings growth going forward through its cost out program, which supports ~200bps in margin expansion and a continued recovery in global air travel as key markets such as China re-open. Furthermore, Safran has a robust balance sheet with flexibility to pursue capital management initiatives to drive additional shareholder returns. We believe the company is significantly undervalued, with ~50% upside if the shares simply recover to pre-COVID-19 levels.

St Barbara (Long +50%) shares rallied in July following strong Q4 FY22 results which included positive cashflow generation and solid mining production. St Barbara's flagship Gwalia mine is well-positioned to improve performance after a period of reinvestment and repositioning with further scale efficiencies achievable through its expanded mill. Similarly, its Simberi mine has resolved former operational issues and is now well-placed for a potential sale, which would both reduce group capex requirements and provide an incremental cash injection. We believe there are several catalysts that could unlock value at St Barbara over the next 12 months, including a streamlining of its asset base, consolidation of the Leonora gold district and improved operational execution across its key mine sites. The company is one of the cheapest gold names globally on a price per ounce of resources and reserves basis with significant upside potential.

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

Alibaba Group (Long -21%) shares fell in July as investor sentiment weakened regarding China's economic recovery. We believe Alibaba's earnings are likely to have bottomed in Q2 and should see a gradual recovery as China's retail spend improves post the harsh lockdowns in the prior quarter. Alibaba remains a high-quality business with sustainable leading positions in both e-Commerce and Public Cloud. We believe structural growth in these areas, supported by a broader economic recovery in 2023 and the exit of smaller unprofitable competitors in some of Alibaba's key markets (e.g. online grocery) will support earnings growth going forward.

F45 (Long -50%) shares fell sharply following a substantial earnings downgrade and the resignation of their CEO. Tighter financing conditions in the U.S. have reduced the ability of franchisees to open new gyms in the last few months.

Capstone Copper (Long -11%) shares fell over the month as copper prices continued to remain under pressure. The market is concerned about a reduction in copper demand from a potential U.S. recession as well as growth in new supply from several new copper projects and expansions to be delivered in 2022 and 2023. We believe these concerns are overdone and there will be a major copper supply shortfall 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. Capstone is currently trading on less than 4x consensus FY24 P/E, when the projects currently under construction will be in full production.

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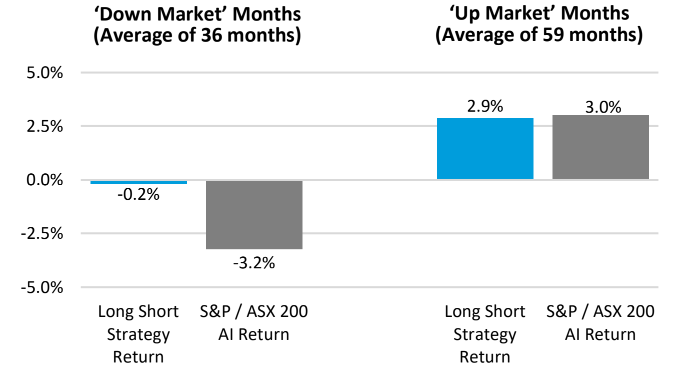
Fund Returns (Net)[4] (%)

	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)	(4.66)						**(5.15)**

Portfolio Positions

Portfolio Positions	Current	Avg. Since Inception
Number of total positions	79	81
Number of long positions	59	56
Number of short positions	20	25
Number of international positions	28	24

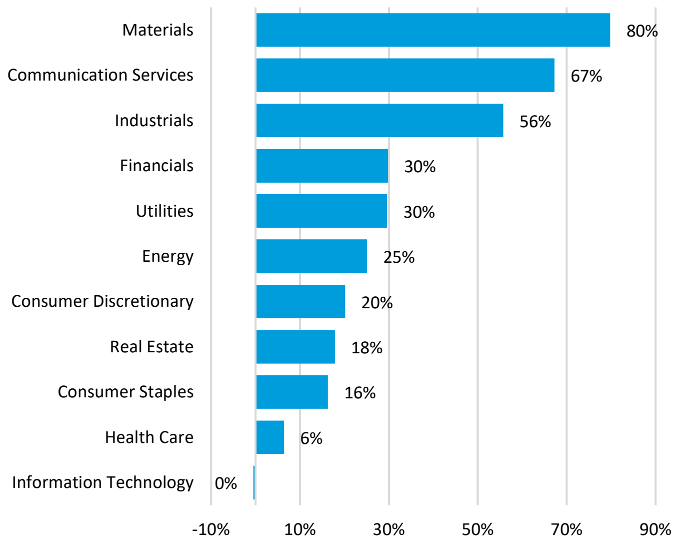
Performance in Rising & Falling Markets[4] (Net)



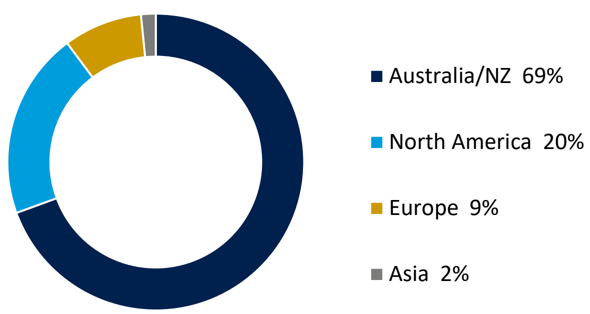
Net & Gross Exposure by Region[4] (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	107	75	32
North America	38	15	23
Europe	22	0	22
Asia	4	0	4
Total	**172**	**90**	**82**

Sector Contribution Since Strategy Inception[4] (Net)



Gross Exposure as a % of Total Exposure[4]



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.

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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

Contact us

Head of Distribution

Chris Clayton | cclayton@L1.com.au |+61 3 9286 7021

Researchers

Aman Kashyap | akashyap@L1.com.au | +61 477 341 403

Advisors

Alexander Ordon | aordon@L1.com.au | +61 413 615 224
Alejandro Espina | aespina@L1.com.au | +61 423 111 531
Matthew Leung | mleung@L1.com.au | +61 431 747 929

Private Clients

Edward Vine | evine@L1.com.au | +61 412 525 390

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 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.

L1 CAPITAL

Level 28, 101 Collins Street
Melbourne VIC 3000
Australia
www.L1.com.au

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 – Apex Fund Services Ltd (formerly known as Mainstream Fund Services), Fund Auditor – EY, Legal Advisor – Hall & Wilcox. There have been no changes to key service providers 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

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the L1 Capital Long Short Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). This publication has been prepared by L1 Capital Pty Ltd (ACN 125 378 145, AFSL 314 302), to provide you with general information only. In preparing it, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither L1 Capital Pty Ltd, Equity Trustees nor any of its related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product. The L1 Capital Long Short Fund's Target Market Determination is available at https://bit.ly/3a0Kj68. A Target Market Determination is a document which was required to be made available from 5 December 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.