

L1 Capital Long Short Fund

Monthly Report | AUGUST 2022
Unit Price: \$1.2302^{1,2} | Fund NAV: \$786m

- The L1 Capital Long Short Fund returned 5.9%¹ in August (ASX200AI 1.2%).
- The Fund has returned 21.6%¹ p.a. over the past 3 years (ASX200AI 5.5% p.a.).
- Fund performance was strong in August, with several portfolio positions delivering upbeat results ahead of market expectations.

Global equity markets declined in August (MSCI World -4.2%, S&P500 -4.1%, NASDAQ -4.5%), with sentiment turning negative following comments from Fed Chair Jerome Powell at the Jackson Hole symposium. Powell emphasised that the Fed would continue its tightening policy until it is confident inflation is moving closer to its 2% long-range target. Market expectations leading into the symposium were for the Fed to have to 'pivot' quickly to interest rate cuts due to rising recession fears. However, following the Fed Chair's speech, bond yields spiked in both the U.S. and Australia as consensus expectations of sustained interest rate hikes increased.

The S&P/ASX 200 Accumulation Index returned 1.2% in August. The strongest sectors were Energy (+7.8%), Materials (+4.4%) and Communication Services (+2.5%) while Property (-3.5%), Consumer Staples (-1.8%) and Utilities (-1.6%) lagged.

The portfolio performed strongly in August with a number of our holdings delivering better results and outlooks than consensus expectations over the reporting season.

We believe equity markets are entering a more difficult and uncertain period due to a combination of aggressive central bank policy tightening, deteriorating leading economic indicators in the U.S, worsening geopolitical tensions and continued war in the Ukraine, along with an energy crisis in Europe. As a result, we have significantly reduced our net market exposure and made further reductions since month end. We continue to find both safety and value in low P/E stocks with undergeared balance sheets and strong cashflow generation. In contrast, we believe high P/E stocks and 'expensive defensives' look crowded, risky and unappealing.

Key contributors to portfolio performance in August included:

Flutter (Long +31%) shares rallied after reporting strong first half results with the U.S. business moving to positive EBITDA in Q2, well ahead of its U.S. peers. Flutter's U.S. sports betting market share accelerated to 51% in Q2 2022, from ~40% six months ago, driven by its superior product, efficient customer acquisition strategies and strong operational execution.

Fund Returns (Net) ³ (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 year	3.4	(3.4)	+6.9
2 years p.a.	32.2	11.2	+21.0
3 years p.a.	21.6	5.5	+16.1
5 years p.a.	10.8	8.1	+2.7
7 years p.a.	18.8	8.5	+10.3
Since inception p.a.	20.2	7.0	+13.2
Since inception cumulative	335.9	71.8	+264.1

Returns Since Inception (Net) ³ (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	335.9	20.2
S&P ASX 200 Accumulation Index	71.8	7.0
MSCI World Net Total Return Index (USD)	50.2	5.2
HFRX Global Hedge Fund Index	10.3	1.2

The U.S. division is now the largest by revenue for the company, with a clear path to profitability in 2023. This shift to profitability, together with the continued exponential growth in the U.S. market, underpins the ability for Flutter to significantly accelerate its earnings growth over the next few years. Trading on only 22x (consensus) FY23 P/E, we believe Flutter remains significantly undervalued given its exceptional growth outlook.

Mineral Resources (Long +19%) shares rallied over the month supported by strong lithium prices and the formal sanction of its Ashburton iron ore project (now called Onslow Iron) with production due in late CY23. We believe Onslow Iron will deliver a step-change in earnings for the company. Mineral Resources will own a controlling interest in a high-quality, long life, low-cost asset as well as the associated mining services contract and infrastructure tolling. From a lithium perspective, the company remains focused on developing its massive growth pipeline (full downstream integration for >100kt of lithium hydroxide production) over the next four years.

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\$. Returns are on a total return basis unless otherwise specified.

The lithium market continues to remain very tight, supported by battery demand for electric vehicles. We continue to believe that all key areas of Mineral Resources' business (iron ore, lithium, and mining services) have favourable medium-term tailwinds with significant optionality that is not fully reflected in current market prices.

Qantas (Long +17%) shares performed strongly after reporting results at the top end of its guidance range and reaffirming its FY24 financial targets. Qantas also managed to dramatically reduce its net debt during the year, enabling a ~\$400m share buyback to be announced at the result. The travel recovery continues to gain momentum, with leisure demand tracking 25% above pre-COVID levels and corporate / SME demand tracking at close to pre-COVID levels. Like many airlines around the world, Qantas has suffered from major operational issues this year, but we are now starting to see material improvements in call centre performance, flight delays/cancellation rates and baggage handling disruptions. These issues are complicated and are due to a number of disparate factors, but we believe they should gradually resolve.

We continue to view Qantas as having emerged from the pandemic even stronger than before, given its \$1b cost out program, improved market position and the massive pent-up demand for leisure and business travel, which we expect will persist despite macroeconomic headwinds. If Qantas management can achieve its FY24 targets, there is potential to deliver close to \$1 of earnings per share, with Qantas currently trading on only ~5x P/E on that basis. We believe there is more than 100% share price upside through earnings growth and a P/E re-rating as the company's earnings mix shifts towards the higher quality domestic earnings and loyalty business.

Hastings Technology Metals (Long +34%) is a leading Australian rare earth company. Its main project is the Yangibana mine in Western Australia, which is likely to be the next major ex-China rare earth mine. The company's shares surged in August on the back of strong results and the proposed acquisition of a 22% strategic shareholding in Neo Performance Materials, a rare earth processor and magnets producer listed in Canada. The acquisition will be funded by a A\$150 million cornerstone investment in Hastings by Andrew Forrest's private investment vehicle Wyloo Metals through the issuance of secured, redeemable, exchangeable notes. We believe the acquisition aligns with Hastings focus on creating a fully integrated, mine-to-magnet supply chain and the investment by Wyloo supports the upside we see in the company going forward.

QBE (Long +5%) shares rose in August after the company delivered a robust first half result with underwriting profit 15% ahead of consensus expectations. The step-change in growth for the business is best illustrated by Gross Written Premiums (GWP), where, after enduring a flat and challenging premium market for over a decade, the company has delivered a 21% increase in 2021 and an 18% increase in the first half of 2022 (on a constant currency basis). The North American business – which has historically struggled – demonstrated a notable improvement in both operating trends and reserving (implying a lower chance of future issues). QBE is also a significant beneficiary of rising interest rates, with its ~\$27b investment book on track to generate an incremental ~\$240m of earnings based on prevailing bond yields.

We have been cautious on QBE for many years, given the clear industry and company-specific issues it was facing. However, after 15 years of clear headwinds, we believe the company is finally at a turning point and is set to deliver stronger margins, dividends and return on equity. We believe this inflection point in business performance is not yet factored into market expectations, with QBE trading on only ~8.5x FY23 consensus P/E (versus a 10 year pre-COVID average of ~13x).

Fund Returns (Net)⁴ (%)

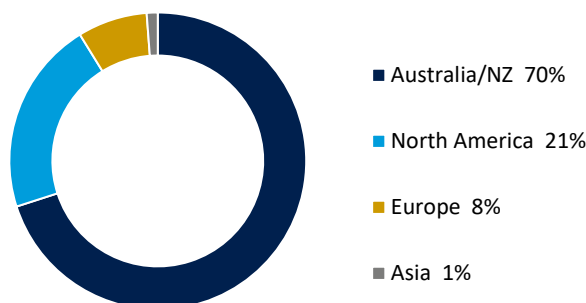
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	-	-	-	-	-	-	-	-	(2.42)	3.03	2.85	1.61	5.07
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.61	60.52
2016	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.18) ⁴	0.55	2.13	29.43
2017	2.48	1.79	2.83	1.01	4.14	1.68	2.61	1.67	1.91	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)	5.86					0.41

Portfolio Positions	Current	Avg. Since Inception
Number of total positions	77	81
Number of long positions	57	56
Number of short positions	20	25
Number of international positions	28	25

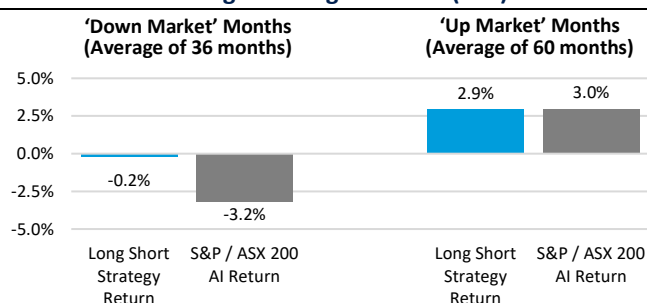
Net & Gross Exposure by Region⁴ (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	98	70	29
North America	35	16	19
Europe	18	0	18
Asia	3	0	3
Total	155	85	69

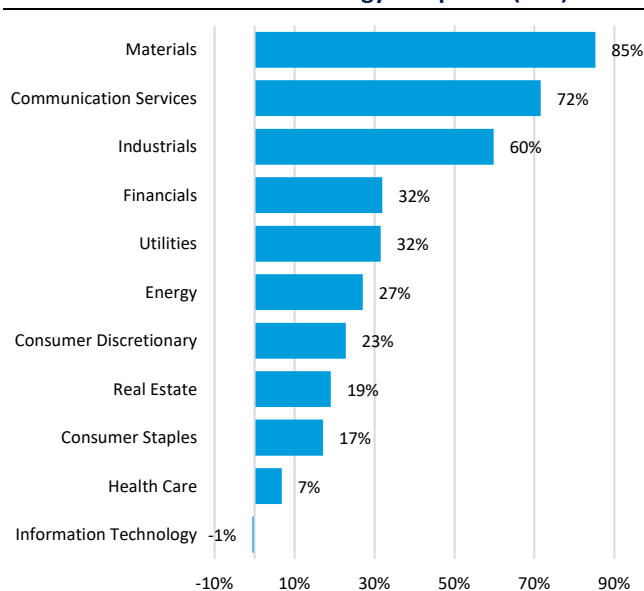
Gross Exposure as a % of Total Exposure⁴



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 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 – 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

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