

L1 Capital Long Short Fund

Monthly Report | MAY 2023

- The L1 Capital Long Short Fund returned -3.4%¹ in May (ASX200AI -2.5%).
- Over the past 3 years, the portfolio has returned 27.1%¹ p.a. (ASX200AI 11.4% p.a.).
- Global equity markets were generally weaker in May as investors remained concerned about the risk of a U.S. government debt default and slowing economic growth.

The ASX200 and MSCI World fell in May as investors remained concerned with rising interest rates and a softening demand environment, along with elevated risks of a potential U.S. debt default, with debt levels approaching the US\$31.4 trillion debt ceiling.

Mega-cap technology stocks performed strongly as artificial intelligence and ChatGPT dominated headlines across the market. This perpetuated the extremely narrow level of market leadership we have seen over the year to date, with the seven best performing stocks in the S&P500 responsible for 100% of the total index return in 2023 (i.e. the aggregate return of the remaining 493 stocks has been zero). ‘Value’ equities underperformed ‘Growth’ equities in May by the most of any month in over 20 years. The last time this level of divergence in performance occurred was near the peak of the dot-com boom.

Bond yields rose in Australia and the U.S. (Australian 10-year yield +27bps and U.S. 10-year yield +22bps) as both the RBA and the Fed lifted interest rates by 25bps over the month with inflation continuing to remain sticky.

Commodity markets were weak (iron ore -3%, coking coal -3%, copper -6%, Brent crude -9%, nickel -16%) primarily driven by concerns over weakening U.S. demand and a sluggish Chinese economy, as well as a stronger U.S. dollar.

We are cautious on the outlook for the stock market given the looming impact of significant interest rate hikes, weakness in leading economic indicators, gradually increasing pressure on corporate earnings and lingering tail risk from geopolitical tensions.

Given that backdrop, we have intentionally set a lower than usual net market exposure. We anticipate ongoing market volatility as investors continue to reassess their expectations for the economy, interest rates and corporate profits. From our extensive company research, we are continuing to identify numerous mis-priced stocks that we believe will deliver attractive long-term returns for our investors.

Fund returns (Net) ¹ (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 month	(3.4)	(2.5)	(0.9)
3 months	(1.0)	(0.9)	(0.1)
1 year	(4.2)	2.9	(7.1)
2 years p.a.	10.2	3.9	+6.3
3 years p.a.	27.1	11.4	+15.7
5 years p.a.	12.2	7.5	+4.8
7 years p.a.	13.8	8.3	+5.5
Since inception p.a.	20.0	7.0	+13.0

Figures may not sum exactly due to rounding.

Returns since inception (Net) ¹ (%)	Cumulative return	Annualised return p.a.
L1 Capital Long Short Fund	392.7	20.0
S&P ASX 200 Accumulation Index	81.1	7.0
MSCI World Net Total Return Index (USD)	87.4	7.4
HFRX Global Hedge Fund Index	9.3	1.0

The S&P/ASX 200 Accumulation Index declined 2.5%. Information Technology (+11.6%), Utilities (+1.1%) and Energy (+0.2%) were the strongest sectors, while Consumer Discretionary (-6.1%), Consumer Staples (-4.6%) and Materials (-4.4%) lagged.

Portfolio performance was impacted by the sharp decline in commodity prices, as well as the rally in high-multiple growth stocks where we have some short positions.

We believe a deteriorating demand picture is already factored into commodity prices and there remains a likely structural improvement in medium-term demand for some commodities, such as copper and nickel.

The crowding in mega-cap technology stocks and ‘expensive defensives’ is at extreme levels relative to history. This has typically been an indicator of a likely inflection in market leadership and should support a reversion to cyclical equities which we believe are undervalued and under-owned.

1. 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 – Monthly Class. NOTE: Fund returns and Australian indices are shown in A\$. Returns of U.S. indices are shown in US\$. Index returns are on a total return (accumulation) basis unless otherwise specified.

Key contributors to portfolio performance in May included:

Allkem (Long +21%) shares surged due to the announcement of an all-stock merger of equals with Livent, to create a leading, global, integrated lithium chemicals producer. The combined entity is expected to be the third largest lithium producer in the world by 2027, with production capacity of ~250ktpa lithium carbonate equivalent. Furthermore, the transaction is expected to generate cost synergies of US\$125m p.a. and a one-time capex saving of ~US\$200m. Livent management will lead the combined entity, with a primary listing in the U.S., which we believe could attract a higher multiple in line with U.S. peers such as Albemarle.

James Hardie (Long +13%) shares rose after announcing Q1 FY23 earnings guidance well above market expectations. There continues to be uncertainty in terms of the impact that rising interest rates will have on housing, and on repair and remodel demand. However, the company provided confidence that it can maintain strong margins even allowing for a sharp decline in fibre cement volumes. This is driven by its more resilient end-market exposure, the benefits of its product mix shifting towards higher-margin products and its proactive cost management program. We continue to believe James Hardie is well placed to manage through the current period of softer demand and thereafter, to continue to grow at an above-market rate for many years to come.

Key detractors from portfolio performance in May included **Capstone (-16%), Teck Resources (-16%)** and **Imdex (-11%)**, which were all impacted by the downturn in commodity prices over the month.

Investors remain cautious on the near-term demand outlook and in particular, the recovery of the Chinese economy where consumer spending and industrial activity grew at a slower pace than expected in April. Demand for services continues to recover strongly in China, however, this has not yet extended into a greater demand for goods.

Whilst near-term demand may remain subdued, the medium-term fundamentals across our commodity exposures continues to remain positive. Furthermore, our key portfolio positions have strong production growth, with any positive commodity price moves adding incremental upside.

Fund returns (Net)² (%)

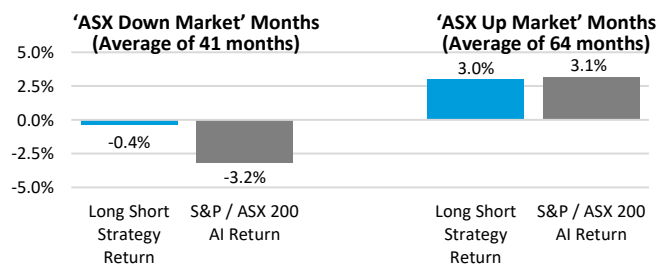
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	-	-	-	-	-	-	-	-	(2.42)	3.03	2.85	1.61	5.07
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.61	60.52
2016	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.13)	0.55	2.22	29.61
2017	2.51	1.87	3.15	1.03	4.18	1.70	2.62	1.69	1.93	2.54	0.89	3.56	31.40
2018	0.56	(0.47)	(1.64)	1.62	(3.76)	(6.29)	0.82	(5.92)	(2.12)	(3.98)	(2.60)	(6.06)	(26.40)
2019	4.35	5.15	0.22	2.84	(2.78)	3.85	1.18	0.44	2.61	3.37	0.32	2.22	26.20
2020	(7.81)	(7.10)	(23.02)	22.96	10.97	(2.21)	(1.93)	9.98	0.52	(2.63)	32.28	4.16	27.99
2021	(0.10)	9.06	(0.13)	4.99	4.11	(0.55)	1.83	5.24	4.81	2.30	(7.21)	3.59	30.62
2022	2.74	7.00	1.47	3.29	0.12	(13.39)	(4.63)	5.70	(7.80)	5.10	7.91	4.27	9.82
2023	3.67	(1.99)	0.66	1.86	(3.44)								0.60

Portfolio positions	Current	Avg. since inception
Number of total positions	74	81
Number of long positions	54	56
Number of short positions	20	25
Number of international positions	23	25

Fund information as at 31 May 2023³

Unit Price	\$1.93
Fund NAV	\$1,072m

Performance in rising & falling markets² (Net)

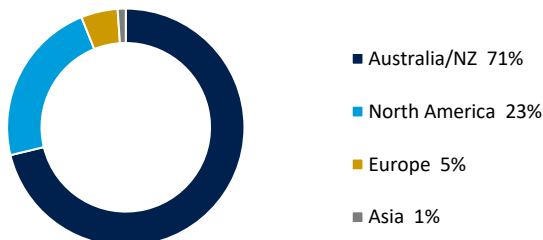


Net & gross exposure by region² (%)

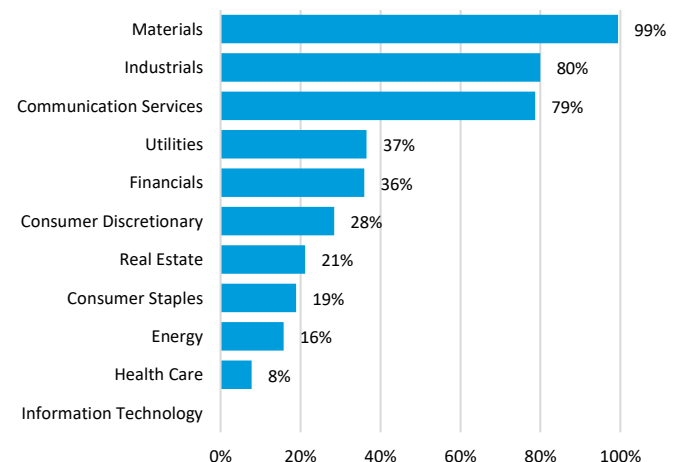
Geography	Gross long	Gross short	Net exposure
Australia / NZ	90	76	14
North America	36	17	20
Europe	12	-	12
Asia	3	-	3
Total	141	93	47

Figures may not sum exactly due to rounding.

Gross exposure as a % of total exposure²



Sector contribution since Strategy inception² (Net)



2. 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 – Monthly Class. 3. The value of the Fund's assets less the liabilities of the Fund net of fees, costs and taxes. 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.



L1 Capital Long Short Fund

Monthly Report | MAY 2023

Fund information – Monthly Class

Class Name	L1 Capital Long Short Fund – Monthly Class
Structure / Currency	Australian Unit Trust / AUD
Inception	1 September 2014
Management Fee	1.28% p.a. inclusive of GST and net of RITC
Performance Fee	20.50% inclusive of GST and net of RITC ⁴
High Watermark	Yes
Buy / Sell Spread	15bps / 15bps
APIR / ISIN	ETL4912AU / AU60ETL49128
Minimum Investment	A\$500,000
Subscription / Redemption Frequency	Monthly
Platform Availability	Australian Money Market, HUB24, Netwealth, PowerWrap

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 224Alejandro Espina | aespina@L1.com.au | +61 423 111 531Lisa Salamon | lsalamon@L1.com.au | +61 406 585 322

Private Clients

Edward Vine | evine@L1.com.au | +61 412 525 390Scan the QR
code for more
information

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, private wealth firms, financial planning groups, family offices, high net worth investors and retail investors.



Level 45, 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 and Goldman Sachs, 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.

4. 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. Past performance should not be taken as an indicator of future performance. Sources of information in this report are Apex 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. 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.

Copyright

Copyright in this publication is owned by L1 Capital. You may use this information in this publication for your own personal use, but you must not (without L1 Capital's consent) alter, reproduce or distribute any part of this publication, transmit it to any other person or incorporate the information into any other document.