L1 CAPITAL

Monthly Class

L1 Capital Long Short Fund

Monthly Report | DECEMBER 2021

Fund NAV: $784m

The L1 Capital Long Short Fund returned 3.6% (net)[1] in December (ASX200AI 2.7%).

The Fund returned 30.6% (net)[1] over the past 12 months (ASX200AI 17.2%).

The Fund has returned more than 25% in 6 out of 7 calendar years since inception.

Global equity markets recovered in December as concerns regarding the impact of the Omicron variant moderated and investors adjusted to the more hawkish pivot from the U.S. Federal Reserve ("Fed"). Jerome Powell, the Fed Chair, announced a further acceleration in the tapering of its bond-buying program in mid-December in order to manage higher inflation risks. This signals the potential for earlier and multiple interest rate increases in 2022 and supports our preference for short duration (value/cyclical) versus long duration (growth/defensive) stocks as we enter a central bank tightening cycle.

The S&P/ASX 200 Accumulation Index returned +2.7% in December. The strongest sectors were Utilities (+7.9%), Materials (+6.5%) and Property (+4.9%), while Information Technology (-5.3%), Healthcare (-2.4%) and Consumer Staples (-2.3%) lagged.

The portfolio performed well over the month supported by broad-based stock gains (11 individual stock positions contributed 0.3% or more to returns) and by a recovery in re-opening beneficiaries following the aggressive sell-off in November. Our research and numerous calls with various experts overseas indicates that the Omicron variant is more contagious than the Delta variant, however, it is less likely to cause severe illness or death. Existing vaccines have also been shown to provide strong protection from severe illness with booster doses further enhancing protection.

These factors give us confidence that while the reopening path may be delayed, the recovery continues to remain broadly on track.

We expect volatility to remain heightened as the market reacts to headlines and new data surrounding the Omicron variant and Central Bank actions. Similar to previous periods of turbulence, we believe this will provide attractive opportunities for stock picking. We continue to remain very positive about the medium-term outlook for the portfolio given the large number of portfolio stocks with significant upside to valuation and the extreme stock dispersion across the market.

Fund Returns (Net)[1] (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 year	30.6	17.2	+13.4
2 years p.a.	29.3	9.0	+20.3
3 years p.a.	28.3	13.6	+14.6
5 years p.a.	15.3	9.8	+5.6
7 years p.a.	22.9	9.0	+14.0
Since inception p.a.	22.6	8.2	+14.4
Since inception cumulative	346.1	78.2	+267.8

Returns Since Inception (Net)[1] (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	346.1	22.6
S&P ASX 200 Accumulation Index	78.2	8.2
MSCI World Index Total Return (USD)	84.8	8.7
HFRX Global Hedge Fund Index	14.5	1.9

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

Mineral Resources (Long +24%) shares rallied, driven by a recovery in iron ore prices and continued increases in lithium prices. We believe all key areas of the business (iron ore, lithium and mining services) have favourable medium-term tailwinds. In particular, the company expects to increase its iron ore production from around 20mt p.a. to over 80mt p.a. in the coming years and is in the process of restarting Wodgina (one of the top 3 largest hard-rock lithium mines in the world) at a time when the lithium market is exceptionally tight. We believe Mineral Resources is a very compelling investment, offering a rare combination of attractive valuation, high quality management, supportive industry tailwinds, strong long-term earnings growth and a rock-solid balance sheet.

[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.*

Flutter (Long +15%) shares recovered in December after the company announced the acquisition of Sisal (a leading Italian online gaming operator) and as investor concerns around intense competition in the U.S. sports betting and gaming market moderated. The Sisal acquisition should drive double digit earnings per share accretion and will be entirely debt funded, demonstrating the strength of Flutter's balance sheet. On the U.S. sports betting and gaming side, there was a ramp up in competitive intensity and an increase in acquisition costs for customers over the start of the NFL season, leading to concern about the path to profitability for the industry.

Flutter's U.S. operations (comprising FanDuel and FOX Bet) are set to generate ~50% more revenue in FY21 than its nearest competitor but at half the estimated EBITDA losses (Flutter incurs temporary losses due to ramp up investment in newly opened states). As part of its FY21 results, the company outlined a blended U.S. customer acquisition cost ("CAC") of ~US$291 per customer and a payback period of 1.2x by the end of year 1. This gives us confidence that despite strong competition, Flutter remains best-placed to achieve profitability ahead of competitors and will continue to consolidate its leading position in the U.S. sports betting market. Trading on only 22x consensus FY23 P/E, we have confidence that Flutter remains significantly undervalued given the decade of strong growth the company has ahead of it. We used the pull-back in November to add to our position.

Airbus (Long +14%) shares rose as investor concerns over the potential impact of the Omicron variant moderated, with the company securing two significant aircraft orders from long-term Boeing customers. Airbus was awarded orders for 160 A320neo planes from Air France-KLM and 40 A320neo planes from Qantas, with further purchase rights for another 94 planes over the next 10 years as Qantas phases out its older Boeing fleet. The orders further demonstrate Airbus's dominant position in narrow-body planes, with its market share increasing in recent years due to the issues that have plagued Boeing's 737 Max, its only meaningful competitor in the category. We expect narrow-body demand to continue to grow strongly with the planes exceptionally well positioned for the post-COVID-19 travel landscape. The A320 is Airbus's most profitable product and generates very high incremental returns on invested capital which will support significant profit growth over the medium term. We believe Airbus remains undervalued, with the shares still trading below their pre-COVID-19 levels, despite their production and margin outlook set to be even better than before the pandemic.

Worley (Long +11%) shares rallied over the month due to a recovery in oil prices and post its investor day where the company re-iterated its full year outlook and confirmed its aspiration to generate more than 75% of revenue from sustainability-related sources within the next five years. Worley remains one of the few global engineering consultancy firms and is uniquely positioned to benefit from the energy transition shift and significant spend that is likely to be invested in hydrogen, carbon capture and renewable energy. We believe Worley is in the early innings of the pivot to 'green' energy opportunities, with the market continuing to view the stock as a legacy oil and gas engineering contractor. The company trades on only ~14.5x consensus FY23 earnings despite signs of a recovery in conventional oil and gas capex and the huge opportunity in energy transition related activities.

Chorus (Long +5%) shares rose in December based on the New Zealand Commerce Commission's determination of a Regulated Asset Base (RAB) that was less punitive than the worst-case scenario feared by the market. We are disappointed with the regulatory process undertaken by the Commission over the last two years. It dismissed legitimate investor concerns on wireless stranding, made no allowance for extra risk of building a network versus operating an existing one, and imposed arbitrary cuts to Chorus's allowed operating expenditure deductions. The risk-free rate was locked in at an arbitrary time, separate from the RAB calculation which is not in line with best practice and resulted in the determination of a rate that is one of the lowest for fibre assets anywhere in the world, and far lower than Chorus's cost of capital. There is now no incentive for Chorus to invest beyond the current regulatory period. The decision creates a cloud over long-term public-private partnerships in New Zealand, with Chorus as a cautionary tale that has likely raised the cost of future projects for all New Zealanders.

Despite our negative view of the determination, we continue to remain confident in Chorus management being strong capital allocators and returning capital where there is no strong incentive to invest. The end of the fibre build program will drive a strong uplift in cashflows which should be returned to shareholders after a lengthy 10 year investment period.

Monthly Class

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L1 CAPITAL

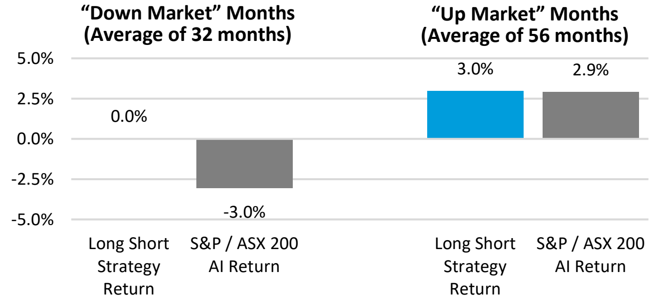
Fund Returns (Net)[2] (%)

	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	(2.20)	(1.93)	9.98	0.52	(2.62)	32.28	4.16	**28.01**
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**

Portfolio Positions

Portfolio Positions	Current	Avg. Since Inception
Number of total positions	85	81
Number of long positions	70	55
Number of short positions	15	25
Number of international positions	31	24

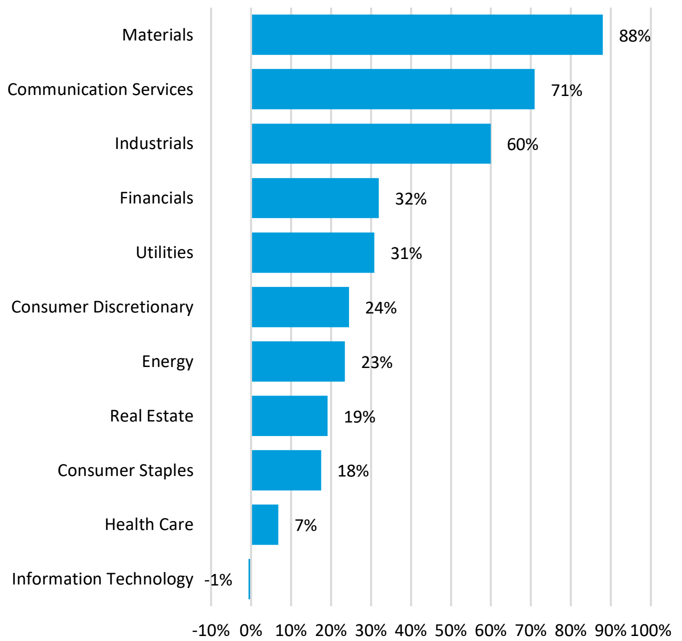
Performance in Rising & Falling Markets[2] (Net)



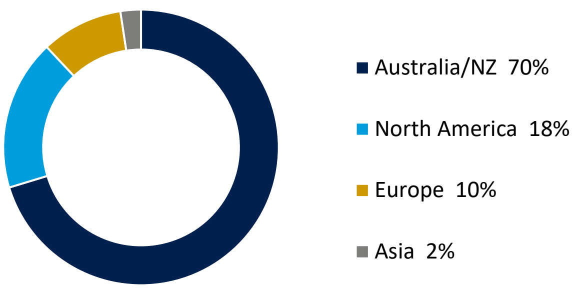
Net & Gross Exposure by Region[2] (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	122	74	48
North America	41	8	33
Europe	24	3	21
Asia	7	0	7
Total	**194**	**84**	**110**

Sector Contribution Since Strategy Inception[2] (Net)



Gross Exposure as a % of Total Exposure[2]



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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 RITC
Performance Fee	20.50% inclusive of GST and RITC[3]
High Watermark	Yes
Buy / Sell Spread	25bps / 25bps
APIR / ISIN	ETL4912AU / AU60ETL49128
Minimum Investment	A$500,000
Subscription / Redemption Frequency	Monthly
Platform Availability	HUB24, Netwealth, PowerWrap

Service Providers

Responsible Entity	Equity Trustees Limited
Prime Brokers	Morgan Stanley, 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.

L1 CAPITAL
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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 only Australian equities, long short 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 versus both benchmarks and peers. 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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[3] 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 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).

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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.