Monthly Class

L1 Capital Long Short Fund

Monthly Report | JANUARY 2022

Fund NAV: $811m

- **The L1 Capital Long Short Fund returned 2.7% (net)[1] in January (ASX200AI -6.4%).**
- **Global equities markets fell sharply, delivering the largest falls since the onset of the COVID-19 pandemic in March 2020 (NASDAQ -9.0%, MSCI World -5.3%, S&P500 -5.2%).**
- **The portfolio performed strongly in January due to stock-specific company updates, long exposure to energy and short positions in several ultra-high P/E stocks.**

Global equity markets fell sharply in January as investors braced themselves for tighter monetary policy from central banks. Bond yields in both the U.S. and Australia spiked (U.S. ten-year yield +27bps and the Australian 10-year yield +22bps) as market expectations of interest rate hikes increased. This led to a more pronounced sell-off in high-multiple, unprofitable stocks that are more sensitive to higher bond yields.

The S&P/ASX 200 Accumulation Index fell 6.4% in January. The strongest sectors were Energy (+7.9%), Utilities (+2.6%) and Materials (+0.8%), while Information Technology (-18.4%), Healthcare (-12.1%) and Consumer Staples (-9.6%) were particularly hard hit.

The portfolio performed well over the month through broad-based stock gains with 16 individual stock positions contributing 0.3% or more to returns. The portfolio also had tailwinds from strong commodity prices, including a continued rally in oil prices, as well as several short positions in ultra-high P/E companies. These stocks continue to look expensive, despite the large share price falls.

The market movements in January continue to support our preference for short duration (Value/Cyclical) versus long duration (Growth/Defensive) stocks as we enter a central bank tightening cycle.

We expect share prices of ultra-expensive growth stocks to remain under pressure due to the increase in bond yields and the imminent reduction of central bank liquidity (along with the likely moderation of retail investor speculation). We believe a re-focus of investor mindsets on cashflow-based valuations and traditional finance fundamentals will be a welcome change that should provide a tailwind to portfolio performance. While we expect market returns to moderate significantly over the coming year, we continue to identify numerous mispriced stocks which should enable the portfolio to achieve its investment objectives.

Fund Returns (Net)[1] (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 year	34.4	9.4	+24.9
2 years p.a.	36.5	3.0	+33.5
3 years p.a.	27.6	9.8	+17.8
5 years p.a.	15.4	8.5	+6.9
7 years p.a.	23.3	7.5	+15.8
Since inception p.a.	22.8	7.1	+15.6
Since inception cumulative	358.3	66.9	+291.4

Returns Since Inception (Net)[1] (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	358.3	22.8
S&P ASX 200 Accumulation Index	66.9	7.1
MSCI World Index Total Return (USD)	74.9	7.8
HFRX Global Hedge Fund Index	12.8	1.6

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

Cenovus Energy (Long +19%) shares rallied with a strong rise in oil prices (up ~17% over the month). Given the long-life nature of its oil sand assets and its low cost of production, we estimate the company is free cashflow break-even at an oil price of ~$40 /bbl. At present, oil prices are more than double this break-even point, implying considerable upside to consensus cashflow estimates (if prices remain near current levels). There are also additional value realisation catalysts with the company continuing to progress the de-gearing of its balance sheet via organic cash generation and asset sales.

Santos (Long +13%) shares rallied in line with the strong oil price and on the back of completing its merger with Oil Search in late 2021. We retained our interest in Oil Search, which has now converted into Santos shares post-merger. In our view, the combined business, led by the highly regarded Santos management team, is well placed to outperform. Key upside drivers include strong organic cashflow generation supported by high oil and gas prices, the potential to deliver merger synergies above guidance and catalysts from partial asset sales in both Papua New Guinea and Alaska.

[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.

Shopify (Short -30%) is a Canadian software company that enables small and medium size businesses to easily manage an online shopfront. The company has performed extremely well during the COVID-19 period as businesses have been forced to move to an online model, driving up subscriptions, and consumers shopped more online, driving up payment volumes. We began shorting Shopify in December 2021 at ~$1,360 per share. Our view was that despite demonstrable strengths and likely enduring benefits from a pull-forward of demand during the COVID-19 period, the company's share price had become very overvalued. There were also growing risks of a significant slow-down in Shopify's growth in 2022 from a general economic re-opening and from the emergence of well-funded copycat platforms. Shopify was also impacted by the spike in bond yields over the month which drove a significant de-rate in its valuation. With the stock now trading more in line with peers and our key catalysts having played out, we covered the short in late January at around $890 per share.

Teck Resources (Long +7%) shares performed well following a very strong earnings quarter driven by the prices of coking coal, copper and zinc all rallying strongly. The company continues to make good progress on the construction of one of the world's largest copper mines (QB2), which we expect to generate further upside as it hits commercial production in late 2022. This comes at a time when the world continues to become short copper due to ongoing grade declines at major copper mines globally combined with medium-term demand support from expansion of the electricity grid in the developing world, along with the structural shift to electric vehicles. Despite the strong performance to date, Teck continues to be materially undervalued, trading on a FY22 P/E of only ~5.5x (consensus earnings). With the benefits of QB2 earnings and a large cost out program still to come over the next few years, we continue to believe Teck remains a very attractive investment.

CK Hutchison (Long +10%) shares rose due to renewed optimism around a global economic recovery post COVID-19. CK Hutchison is a diversified conglomerate with European and Australian infrastructure and telecom assets comprising the majority of its value. We believe CK Hutchison will deliver a much stronger operating performance in 2022 as the company's ports, retail division and energy operations recover strongly, while the core telecom and infrastructure businesses continue to be highly resilient. Additionally, the company's recent sale of its telecom towers business for ~€10b provides scope for meaningful share buybacks throughout this year. We continue to see strong upside in CK Hutchison with the shares trading on a P/E of less than 6x FY22 (consensus earnings), with a 6% dividend yield, undergeared balance sheet and solid EPS growth for many years to come.

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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**
2022	2.74												**2.74**

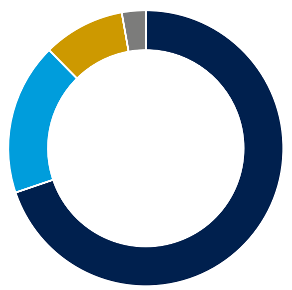
Portfolio Positions

Portfolio Positions	Current	Avg. Since Inception
Number of total positions	86	81
Number of long positions	71	55
Number of short positions	15	25
Number of international positions	31	24

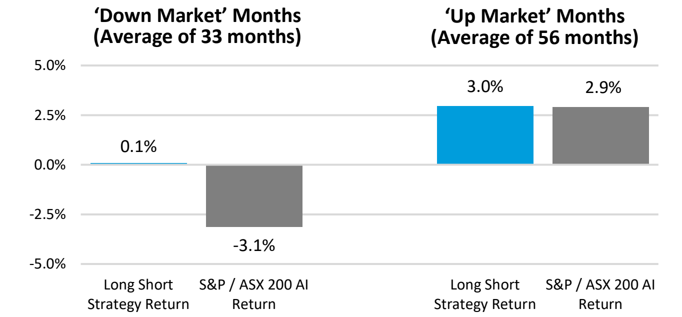
Net & Gross Exposure by Region[2] (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	113	67	46
North America	41	5	37
Europe	22	3	19
Asia	7	0	7
Total	**184**	**74**	**110**

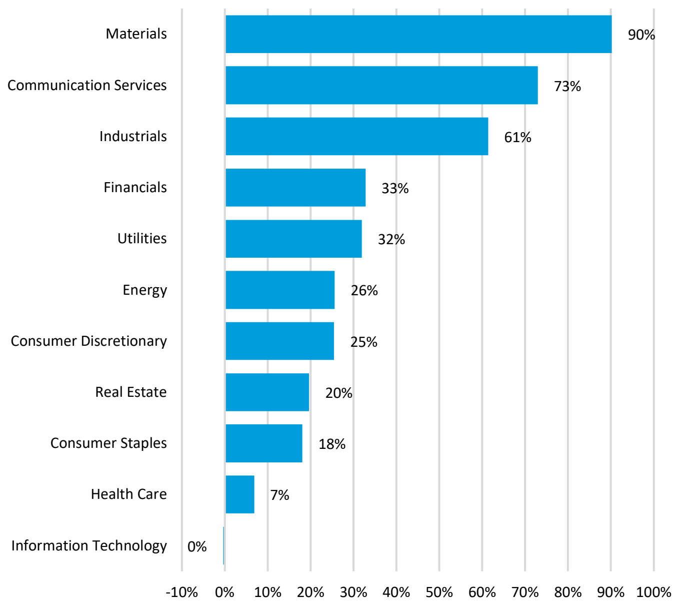
Gross Exposure as a % of Total Exposure[2]



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



Sector Contribution Since Strategy Inception[2] (Net)



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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

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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.

L1 CAPITAL

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Key service providers for the Fund are: Responsible Entity – Equity Trustees Limited, Prime Brokers – Morgan Stanley and 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.

[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.