

# L1 Capital Long Short Fund

Monthly Report | MARCH 2022

Fund NAV: \$897m

- The L1 Long Short Fund returned 1.5% (net)<sup>1</sup> in March (ASX200AI 6.9%).
- The portfolio has returned 33.9% (net)<sup>1</sup> over the past year (ASX200AI 15.0%) and 28.9% p.a. (net)<sup>1</sup> over the past 3 years (ASX200AI 10.6% p.a.).
- The L1 Capital Long Short Strategy has been the best performing Australian long short strategy over 1, 3, 5 and 7 years and since inception in 2014.<sup>2</sup>

After a sharp sell-off in the first two months of 2022, global markets recovered some of the losses in March, however, still ended the quarter with the worst quarterly drop in two years.

Pleasingly, the portfolio returned 11.3% over the quarter, compared to 2.2% for the ASX200 Accumulation Index and sharply negative returns for U.S. and global markets (NASDAQ -9.0%, MSCI World -5.2%, S&P500 -4.6%).

The U.S. Federal Reserve implemented a 25bps rate rise during the month, with an increasingly hawkish tilt leading to a surge in both U.S. 10-year yields (up 49bps to 2.32%) and Australian 10-year yields (up 69bps to 2.83%). Commodity prices continued to rise due to the Russia/Ukraine conflict and the potential disruption of key commodity exports.

The S&P/ASX 200 Accumulation Index recovered in March. The strongest sectors were Information Technology (+13.2%), Energy (+9.8%) and Materials (+8.9%), while Property (+1.2%), Healthcare (+2.5%) and Consumer Discretionary (+4.2%) lagged.

**We expect equity markets to remain volatile due to geopolitical tensions, the ongoing fragility of global supply chains, reduction in central bank liquidity and increasing interest rates. After a period of stronger than normal equity returns in 2021, our expectations for market performance over the coming year remain more subdued. While these periods of heightened market volatility can be unnerving, we believe they present us with outstanding opportunities to generate alpha for our investors.**

| Fund Returns (Net) <sup>1</sup> (%) | L1 Long Short Fund | S&P ASX 200 AI | Out-performance |
|-------------------------------------|--------------------|----------------|-----------------|
| 1 year                              | 33.9               | 15.0           | +19.0           |
| 2 years p.a.                        | 68.2               | 25.7           | +42.5           |
| 3 years p.a.                        | 28.9               | 10.6           | +18.3           |
| 5 years p.a.                        | 16.1               | 9.2            | +6.9            |
| 7 years p.a.                        | 22.8               | 7.8            | +15.0           |
| Since inception p.a.                | 23.6               | 8.2            | +15.3           |
| Since inception cumulative          | 397.6              | 82.2           | +315.3          |

| Returns Since Inception (Net) <sup>1</sup> (%) | Cumulative Return | Annualised Return p.a. |
|--|-------------------|------------------------|
| L1 Capital Long Short Fund                     | 397.6             | 23.6                   |
| S&P ASX 200 Accumulation Index                 | 82.2              | 8.2                    |
| MSCI World Index Total Return (USD)            | 74.6              | 7.6                    |
| HFRX Global Hedge Fund Index                   | 13.0              | 1.6                    |

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

**Turquoise Hill Resources (Long +44%)** is a mining company focused principally on the development of the Oyu Tolgoi copper-gold mine in southern Mongolia, which is expected to become a top tier copper producer by 2024/2025. During March, Rio Tinto, the majority shareholder in Turquoise Hill, made a C\$2.7b cash offer (C\$34.00 per share, a 32% premium on the pre-offer share price) to buy out minority shareholders, seeking full control of the operation. We have followed the Oyu Tolgoi project closely for many years as it is one of the most exciting copper developments globally, however, it has been impacted by several cost blow-outs, construction delays and disputes with the Mongolian Government. In late January, the Government of Mongolia reached an agreement with Rio Tinto and Turquoise Hill to move the project forward, resetting the relationship between the partners. We saw the agreement as a significant milestone to clear the path forward for project completion. The offer from Rio Tinto reaffirms our constructive view on Oyu Tolgoi, as well as our positive view on long-term copper demand.

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. 2. FE Investment performance database since strategy inception in Sep 2014.



L1 CAPITAL

Monthly Class

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**SES (Long +11%)** shares rallied over the month after the company announced the receipt of a US\$170m payment from Verizon to accelerate U.S. C-band clearing (which facilitates the rollout of 5G in the U.S.). This was one of the monetisation opportunities we highlighted in our previous reports. SES also announced an agreement to acquire DRS Global Enterprise Solutions, a retailer of satellite services to the U.S. government. We think the deal has sound strategic logic and will be highly EPS accretive over time. We believe SES remains extremely undervalued due to the limited value that the market currently ascribes to the scheduled C-band spectrum payments. SES is set to receive ~US\$2.4b in cash payments (after tax) over the next two years, amounting to ~60% of the company's current market cap.

**ALS Limited (Long +13%)** shares rallied with the company upgrading FY22 NPAT guidance by ~6%. ALS's geochemistry business is the global leader for copper and gold sample testing across greenfield and brownfield mining operations. We have previously written about our positive views on both ALS and Imdex (the global leader in mining drilling technology), with growth underpinned by the significant uptick we have seen in junior miner capital raisings and exploration spending. The positive commodities backdrop coupled with this additional capital inflow has started to translate into increased drilling activity and significant sample flow growth for ALS's geochemistry business. We believe we are at the start of a multi-year bull cycle for exploration spending which will support a sustained double-digit EPS growth outlook for ALS, driven by the strong operating leverage evident in its geochemistry business.

A key detractor from portfolio performance during the month of March was:

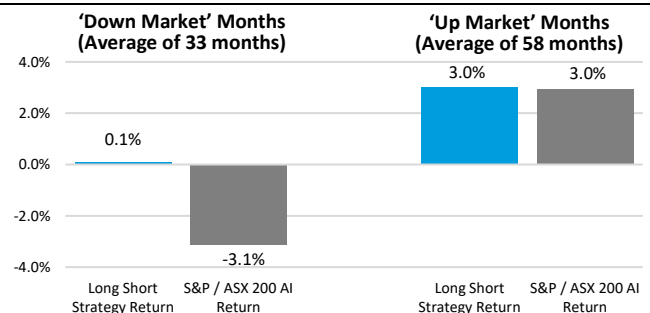
**Flutter (Long -18%)** shares fell after reporting U.K. and Ireland earnings below consensus expectations as well as flagging a potential £60m revenue impact from its Russia and Ukraine operations due to the current conflict. The softer performance in the U.K. and Ireland was primarily driven by adverse sports results during the final quarter and from the pro-active implementation of safer gambling measures ahead of the U.K. gambling regulatory review (due to be released in May 2022). As the leading player in the market, we believe Flutter is taking early action to mitigate the potential impact from the review. We continue to believe clarity on the regulatory outcome will remove a key overhang on the stock. On the U.S. sports betting and gaming side, FanDuel continues to extend its leadership position in the market, with Flutter reaffirming its target to be EBITDA positive in 2023. Trading on only 18x consensus FY23 P/E, we think Flutter remains significantly undervalued given the decade of strong growth the company has ahead of it. We have used the recent share price fall to add to our position.

### Fund Returns (Net)<sup>3</sup> (%)

|             | Jan    | Feb    | Mar     | Apr   | May    | Jun    | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    | Year           |
|-------------|--------|--------|---------|-------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|
| <b>2014</b> | –      | –      | –       | –     | –      | –      | –      | –      | (2.42) | 3.03   | 2.85   | 1.61   | <b>5.07</b>    |
| <b>2015</b> | 0.59   | 9.14   | 2.42    | 1.71  | 3.73   | (0.86) | 3.30   | 2.06   | 5.51   | 8.49   | 8.11   | 4.61   | <b>60.52</b>   |
| <b>2016</b> | 5.81   | 0.59   | 5.47    | 2.46  | 2.78   | (0.89) | 3.22   | 3.92   | 0.46   | (0.13) | 0.55   | 2.22   | <b>29.61</b>   |
| <b>2017</b> | 2.51   | 1.87   | 3.15    | 1.03  | 4.18   | 1.70   | 2.62   | 1.69   | 1.93   | 2.54   | 0.89   | 3.56   | <b>31.40</b>   |
| <b>2018</b> | 0.56   | (0.47) | (1.64)  | 1.62  | (3.76) | (6.29) | 0.82   | (5.92) | (2.12) | (3.98) | (2.60) | (6.06) | <b>(26.40)</b> |
| <b>2019</b> | 4.35   | 5.15   | 0.22    | 2.84  | (2.78) | 3.85   | 1.18   | 0.44   | 2.61   | 3.37   | 0.32   | 2.22   | <b>26.20</b>   |
| <b>2020</b> | (7.81) | (7.10) | (23.02) | 22.96 | 10.97  | (2.20) | (1.93) | 9.98   | 0.52   | (2.62) | 32.28  | 4.16   | <b>28.01</b>   |
| <b>2021</b> | (0.10) | 9.06   | (0.13)  | 4.99  | 4.11   | (0.55) | 1.83   | 5.24   | 4.81   | 2.30   | (7.21) | 3.59   | <b>30.62</b>   |
| <b>2022</b> | 2.74   | 7.00   | 1.47    |       |        |        |        |        |        |        |        |        | <b>11.54</b>   |

| Portfolio Positions               | Current | Avg. Since Inception |
|-----------------------------------|---------|----------------------|
| Number of total positions         | 87      | 81                   |
| Number of long positions          | 69      | 56                   |
| Number of short positions         | 18      | 25                   |
| Number of international positions | 32      | 24                   |

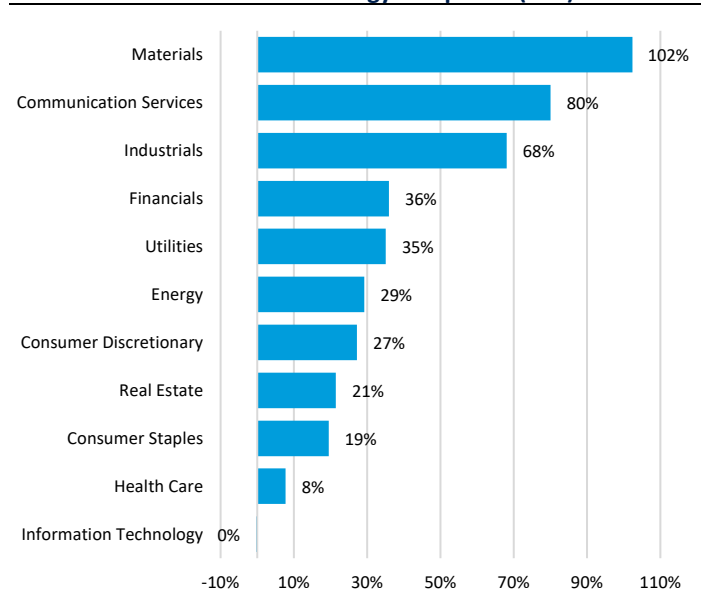
### Performance in Rising & Falling Markets<sup>3</sup> (Net)



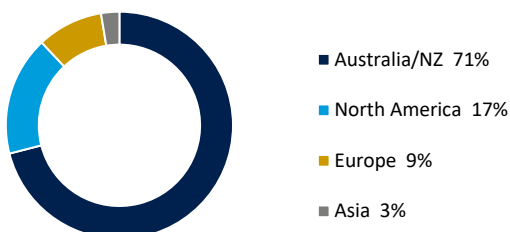
### Net & Gross Exposure by Region<sup>3</sup> (%)

| Geography      | Gross Long | Gross Short | Net Exposure |
|----------------|------------|-------------|--------------|
| Australia / NZ | 114        | 68          | 46           |
| North America  | 36         | 8           | 28           |
| Europe         | 23         | 1           | 22           |
| Asia           | 7          | 0           | 7            |
| <b>Total</b>   | <b>180</b> | <b>77</b>   | <b>103</b>   |

### Sector Contribution Since Strategy Inception<sup>3</sup> (Net)



### Gross Exposure as a % of Total Exposure<sup>3</sup>



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 – Monthly Class.

## Fund Information – Monthly Class

|  |   |
|--|---|
| <b>Class Name</b>                          | L1 Capital Long Short Fund – Monthly Class    |
| <b>Structure / Currency</b>                | Australian Unit Trust / AUD                   |
| <b>Inception</b>                           | 1 September 2014                              |
| <b>Management Fee</b>                      | 1.28% p.a. inclusive of GST and RITC          |
| <b>Performance Fee</b>                     | 20.50% inclusive of GST and RITC <sup>3</sup> |
| <b>High Watermark</b>                      | Yes   |
| <b>Buy / Sell Spread</b>                   | 25bps / 25bps                                 |
| <b>APIR / ISIN</b>                         | ETL4912AU / AU60ETL49128                      |
| <b>Minimum Investment</b>                  | A\$500,000                                    |
| <b>Subscription / Redemption Frequency</b> | Monthly                                       |
| <b>Platform Availability</b>               | 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 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 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.

<sup>3</sup> 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.

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