

# L1 Capital Long Short Fund

Monthly Report | MAY 2022

Fund NAV: \$959m

- The L1 Capital Long Short Fund returned 0.1%<sup>3</sup> in May (ASX200AI -2.6%).
- The Fund has returned 26.7%<sup>3</sup> over the last 12 months (ASX200AI 4.8%) and 30.3% p.a.<sup>3</sup> over the past 3 years (ASX200AI 7.8% p.a.).
- Portfolio performance in May was pleasing, considering the fall in the Australian market. The portfolio benefitted from long exposure to energy, along with shorts in some 'COVID winners' that fell sharply.
- Mark Landau recently provided an investor webinar where he discussed portfolio positioning and the outlook for equity markets. To watch the replay, please click [here](#).

Global markets were volatile in May with investors increasingly concerned that rising inflation and the U.S. Federal Reserve's plan to address this by sharply hiking interest rates could trigger a recession. Technology stocks continued to be the hardest hit with the Nasdaq falling a further 1.9% over the month (after a 13.2% fall in April), extending its worst ever start to a calendar year (-22.5% CYTD).

The S&P ASX 200 Accumulation Index fell 2.6% over the month, with almost all sectors declining. The RBA announced its first interest rate increase since November 2010, which weighed on investor sentiment. The strongest sectors were Materials (+0.1%), Utilities (-0.2%) and Industrials (-0.5%), while Property (-8.7%), Information Technology (-8.7%) and Consumer Staples (-6.6%) lagged.

Portfolio performance was pleasing over the month considering the weak market backdrop, with stock specific catalysts, long exposure to energy and short positions in COVID 'winners' and profitless technology stocks offsetting broader market weakness.

We have used the recent market correction to invest in a handful of high quality businesses (such as James Hardie and Carsales) that we believe have reached oversold levels. We have also taken profits in some long positions that have rallied significantly over the past six months.

**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 two years of stronger than normal equity returns, our expectations for market performance over the coming year remains 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	26.7	4.8	+21.9
2 years p.a.	46.4	15.9	+30.5
3 years p.a.	30.3	7.8	+22.5
5 years p.a.	15.7	8.8	+6.9
7 years p.a.	22.5	7.5	+15.0
Since inception p.a.	23.5	7.6	+16.0
Since inception cumulative	414.6	76.0	+338.6

Returns Since Inception (Net) <sup>1</sup> (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	414.6	23.5
S&P ASX 200 Accumulation Index	76.0	7.6
MSCI World Index Total Return (USD)	59.6	6.2
HFRX Global Hedge Fund Index	10.7	1.3

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

**Flutter (Long +20%)** shares rallied with the U.K. gambling review expected to be released in the coming weeks and with a continued moderation in competitive intensity in the U.S. We continue to believe clarity on the U.K. regulatory outcome will remove a key overhang on the stock. On the U.S. sports betting and gaming side, several competitors announced a sharp reduction in marketing activity, which should support the path to profitability for the industry. Flutter continues to be best placed to reach this milestone ahead of peers, with the cheapest customer acquisition costs and fastest payback period across the industry. Trading on only 18.5x (consensus) FY23 P/E, we think Flutter remains significantly undervalued given the decade of strong growth the company has ahead of it.

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.

**Bath and Body Works (Short -22%)** shares collapsed as the company downgraded their earnings outlook by ~12%. Bath and Body Works is a speciality retailer of home fragrance, body care, soap and sanitiser products. The business was a significant COVID-19 beneficiary with high exposure to 'stay at home' categories and increased consumer demand supported by stimulus payments. We shorted the stock based on our view that forecast earnings did not fully incorporate weaker consumer spending relative to the stimulus supported levels of 2021, as well as the impact of higher inflation across raw materials, wages and transport. The Bath and Body Works Q1 update reflected some of these risks, with gross margins in the second quarter expected to compress by 560bps versus the prior period. Given the large share price fall, we closed the position at the end of the month at around the \$40/share level.

**Cenovus Energy (Long +23%)** shares rallied driven by continued strong oil prices and free cash flow generation, as well as being positioned to benefit from strong refining margins and downstream operations. The company recently announced a significant increase in dividends, which gives us greater confidence on the potential for a 100% return of free cashflow generation via dividends and buybacks from early CY23. 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 almost triple 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.

Key detractors from portfolio performance during the month of May were:

**News Corp (Long -14%)** shares declined over the month despite reporting March quarter results in line with consensus expectations. The decline was primarily driven by a softening in investor sentiment towards News Corp's Digital Real Estate assets against a backdrop of rising interest rates in both Australia and the U.S., with REA Group shares down 13% during the month. While concerns over property market drivers are likely to continue in the near-term, we see both REA Group and Move as being well positioned to structurally improve their businesses through this period. We continue to believe the News Corp assets are materially under-valued and remain supportive of ongoing initiatives to unlock value across the Group.

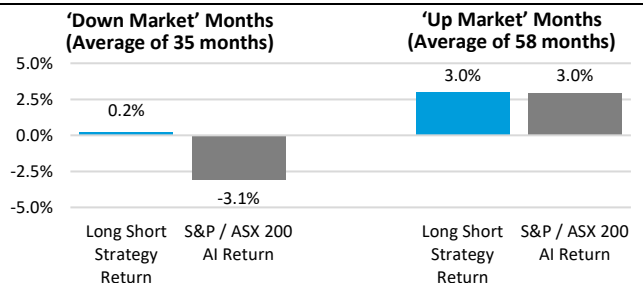
**Bluescope Steel (Long -11%)** is Australia's largest steel production company focused on providing steel materials, products, systems and technologies across Australia, New Zealand, Asia and North America. The company's shares fell during the month as the market projected a weaker (but still solid) FY23 outlook, despite the company slightly upgrading its guidance for FY22 net profits. Global steel peers experienced similar price declines due to Asian steel spreads remaining low and U.S. steel spreads recently weakening from very high levels. Overall, however, end market demand for steel remains strong in Bluescope's key Australian and U.S. regions. The board and management of Bluescope have continued to allocate capital sensibly, via a mix of high returning growth capex, increased dividends and on-market buybacks. We remain very confident in the medium term outlook for Bluescope with the supportive pricing environment as well as tailwinds from capacity expansions and a normalisation of working capital levels underpinning strong cash flow generation for the company over the medium term.

## Fund Returns (Net)<sup>2</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	3.29	0.12								<b>15.36</b>

Portfolio Positions	Current	Avg. Since Inception
Number of total positions	88	81
Number of long positions	70	56
Number of short positions	18	25
Number of international positions	32	24

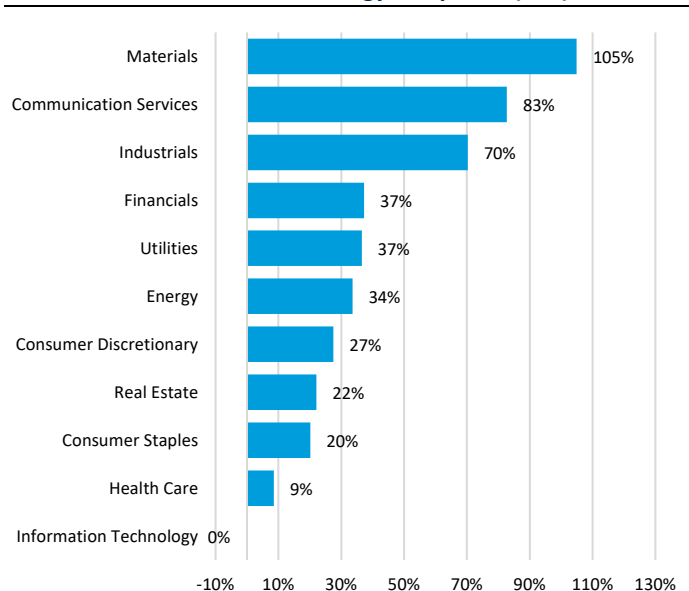
## Performance in Rising & Falling Markets<sup>2</sup> (Net)



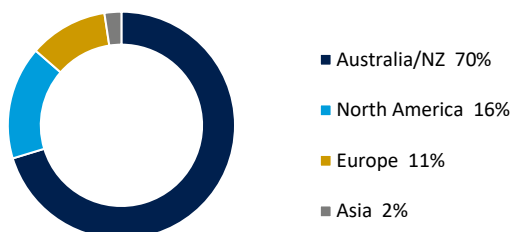
## Net & Gross Exposure by Region<sup>2</sup> (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	104	68	36
North America	36	3	32
Europe	27	0	27
Asia	6	0	6
<b>Total</b>	<b>173</b>	<b>71</b>	<b>102</b>

## Sector Contribution Since Strategy Inception<sup>2</sup> (Net)



## Gross Exposure as a % of Total Exposure<sup>2</sup>



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.

## 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

## Contact us

### Head of Distribution

Chris Clayton | [cclayton@L1.com.au](mailto:cclayton@L1.com.au) | +61 3 9286 7021

### Researchers

Aman Kashyap | [akashyap@L1.com.au](mailto:akashyap@L1.com.au) | +61 477 341 403

### Advisors

Alexander Ordon | [aordon@L1.com.au](mailto:aordon@L1.com.au) | +61 413 615 224

Alejandro Espina | [aespina@L1.com.au](mailto:aespina@L1.com.au) | +61 423 111 531

### Private Clients

Wayne Murray | [wmurray@L1.com.au](mailto:wmurray@L1.com.au) | +61 424 300 003

Edward Vine | [evine@L1.com.au](mailto:evine@L1.com.au) | +61 412 525 390

## 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. 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**

Level 28, 101 Collins Street  
Melbourne VIC 3000  
Australia  
[www.L1.com.au](http://www.L1.com.au)

**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).

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. All performance numbers are quoted after fees. Past performance should not be taken as an indicator of future performance. 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.