

L1 Capital Long Short Fund

Monthly Report | NOVEMBER 2022

- The L1 Capital Long Short Fund returned 7.9%¹ in November (ASX200AI 6.6%).
- Over the past 3 years, the portfolio has returned 21.6%¹ p.a. (ASX200AI 5.9% p.a.).
- Global equity markets rallied on the back of falling bond yields and some early signs that China may step away from its strict 'zero COVID' policy.

Global equity markets rallied in November on the back of falling bond yields and hopes that inflation pressures may have peaked. Early signs of China moving away from its strict 'zero COVID' policy saw strong gains in Chinese and Hong Kong listed stocks and those companies most exposed to a potential China re-opening. As outlined in our [November Webinar](#), we are optimistic about the prospect of a China re-opening in 2023 and the portfolio is well positioned to benefit from any progress on this front.

Markets were further supported by Fed Chair Jerome Powell's comments at the end of the month that the pace of interest rate increases could moderate as early as the Fed's next meeting in December.

The gold price rose strongly by US\$114 per oz to US\$1,754 per oz and the Australian Dollar gained 6% against the US Dollar, supported by declining bond yields and speculation the Fed is closer to the end of the hiking cycle.

Portfolio performance was strong in November, driven by several positive stock-specific updates along with tailwinds from positive China re-opening sentiment.

We remain cautious on the outlook for equity markets given the lagged impact of significant interest rate increases, deteriorating leading economic indicators, increasing pressure on corporate earnings into 2023 and tail risk from geopolitical tensions. As a result, we are maintaining our conservative portfolio positioning and have taken profits in several positions that have performed well over the past two years.

Key contributors to portfolio performance in November included:

Origin Energy (Long +41%) shares rallied after receiving a takeover offer at \$9.00 per share from a consortium led by Brookfield Asset Management and MidOcean Energy. The offer represents a 55% premium to Origin's share price prior to the announcement of the proposal and follows two prior rejected proposals at \$7.95 per share on 8 August 2022 and \$8.70-\$8.90 per share on 18 September 2022.

Fund Returns (Net) ¹ (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 month	7.9	6.6	+1.3
3 months	4.6	6.0	(1.5)
CYTD	5.3	2.2	+3.1
1 year	9.1	5.0	+4.1
2 years p.a.	19.7	10.1	+9.6
3 years p.a.	21.6	5.9	+15.7
5 years p.a.	11.1	8.2	+2.9
7 years p.a.	16.5	9.4	+7.2
Since inception p.a.	20.6	7.5	+13.1
Since inception cumulative	369.8	82.2	+287.6

Returns Since Inception (Net) ¹ (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	369.8	20.6
S&P ASX 200 Accumulation Index	82.2	7.5
MSCI World Net Total Return Index (USD)	80.3	7.4
HFRX Global Hedge Fund Index	9.5	1.1

The takeover offer recognises the upside potential we saw in the company. We decided to exit the position during the month given some risks to completion remain, including, due diligence and regulatory approvals.

Sandfire Resources (Long +45%) shares rallied as copper prices rose 11% on expectations of a gradual reopening of the Chinese economy. China accounts for more than 50% of global copper demand, with its economic recovery critical to support copper prices. Sandfire also announced an entitlement offer to raise \$200m during the month in order to strengthen its balance sheet as the company completes a capex-intensive investment period developing the Motheo Copper Mine in Botswana. We continue to see compelling valuation upside in Sandfire with the commencement of Motheo production in FY24 set to deliver a step-change in profits and cash flow for the company.

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\$. Returns are on a total return basis unless otherwise specified.

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Seven Group Holdings (Long +14%) shares gained after providing a strong trading update at its AGM in November, including double digit earnings growth expectations for its WesTrac and Coates business units for FY23. These business units account for roughly two-thirds of Group earnings and are well positioned to grow strongly over the medium term as investment in mining, construction and infrastructure continues to grow. Seven also holds a 72.6% shareholding in Boral, one of the largest building and construction materials companies in Australia. Boral earnings have been impacted by surging input costs and significant wet weather delays. Under new leadership, and in a normalised trading environment, we believe Boral has the potential to more than double earnings over the medium-term from current levels.

Alibaba Group (Long +38%) shares gained on positive China re-opening sentiment. Alibaba reported Q3 earnings during the month which showed improved margins supported by cost reduction and efficiency initiatives. The company also increased its share buyback program by US\$15b reflecting management's long-term confidence in the business. Alibaba remains a high-quality business with leading positions in both eCommerce and Public Cloud. We believe earnings growth in 2023 will be supported by a broader economic recovery as COVID-related restrictions are eased.

Qantas (Long +7%) shares continued to climb after the company provided its second earnings upgrade in six weeks. Qantas increased first half profit before tax expectations by \$150m to \$1.35-1.45b and announced it expects to further reduce net debt by \$900m to \$2.3-2.5b by 31 December 2022. The company also noted that it is actively considering further shareholder returns given its low levels of net debt.

We continue to view Qantas as having emerged from the pandemic even stronger than before, given its \$1b cost out program, improved market position and the massive pent-up demand for leisure travel, which we expect will persist despite macroeconomic headwinds. If Qantas management can achieve its FY24 targets, there is potential to deliver close to \$1 of earnings per share, with Qantas currently trading on only ~6x P/E on that basis. We believe there is significant share price upside through earnings growth and a P/E re-rating as the company's earnings mix shifts towards more predictable domestic earnings and loyalty business.

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	7.00	1.47	3.29	0.12	(13.39)	(4.63)	5.70	(7.80)	5.10	7.91		5.32

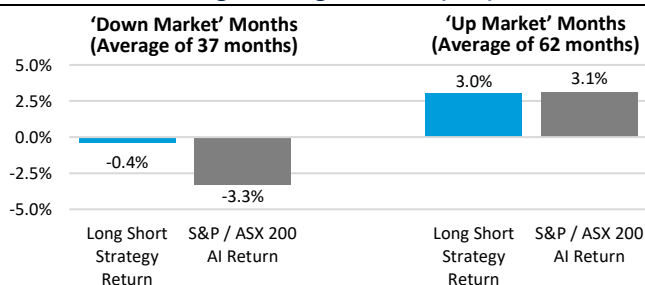
Portfolio positions

	Current	Avg. Since Inception
Number of total positions	91	81
Number of long positions	60	56
Number of short positions	31	24
Number of international positions	30	25

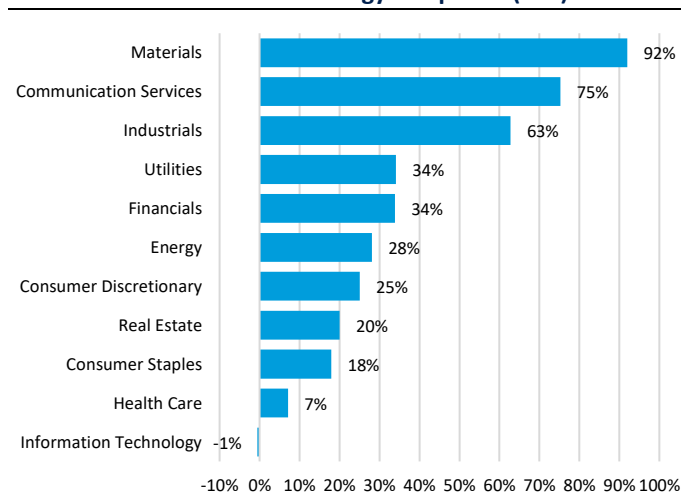
Fund information as at 30 November 2022³

Unit Price	\$1.8324
Fund NAV	\$868m

Performance in rising & falling markets² (Net)



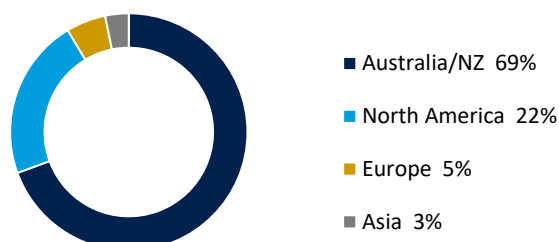
Sector contribution since Strategy inception² (Net)



Net & gross exposure by region² (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	91	76	15
North America	39	14	25
Europe	13	-	13
Asia	8	-	8
Total	151	91	60

Gross Exposure as a % of Total Exposure²



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.

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	Australian Money Market, 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 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.



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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.

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 Apex Fund Services, Bloomberg and L1 Capital.

Information contained in this publication

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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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