

L1 Capital Long Short Fund

Monthly Report | DECEMBER 2022

- The L1 Capital Long Short Fund returned 4.3%¹ in December (ASX200AI -3.2%).
- Over the past 3 years, the portfolio has returned 22.4%¹ p.a. (ASX200AI 5.5% p.a.).
- Global equity markets fell in December on increasing concerns that Central Bank tightening would persist despite clear signs of a global economic slowdown.

Global equity markets fell sharply in December (MSCI World -4.3%, S&P 500 -5.8%, NASDAQ -8.7%) as the Fed maintained its hawkish tone at the December FOMC meeting and affirmed its resolve to bring down inflation through sustained higher interest rates. The Fed's most recent interest rate projections show no interest rate cuts in 2023, which stands in contrast to market expectations of a pivot in the second half of the year.

The fall in markets over the month capped the worst year of performance for major U.S. stock indices since 2008, with the NASDAQ falling 33% and the S&P 500 falling 18%.

The S&P/ASX 200 Accumulation Index returned -3.2% in December with all sectors declining. Materials (-0.9%), Utilities (-1.2%) and Consumer Staples (-1.8%) were the strongest sectors on a relative basis, while Consumer Discretionary (-7.0%), Information Technology (-5.4%) and Industrials (-4.9%) were the weakest sectors.

Portfolio performance was strong in December, driven by several positive stock-specific updates along with tailwinds from the strong performance of our short book.

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. We believe further negative revisions to earnings estimates are likely in the upcoming reporting season. 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 December included:

Apple (Short -12%) shares declined over the month on growing concerns over a weakening in demand for Apple's key products and in particular its flagship iPhone 14 device. Despite having a fantastic brand and loyal customer base, we believe the company has benefitted significantly from a one-off pull forward of demand through the COVID-19 lockdown period, which we expect will normalise in 2023.

Fund Returns (Net) ¹ (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 month	4.3	(3.2)	+7.5
3 months	18.3	9.4	+8.9
6 months	9.9	9.8	+0.1
1 year	9.8	(1.1)	+10.9
2 years p.a.	19.8	7.7	+12.1
3 years p.a.	22.4	5.5	+16.9
5 years p.a.	11.3	7.1	+4.2
7 years p.a.	16.5	8.4	+8.0
Since inception p.a.	21.0	7.0	+14.0
Since inception cumulative	389.8	76.3	+313.5

Returns Since Inception (Net) ¹ (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	389.8	21.0
S&P ASX 200 Accumulation Index	76.3	7.0
MSCI World Net Total Return Index (USD)	72.7	6.8
HFRX Global Hedge Fund Index	9.5	1.1

The lockdown period delivered a huge windfall to Apple as a combination of work/study from home conditions and government stimulus fuelled a surge in purchases of its key products. During this period, Apple also benefitted from the launch of two of its most important products (5G iPhone 12 and Apple Silicon MacBook), along with significant market share gains in China as a result of Huawei's exit from the market. This drove a doubling in net profit from a broadly flat range of US\$50-60b over FY15 to FY20 to ~US\$100b in FY22. We believe a normalisation in the above factors, coupled with tougher economic conditions, a less exciting new product line-up and input cost pressures will weigh on Apple's ability to deliver earnings growth in 2023.

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.

Madrigal (Long +314%) is a U.S.-listed clinical stage biotech company. Its key asset is Resmetirom which aims to treat NASH (non-alcoholic steatohepatitis), more commonly referred to as 'fatty liver disease'. NASH is the largest disease group that has no approved treatment with an estimated 10 million sufferers in the U.S. alone.

NASH patients typically present asymptotically but many progress over time to liver cirrhosis and failure. We conducted an extensive due diligence process to evaluate the likelihood of success and risks of Resmetirom. We ultimately invested in Madrigal in 2020 as Resmetirom's Phase 2 results demonstrated strong efficacy in reversing disease with a clean safety profile. It was also the only credible Phase 3 candidate for NASH treatment.

Since we invested, the other companies ahead of Madrigal in NASH trials all failed and COVID-19 prevented new candidates from initiating Phase 3 trials which typically take three years to complete. In December, Madrigal shares surged after the company announced that Resmetirom met all its primary endpoints and beat efficacy expectations while maintaining a clean safety profile. We believe Resmetirom will be approved on these results and will become a blockbuster drug. By being first to market in a massive end market (NASH) and with a multi-year lead over future competitors, we believe Madrigal is now an ideal takeover candidate for large pharmaceutical companies.

Sandfire Resources (Long +9%) shares rose as copper prices continued to edge higher and with an easing of electricity prices in Spain where its MATSA operations are based. Energy costs have moderated due to a milder winter than previously expected which should support a meaningful reduction in cash costs for the company. Sandfire also completed its \$255m retail and institutional entitlement offer during the month which de-risks the company's balance sheet as it completes the development of the Motheo Copper Mine in Botswana. The company also announced a formal sale process for its De Grussa operations after receiving several unsolicited expressions of interest.

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. With the acquisition of OZ Minerals by BHP close to completion, we believe Sandfire will become the preferred company for investors to gain copper exposure in the Australian stock market.

St Barbara (Long +28%) shares rallied in December following the announcement of a merger with Genesis Minerals ('Genesis'). St Barbara and Genesis will combine their Leonora gold operations into a newly named entity, Hoover House Limited. The remaining St Barbara assets, including Atlantic and Simberi will be demerged into a separate entity to be known as Phoenician Metals.

We have previously flagged the consolidation of the Leonara gold district as a key catalyst for St Barbara. The merger has the potential to generate significant synergy benefits with announced targets of ~\$200m NPV in synergies and the elimination or deferral of \$400m in capital expenditure. The proposed new management team is highly regarded and we believe is well placed to deliver these benefits. Furthermore, the separation of the remaining mining assets in Phoenician Metals could unlock further value for shareholders through improved operational execution and its streamlined asset base increases the potential for further consolidation.

Fund returns (Net)² (%)

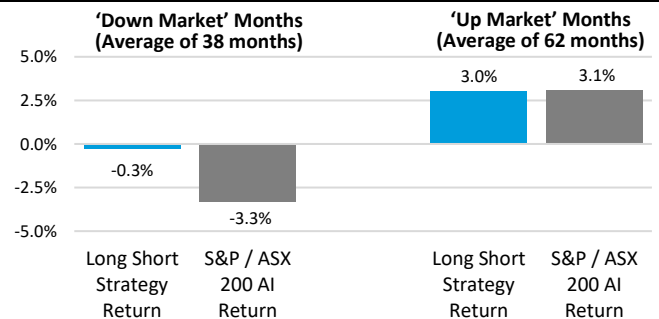
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	–	–	–	–	–	–	–	–	(2.42)	3.03	2.85	1.61	5.07
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.61	60.52
2016	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.13)	0.55	2.22	29.61
2017	2.51	1.87	3.15	1.03	4.18	1.70	2.62	1.69	1.93	2.54	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	4.27	9.82

Portfolio positions	Current	Avg. Since Inception
Number of total positions	89	81
Number of long positions	60	56
Number of short positions	29	25
Number of international positions	30	25

Fund information as at 31 December 2022³

Unit Price	\$1.9107
Fund NAV	\$918m

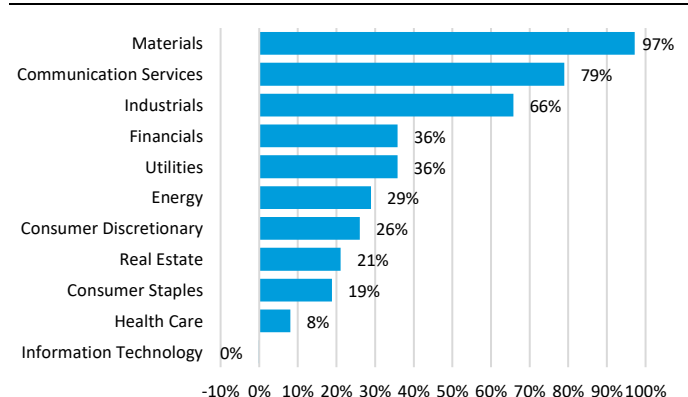
Performance in rising & falling markets² (Net)



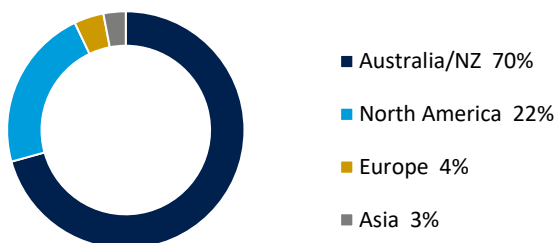
Net & gross exposure by region² (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	79	78	1
North America	36	14	23
Europe	10	0	10
Asia	8	0	8
Total	133	92	41

Sector contribution since Strategy inception² (Net)



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.



L1 Capital Long Short Fund

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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	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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