

L1 Capital Long Short Fund – Monthly Class

May 2024

- The L1 Capital Long Short Fund returned 2.7%¹ in May (ASX200AI 0.9%).
- Over the past 3 years, the portfolio has returned 13.8%¹ p.a. (ASX200AI 6.8% p.a.).
- Global markets recovered on the back of better-than-expected corporate earnings growth and as A.I. optimism fuelled further gains in mega-cap technology stocks.

Global markets recovered in May with first quarter corporate earnings trending above market expectations and signs of disinflation leading to a moderate decline in bond yields. The gains were, however, largely skewed towards mega-cap technology (>50% of S&P500's May uptick) driven by further A.I. optimism. While Q1 earnings updates were generally positive, economic data was mixed, with retail sales below expectations and a low Consumer Expectations Index raising concerns over consumer spending and U.S. growth.

U.S. CPI was in line with expectations, rising 3.4% year-on-year in April, with interest rate cut expectations and treasury yields remaining fairly stable. In contrast, Australian CPI ticked up again to 3.6% year-on-year, above forecasts of 3.4%, with market expectations for the first interest rate cut moving from August 2024 to December 2024.

Commodity prices were mixed over the month, with gold up slightly, but oil moving lower on softer demand, and copper prices consolidating around ~US\$4.50/lb after the strong calendar year performance.

The S&P/ASX 200 Accumulation Index returned 0.9% in May. Information Technology (+5.4%), Utilities (+3.4%) and Financials (+2.6%) were the strongest sectors, while Communication Services (-2.6%), Consumer Staples (-1.0%) and Energy (-0.7%) lagged.

The portfolio performed positively over the month, driven primarily by strong corporate earnings updates across several positions.

Fund returns (Net)¹ (%)

	L1 Long Short Fund	S&P/ASX 200 AI	Out-performance
1 month	2.7	0.9	+1.8
3 months	14.9	1.2	+13.7
1 year	21.5	12.9	+8.5
2 years p.a.	7.9	7.8	+0.1
3 years p.a.	13.8	6.8	+7.0
5 years p.a.	20.8	7.8	+13.0
7 years p.a.	13.4	8.5	+4.9
Since Inception p.a.	20.1	7.6	+12.5

Figures may not sum exactly due to rounding.

Returns since inception (Net)¹ (%)

	Cumulative return	Annualised return p.a.
L1 Capital Long Short Fund	498.5	20.1
S&P/ASX 200 Accumulation Index	104.5	7.6
MSCI World Net Total Return Index (USD)	134.1	9.1

We see equity market as being relatively fully priced overall with narrow market leadership in both Australia and the U.S. driving gains, and ongoing risks from weakening consumer sentiment, geopolitical tensions, U.S. elections and potential upside inflation surprises. We are currently finding numerous attractive opportunities in low P/E, highly cash generative companies where valuations remain compelling, along with select opportunities on the short side, particularly in some expensive growth stocks with overly optimistic market expectations.

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\$. Index returns are on a total return (accumulation) basis unless otherwise specified.

Key contributors to portfolio performance in May were:

Fraport (Long +13%) shares were stronger during the month following the release of the company's Q1 result which demonstrated resilient operations, notwithstanding exogenous headwinds to airport traffic. In the first quarter, passenger numbers grew by 10%, despite the challenges of industrial action across German airports and the ongoing headwind from the grounding of aircraft due to industry-wide issues with Pratt & Whitney engines. International assets continued to perform strongly, while the major capex programs remain in line with previous guidance. With demand for air travel remaining strong, we see traffic at Frankfurt Airport continuing to gradually recover towards 100% of 2019 levels over the next few years (85% in Q1). Against this backdrop, as major capital programs in Frankfurt and Lima wind down, we believe Fraport is well-positioned to generate strong cash flows and a return to dividends from 2026 and beyond. We see substantial valuation upside for Fraport over the medium term, which we expect will be reflected in the share price over time as these positive milestones are achieved.

Lululemon Athletica (Short -16%) shares continued to decline in May on further signs of weakening consumer discretionary spending in North America and a loss of market share to emerging competitors. While Lululemon has a strong brand and track record of product quality and innovation, it has also rapidly approached maturity in its core markets following a period of accelerated growth during the pandemic. Going forward, revenue growth is likely to be more weighted to category expansion (into men's and footwear, in particular) and markets outside of North America (especially China). These are large but also inherently higher risk markets, and in our view, when combined with a slower rate of growth in North America, should justify a lower valuation multiple for the stock compared with its recent history. With the significant share price fall and the stock moving closer to our view of fair value, we closed the position during the month.

Hudbay Minerals (Long +15%) continued to strengthen in May, driven by rising copper and gold prices, as well as strong production results. The company's first quarter results showed higher gold production and robust operating performance at both its major assets, which exceeded consensus expectations. In addition, the company announced a ~US\$400m equity raise to support balance sheet de-leveraging and fund its key growth projects. Hudbay is a mid-tier mining company primarily producing copper, alongside gold and zinc, with its key assets located in Canada and Peru. We are attracted to Hudbay due to our positive medium-term outlook for copper and the company's strong near-term free cash flow generation. This cash generation potential will allow the company to de-lever and recycle capital back into its highly prospective exploration program and major growth projects, most notably its Copper World project in Arizona.

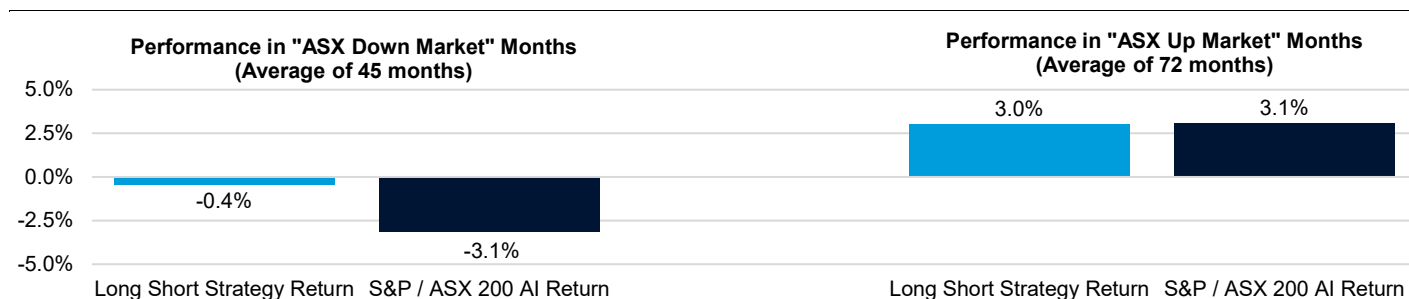
A key detractor to portfolio performance in May was:

BlueScope Steel (Long -8%) shares underperformed during the month largely due to lower U.S. steel prices. Prices have been impacted by a rise in domestic capacity and inbound import supply (lagged arrivals from orders earlier in the year) paired with relatively weak demand. Despite the fall, current U.S. steel spreads remain relatively healthy and support strong profitability from BlueScope's U.S. operations. The company continues to focus on growing its U.S. business, notably with the ongoing expansion of its North Star steelmaking facility and evaluating additional investment to expand its product offering further downstream. We continue to believe the market significantly undervalues BlueScope's unique and strategic asset base and the resilience of the largely consolidated U.S. steel sector.

Strategy returns (Net)² (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	–	–	–	–	–	–	–	–	(2.4)	3.0	2.8	1.6	5.1
2015	0.6	9.1	2.4	1.7	3.7	(0.9)	3.3	2.1	5.5	8.5	8.1	4.6	60.5
2016	5.8	0.6	5.5	2.5	2.8	(0.9)	3.2	3.9	0.5	(0.13)	0.5	2.2	29.6
2017	2.5	1.9	3.1	1.0	4.2	1.7	2.6	1.7	1.9	2.5	0.9	3.6	31.4
2018	0.6	(0.5)	(1.6)	1.6	(3.8)	(6.3)	0.8	(5.9)	(2.1)	(4.0)	(2.6)	(6.1)	(26.4)
2019	4.3	5.1	0.2	2.8	(2.8)	3.8	1.2	0.4	2.6	3.4	0.3	2.2	26.2
2020	(7.8)	(7.1)	(23.0)	23.0	11.0	(2.2)	(1.9)	10.0	0.5	(2.6)	32.3	4.2	28.0
2021	(0.1)	9.1	(0.1)	5.0	4.1	(0.5)	1.8	5.2	4.8	2.3	(7.2)	3.6	30.6
2022	2.7	7.0	1.5	3.3	0.1	(13.4)	(4.6)	5.7	(7.8)	5.1	7.9	4.3	9.8
2023	3.7	(2.0)	0.6	1.9	(3.4)	1.8	5.4	(4.7)	0.9	(3.07)	2.5	3.7	6.9
2024	0.3	(0.7)	8.3	3.3	2.7								14.3

Figures may not sum exactly due to rounding.

Strategy performance in rising and falling markets² (Net)

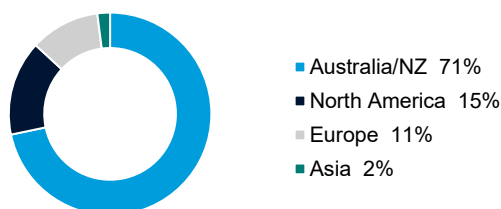
Portfolio positions

	Current	Avg. since inception
Number of total positions	85	81
Number of long positions	63	57
Number of short positions	22	24
Number of international positions	27	25

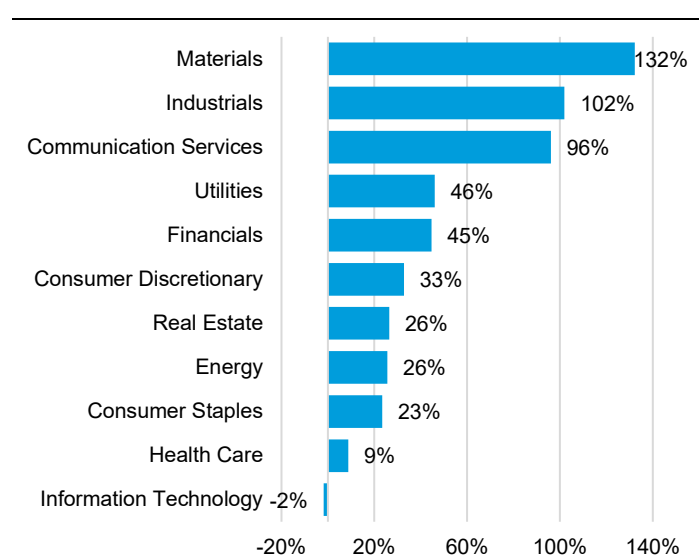
Figures may not sum exactly due to rounding.

Net and gross exposure²

	Gross long	Gross short	Net exposure
Total	171	84	86

Gross geographic exposure as a % of total exposure²Fund information as at 31 May 2024³

Unit price	\$2.34
Fund NAV	\$1.63b

Sector contribution since Strategy inception² (Net)

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 net of RITC
Performance Fee	20.5% inclusive of GST and net of RITC ⁴
High Watermark	Yes
Buy / Sell Spread	15bps / 15bps
APIR / ISIN	ETL4912AU / AU60ETL49128
Minimum Investment	A\$500,000
Subscription / Redemption Frequency	Monthly
Platform Availability	Australian Money Market, HUB24*, Mason Stevens*, Netwealth, PowerWrap, Praemium, Xpand,

L1 Capital 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, private wealth firms, financial planning groups, family offices, high net worth investors and retail investors.



Contact us

Level 45, 101 Collins Street
Melbourne VIC 3000
Email info@L1.com.au

www.L1.com.au



Invest now

Head of Distribution	Chris Clayton	cclayton@L1.com.au	+61 3 9286 7021
Researchers	Aman Kashyap	akashyap@L1.com.au	+61 477 341 403
Advisors	Lisa Salamon	lsalamon@L1.com.au	+61 406 585 322
	Bryce Leyden	bleyden@L1.com.au	+61 407 876 532
Brokers	Alejandro Espina	aespina@L1.com.au	+61 423 111 531
Private wealth	Hugo Brettingham-Moore	hb-m@L1.com.au	+61 408 371 473
Private Clients	Alexander Ordon	aordon@L1.com.au	+61 413 615 224
Investor Services	Jeffrey Lau	jlau@L1.com.au	+61 403 194 728

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, Fund Auditor – EY, Legal Advisor – Hall & Wilcox. There have been no changes to key service providers since the last report.

4. 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. * Administration only.

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: 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. 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 [here](#). 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.