

L1 Long Short Fund Limited (ASX:LSF)

May 2024

- The L1 Long Short Fund (LSF) portfolio returned 2.6%¹ in May (ASX200AI 0.9%).
- Over the past 3 years, the portfolio has returned 13.6%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.

Returns (Net)¹ (%)

	L1 Long Short Portfolio	S&P/ASX 200 AI	Out-performance
1 month	2.6	0.9	+1.7
3 months	14.6	1.2	+13.4
1 year	20.3	12.9	+7.4
2 years p.a.	7.8	7.8	0.0
3 years p.a.	13.6	6.8	+6.8
4 years p.a.	25.7	11.8	+13.9
5 years p.a.	20.8	7.8	+13.0
LSF Since Inception p.a.	12.7	8.6	+4.1
LSF Strategy Since Inception² p.a.	20.1	7.6	+12.5

Figures may not sum exactly due to rounding.

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. Net returns are calculated based on the movement of the underlying investment portfolio. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. 2. Strategy performance and exposure history is for the L1 Long Short Fund Limited (ASX:LSF) since inception on 24 April 2018. Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014). 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.

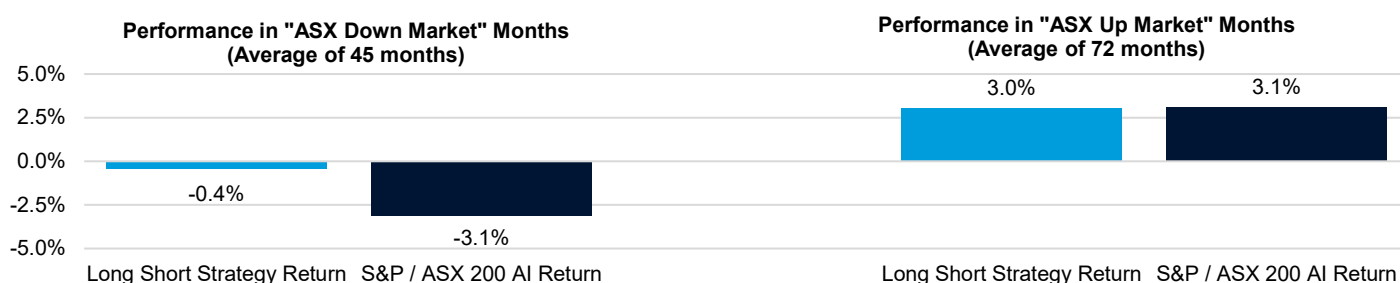
A key detractor to portfolio performance in May was:

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)³ (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	-	-	-	-	-	-	-	-	(2.4)	3.0	2.9	1.6	5.2
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	(0.1)	0.6	2.2	29.6
2017	2.5	1.9	3.2	1.0	4.2	1.7	2.7	1.7	1.9	2.5	0.9	3.6	31.4
2018	0.6	(0.5)	(1.6)	(1.3) ³	(4.0)	(6.0)	1.0	(5.3)	(2.1)	(3.9)	(2.6)	(6.0)	(27.7)
2019	4.3	5.1	0.2	3.0	(2.7)	3.9	0.6	0.4	2.5	3.4	0.4	2.0	25.5
2020	(7.8)	(6.9)	(22.9)	23.2	10.9	(2.1)	(1.7)	10.0	0.6	(2.4)	31.9	4.3	29.5
2021	(0.2)	9.0	(0.1)	5.1	4.1	(0.5)	1.8	5.1	4.9	2.3	(7.4)	3.7	30.3
2022	2.8	6.9	1.3	3.4	0.1	(13.4)	(3.3)	5.4	(7.6)	5.2	7.5	4.4	10.7
2023	3.7	(2.0)	0.5	1.6	(3.2)	1.7	5.2	(4.9)	0.9	(3.0)	2.4	3.7	6.2
2024	0.3	(1.0)	8.1	3.3	2.6								13.8

Figures may not sum exactly due to rounding.

Strategy performance in rising and falling markets³ (Net)

Portfolio positions

Number of total positions	85
Number of long positions	63
Number of short positions	22
Number of international positions	27

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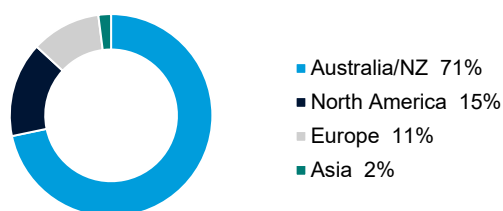
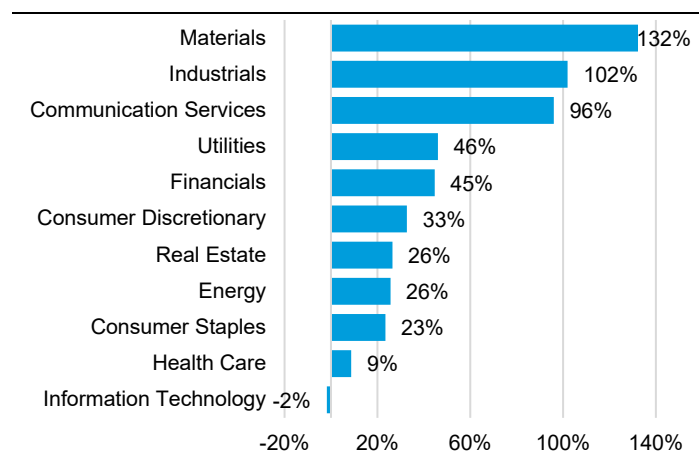
Company information as at 31 May 2024⁴

Share Price	\$3.19
NTA before tax	\$3.41
NTA after tax	\$3.20
Shares on issue	622,412,649
Company market cap	\$2.13b

Net and gross exposure³ (%)

	Gross long	Gross short	Net exposure
Total	170	84	86

Gross geographic exposure as a % of total exposure

Sector contribution since Strategy inception³ (Net)

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Key personnel

Andrew Larke	Independent Chair
John Macfarlane	Independent Director
Harry Kingsley	Independent Director
Raphael Lamm	Non-Independent Director
Mark Landau	Non-Independent Director
Mark Licciardo	Company Secretary
Registry	Link Market Services Limited
Company website	www.L1LongShort.com

Company information – LSF

Name	L1 Long Short Fund Limited
Structure	Listed Investment Company (ASX:LSF)
Inception	24 April 2018
Management fee	1.44% p.a. inclusive of GST and net of RITC
Performance fee	20.5% p.a. inclusive of GST and net of RITC
High watermark	Yes
Platform availability	BT Panorama, CFS Firstwrap, HUB24, IOOF, Macquarie Wrap, Mason Stevens, Netwealth, Powerwrap, uXchange

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


L1 CAPITAL

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more information
about the Fund**

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Information contained in this publication: L1 Long Short Fund Limited, managed by L1 Capital Pty Ltd, has been established to invest in a portfolio of predominantly Australian and New Zealand securities, with up to 30% invested in global securities. The Company has the ability to both buy and short-sell securities, which provides a flexible strategy to deal with changing stock market conditions. The objective is to deliver strong, positive, risk-adjusted returns to investors over the long term.

Disclaimer: This communication has been prepared for L1 Long Short Fund Limited (ACN 623 418 539) by its investment manager, L1 Capital Pty Ltd (ABN 21 125 378 145 and AFS Licence 314302). L1 Capital Pty Ltd has prepared this publication in good faith in relation to the facts known to it at the time of preparation. This publication contains general financial product advice only. In preparing this information, we did not consider the investment objectives, financial situation or particular needs of any individual investor, and you should not rely on the opinions, advice, recommendations and other information contained in this publication alone. This publication has been prepared to provide you with general information only. 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. We do not express any view about the accuracy or completeness of information that is not prepared by us and no liability is accepted for any errors it may contain. Past performance is not a reliable indicator of future performance.

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