L1 CAPITAL

Monthly report

L1 Capital Long Short Fund – Daily Class

October 2024

- The L1 Long Short Fund (LSF) returned -1.2%[1] in at October (ASX200AI -1.3%).
- Over the past 5 years, the Fund has returned 16.6%[1] p.a. (ASX200AI 8.2% p.a.).
- Global markets declined over the month primarily due to a significant increase in long-term bond yields.

Global markets retreated in October as U.S.10-year bond yields surged 50bps reflecting a combination of 1) increased scrutiny over U.S. debt and deficit levels, 2) strong economic data (thus increased optimism of a 'no-landing' scenario) and 3) rising political uncertainty impacting sentiment (as investors looked towards the early November U.S. Presidential election). The strength of U.S. labour market data and re-acceleration in U.S. inflation pushed back market rate cut expectations, with markets now expecting around five 25bp U.S. Fed funds rate cuts by December 2025 vs. the seven 25bp cuts expected at the beginning of October.

Domestically, Australian labour market data also surprised to the upside, with an unemployment rate of 4.1% vs. market expectations of 4.2%. Markets pushed back the expected timing of an RBA rate cut from February 2025 to May 2025. The Australian 10-year bond yield increased at a similar rate to the U.S., rising 53bps over the month to 4.51%.

The ASX 200AI declined 1.3% over the month. Financials (+3.3%), Healthcare (+0.9%) and Communication Services (+0.8%) were the best performing sectors, while Utilities (-7.2%), Consumer Staples (-7.0%) and Materials (-5.2%) lagged.

Commodity prices were mixed with gold rising 4% for a fourth consecutive monthly gain and crude oil up 4% on Middle East tensions, while lithium (-5%), iron ore (-4%) and copper (-3%) were all weaker largely due to uncertainty over Chinese stimulus measures and their potential impact.

While weakness in Materials and strength in domestic Financials (where we have short positions) were headwinds to performance during the month, these were mostly offset by positive performance of key portfolio names, benefits from corporate activity (Arcadium Lithium takeover offer) and tailwinds from our exposure to gold.

Fund returns (Net)[1] (%)

	L1 Capital Long Short Fund	S&P/ASX 200 AI	Out-performance
1 month	(1.2)	(1.3)	+0.1
3 months	(0.6)	2.1	(2.7)
1 year	16.2	24.9	(8.7)
2 years p.a.	14.6	13.4	+1.3
3 years p.a.	7.0	8.0	(1.0)
5 years p.a.	16.6	8.2	+8.5
7 years p.a.	10.6	8.9	+1.7
10 years p.a.	18.6	8.3	+10.3
Since Inception p.a.	18.3	8.0	+10.3

Figures may not sum exactly due to rounding.

Returns since inception (Net)[1] (%)

	Cumulative return	Annualised return p.a.
L1 Capital Long Short Fund	454.0	18.3
S&P/ASX 200 Accumulation Index	119.8	8.0
MSCI World Net Total Return Index (USD)	149.0	9.4

We believe domestic and global equity markets are generally fully priced, however, we continue to find compelling opportunities with major valuation distortions in select stocks and sectors. In Australia, we see extreme crowding and overvaluation in Australian banks and several other ASX20 stocks that offer stability and liquidity but are trading far above fair value and now offer little in the way of earnings growth or yield. At the same time, many cyclical stocks are now trading at both depressed P/E multiples and depressed earnings bases, which provides the opportunity for large medium-term upside for patient investors. We are using this period of volatility and price distortion to add to oversold positions and rotate out of those stocks that have been beneficiaries of this recent move.

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 – Daily Class since inception on 3 October 2016 (being the date that the first Daily Class units were issued). Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014) which is subject to a different fee structure. 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 October were:

Arcadium Lithium (Long +94%) shares surged post receipt of a takeover offer from Rio Tinto at US$5.85 per share (~A$8.60 per share), representing a 90% premium to the pre-offer share price. The announced transaction represents a crystallisation of our investment thesis, being that Arcadium has a high-quality strategic asset base due to its industry-leading margins and near-term capacity to more than double production growth over the next three years. However, production was constrained by balance sheet capacity and internal cash flow generation as a result of a steep decline in lithium pricing over the last 12 months. These circumstances made the company a highly logical candidate for industry consolidation, which we believe represents a mutually beneficial outcome for both parties. With the stock trading close to the offer level, we exited our position during the month.

Qantas (Long +9%) continued its strong share price performance in October, with the company highlighting ongoing improvement in its operating backdrop at its AGM. The company upgraded its expectations for Domestic yields, with travel demand robust, including ongoing improvement in corporate travel. Qantas is also seeing the benefit of lower fuel prices so far this financial year. International segment expectations were largely unchanged and Loyalty remains on track for double digit earnings growth. This update further supports the shift to robust shareholder returns in coming years, including a return to fully franked dividends flagged from H1 25.

We believe Qantas remains very well placed over the medium term given it has Australia's best loyalty business (which is expected to double earnings over the next 5-7 years) and a raft of brand new, more fuel-efficient aircraft to be delivered, along with Project Sunrise, which will enable direct flights from Melbourne/Sydney to London and New York from 2026. Qantas trades on a FY25 P/E of only 7.5x, despite a leading industry position, structural medium-term growth in travel demand and a high growth, capital-light loyalty division, which remains incredibly underappreciated by the market.

Key detractors to portfolio performance in October were:

Flight Centre (Long -29%) shares fell after the company provided a softer Q1 trading update noting impacts from airfare price deflation and downtrading in some corporate accounts. While there may be near-term volatility driven by moderating travel activity, we believe the business is much more efficient and productive than it was relative to its pre-COVID position. On the Leisure side, more than half of the legacy retail store network has been closed and the remaining footprint optimised to generate better returns. The company has also shifted the mix towards more luxury travel and independent store networks. On the corporate side, the business continues to grow strongly and is now the third largest corporate travel manager globally. The company continues to focus on generating a 2% underlying profit before tax (PBT) margin over the medium-term, which, if achieved, would imply a greater than 50% increase in PBT from 2024 levels. Trading on only ~13x FY25 consensus earnings, with a strong balance sheet position, we believe Flight Centre remains an attractive opportunity and have used the sell-off to add to our position.

Mineral Resources (Long -24%) shares declined primarily due to investigations into an array of governance issues that resulted in the announcement of the Chairman's intention to step down and succession planning for Chris Ellison, the current CEO. We have been strongly encouraging the board to establish a more serious corporate governance framework, oversight and disclosure protocol. We are also supportive of the financial penalties imposed on the CEO for historical governance breaches, which we have been disappointed by. However, based on the facts currently known to us, we believe the best course of action for shareholders would be to retain Chris Ellison as CEO, with a far more rigorous corporate governance framework and oversight in place.

We are long term investors in Mineral Resources. We have followed the company closely for more than 15 years and have been major investors since 2017. We are currently the largest shareholder in Mineral Resources after Chris Ellison and have been increasing our shareholding following the recent sell off, which has erased close to $2.5b of the company's market cap (from ~$10b to ~$7.5b). Chris Ellison was instrumental in building the company from <$150m market capitalisation in 2006 to a $10b global leader in mining services, lithium and iron ore mining (prior to the recent share price sell off).

Shareholders who have been there for the journey while Chris Ellison has been CEO have made more than 80 times their original investment. This is one of the strongest shareholder returns of any stock in Australia over the past 20 years.

Pleasingly, the company recently announced the sale of its gas assets for $1.1b (~$800m cash and ~$300m if certain thresholds are met), a price well above market expectations, which helps address concerns over its balance sheet flexibility in a lower commodity price environment. The sale also demonstrates the high degree of optionality in the portfolio (particularly upside capacity in iron ore volumes over time), that we feel is under-appreciated by the market.

We continue to believe that each of Mineral Resources' core segments should see material improvement from current levels over the medium term. Its Onslow Iron Ore project is commencing ramp-up towards positive cash flow contribution from mid-FY25. The mining services business should see a positive step-change in volumes and earnings over the coming 18 months. Finally, the lithium business has significant volume optionality to produce over 1,000kt of spodumene concentrate when market conditions improve.

Webinar Replay | October 2024

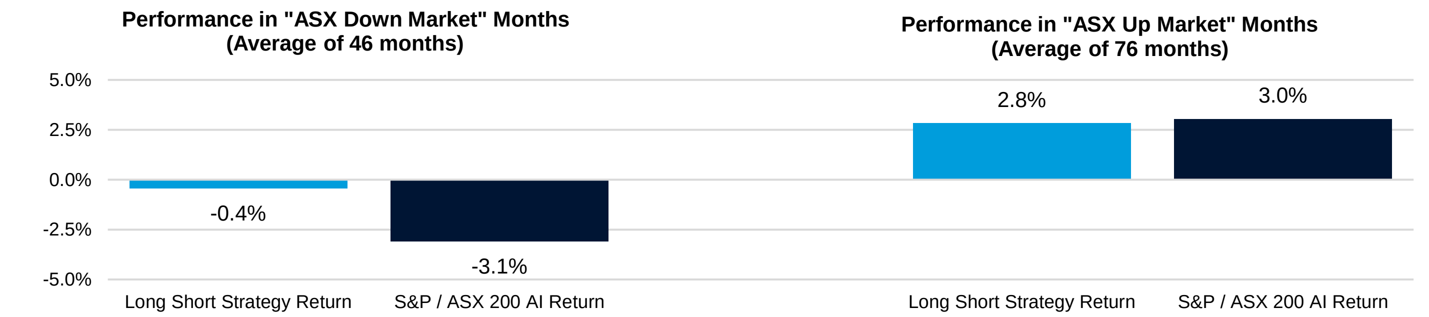
Raphael Lamm, Joint MD & Co-CIO, and Amar Naik, Head of Research, discuss portfolio performance, provide observations on current markets, set out how the portfolio is positioned and outline several of our key stock picks.

To watch the replay, please click here.

Fund 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	(0.2)[2]	0.5	2.1	**29.4**
2017	2.5	1.8	2.8	1.0	4.1	1.7	2.6	1.7	1.9	2.5	0.9	3.5	**30.5**
2018	0.5	(0.5)	(1.7)	1.6	(3.8)	(6.3)	0.8	(5.9)	(2.1)	(4.0)	(2.6)	(6.1)	**(26.6)**
2019	4.3	5.1	0.2	2.8	(2.8)	3.8	1.2	0.4	2.6	3.3	0.3	2.2	**25.9**
2020	(7.8)	(7.1)	(23.0)	22.9	10.9	(2.2)	(2.0)	10.0	0.5	(2.6)	30.8	4.3	**26.5**
2021	(0.1)	9.1	(0.1)	5.0	4.1	(0.6)	1.8	5.2	4.8	2.3	(7.2)	3.6	**30.4**
2022	2.7	7.0	1.4	3.3	0.1	(13.7)	(4.7)	5.9	(8.0)	5.1	8.1	4.2	**9.4**
2023	3.7	(2.0)	0.6	1.8	(3.4)	1.8	5.4	(4.7)	0.9	(3.1)	2.5	3.6	**6.6**
2024	0.3	(0.8)	8.3	3.3	2.6	(5.0)	1.6	(3.4)	4.1	(1.2)			**9.4**

Strategy performance in rising and falling markets[2] (Net)



Portfolio positions

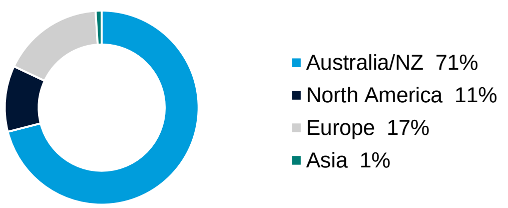
	Current	Avg. since inception
Number of total positions	76	81
Number of long positions	56	57
Number of short positions	20	24
Number of international positions	24	25

Net and gross exposure (%)

	Gross long	Gross short	Net exposure
Australia/NZ	100	(83)	18
North America	26	(3)	24
Europe	43	–	43
Asia	4	–	4
Total	**174**	**(85)**	**88**

Figures may not sum exactly due to rounding.

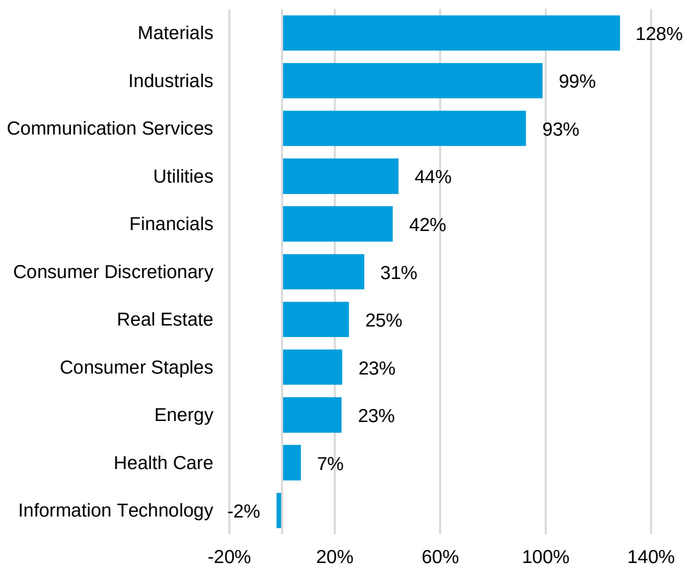
Gross geographic exposure as a % of total exposure



Fund information as at 31 October 2024[3]

Unit price	$1.57
Fund NAV	$1.83b

Sector contribution since Strategy inception[2] (Net)



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Fund information – Daily Class

Class Name	L1 Capital Long Short Fund – Daily Class
Structure / Currency	Australian Unit Trust / AUD
Inception	1 September 2014
Management Fee*	1.54% p.a.
Performance Fee**	20.5%
High Watermark	Yes
Buy / Sell Spread	15bps / 15bps
APIR / ISIN	ETL0490AU / AU60ETL04909
Minimum Investment	A$25,000
Subscription / Redemption Frequency	Daily
Platform Availability	Asgard, Australian Money Markets, BT Panorama, CFS FirstWrap, HUB24, IOOF, Macquarie Wrap, Mason Stevens, Netwealth, North, Powerwrap, Praemium, uXchange, 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.

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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.

* Fees are quoted inclusive of GST and net of RITC. ** 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. All performance prior to 3 October 2016 (being the date that the first Daily Class units were issued) relate to the Monthly Class units which are subject to a different fee structure. Sources of information in this report are Apex Fund Services, Bloomberg and L1 Capital.