

L1 Capital Long Short Fund

Monthly Report | FEBRUARY 2023

- The L1 Capital Long Short Fund returned -2.0%¹ in February (ASX200AI -2.4%).
- Over the past 3 years, the portfolio has returned 29.6%¹ p.a. (ASX200AI 7.9% p.a.).
- Global equity markets declined in February on expectations the Fed would maintain higher interest rates for longer and as reporting season highlighted cautious earnings outlooks from most corporates.

After rallying in January on easing Fed interest rate expectations, global equity markets retraced in February as inflation continued to remain sticky, the job market remained tight (January U.S. Nonfarm Payrolls rose 517k, well above forecasts of 187k) and reporting season highlighted areas of weakness in corporate earnings, coupled with uncertainty over the near-term operating outlook. This led to a pivot in market forecasts, from a potential for interest rate cuts in the second half of 2023, to an expectation that the Fed would likely maintain higher interest rates for longer in order to fight inflation.

Bond yields rose in both Australia and the U.S. over the month (U.S. 10-year yield +39bps and Australian 10-year yield +30bps). Commodity prices were generally weaker on the back of a stronger U.S. dollar, rising interest rates and softening investor sentiment (Gold -5.3%, Copper -3.0% and Oil -2.3%).

The S&P/ASX 200 Accumulation Index returned -2.4% in February with mixed performance across sectors. Utilities (+3.4%), Information Technology (+2.7%) and Industrials (+1.5%) were the strongest sectors, while Materials (-6.6%), Financials (-3.1%) and Energy (-0.8%) lagged.

Portfolio performance was relatively in line with the market, with several positive stock-specific updates being more than offset by general weakness across the market.

Despite the recent rebound in equity markets, we remain relatively cautious on the outlook due to the lagged impact of significant interest rate hikes, weakness in leading economic indicators, gradually increasing pressure on corporate earnings and tail-risk from geopolitical tensions.

Given that assessment, we have intentionally set a lower than usual net market exposure. We anticipate ongoing market volatility as investors continually reassess their expectations for the economy, interest rates and corporate profits. From our extensive company research, we are continuing to identify numerous mis-priced stocks that we believe will deliver attractive long-term returns for our investors.

Fund Returns (Net) ¹ (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 month	(2.0)	(2.4)	+0.4
3 months	5.9	0.3	+5.6
6 months	10.7	6.4	+4.4
1 year	1.5	7.2	(5.7)
2 years p.a.	15.7	8.7	+7.0
3 years p.a.	29.6	7.9	+21.7
5 years p.a.	11.6	7.9	+3.7
7 years p.a.	15.7	10.1	+5.5
Since inception p.a.	20.8	7.3	+13.4

Returns Since Inception (Net) ¹ (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	397.7	20.8
S&P ASX 200 Accumulation Index	82.7	7.3
MSCI World Net Total Return Index (USD)	80.4	7.2
HFRX Global Hedge Fund Index	10.8	1.2

Key contributors to portfolio performance in February included:

QBE (Long +10%) shares rallied after reporting robust FY22 results, with cash NPAT 15-20% ahead of consensus estimates. The result demonstrated the considerable progress the company has made in delivering stronger and more consistent earnings. QBE continues to improve the performance of its North American business which has struggled for many years. The company has also considerably strengthened its reserving which we believe places it in a solid position to deliver consistent earnings growth over the next few years. We have been cautious on QBE for many years, given the clear industry and company-specific issues it was facing. However, after 15 years of headwinds, we now believe the company has finally reached a turning point and is set to deliver stronger margins, dividends and return on equity going forward. The market has yet to fully factor in this inflection point, with QBE trading on only 10x FY23 consensus P/E (versus a 10-year pre-COVID average of ~13x).

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.

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Flutter (Long +8%) shares rose as monthly U.S. sports betting data continued to show strong momentum from FanDuel, its key U.S. gaming brand. FanDuel is now the leading sportsbook by market share in 15 of 18 states that have been legalised for sports betting, with a national market share of 50% of gross gaming revenue. We believe FanDuel's dominance is supported by a superior product, efficient customer acquisition strategies and strong operational execution which are very hard for competitors to replicate given the scale of the business and the significant lead it has developed. Flutter's U.S. division is now the company's largest by revenue, with a clear path to profitability in 2023. This expected shift to profitability, together with the exponential growth of the U.S. sports betting market, positions Flutter to significantly accelerate its earnings growth over the next few years. We believe Flutter remains undervalued given its exceptional growth outlook and dominant industry position.

Key detractors to portfolio performance in February included:

Downer (Long -16%) shares fell after reporting weak first half FY23 earnings which were adversely impacted by challenging weather and labour market conditions, as well as below-market cash flow conversion due to a build-up of working capital. The company also downgraded its full year FY23 earnings guidance for the second time, following an initial downgrade in December last year. While the first half result and revised guidance are clearly disappointing, we continue to see value in Downer over the medium term.

The company continues to transition towards a more selective and higher quality urban services portfolio by exiting lower-margin and higher-risk segments. A number of self-help and simplification initiatives are underway within the core business, including a cost reduction target of \$100m per annum by FY25. There has also been a considerable overhaul of the Board and senior management team with the Chairman, Independent Non-Executive Director, CEO and CFO all recently leaving the business. We believe these changes, along with a renewed leadership team, will help transform Downer into a more resilient, capital-light (and lower risk) services business exposed to growing, annuity-style contracts.

Capstone Copper (Long -8%) shares fell over the month despite reporting Q4 production results in line with expectations and reiterating 2023 guidance. Capstone has an exceptional growth profile with a pipeline of fully-permitted projects that will enable it to more than double copper production from ~185kt currently, to close to 400kt over the next few years. Additionally, the integration of its Mantoverde (MVDP) and Santo Domingo assets remains on track, with the potential to establish Capstone as one of the largest and most cost-effective producers of battery-grade cobalt in the world. Capstone is fully funded to complete the currently approved project pipeline and has a highly capable, focussed and aligned management team.

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Fund returns (Net)² (%)

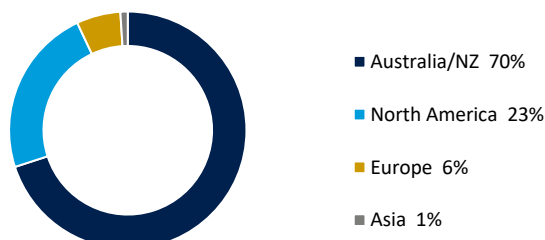
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	–	–	–	–	–	–	–	–	(2.42)	3.03	2.85	1.61	5.07
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.61	60.52
2016	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.13)	0.55	2.22	29.61
2017	2.51	1.87	3.15	1.03	4.18	1.70	2.62	1.69	1.93	2.54	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	(2.21)	(1.93)	9.98	0.52	(2.63)	32.28	4.16	27.99
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
2023	3.67	(1.99)											1.60

Portfolio positions	Current	Avg. Since Inception
Number of total positions	76	81
Number of long positions	53	56
Number of short positions	23	25
Number of international positions	26	25

Net & gross exposure by region² (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	84	77	8
North America	34	19	15
Europe	13	–	13
Asia	2	–	2
Total	134	96	39

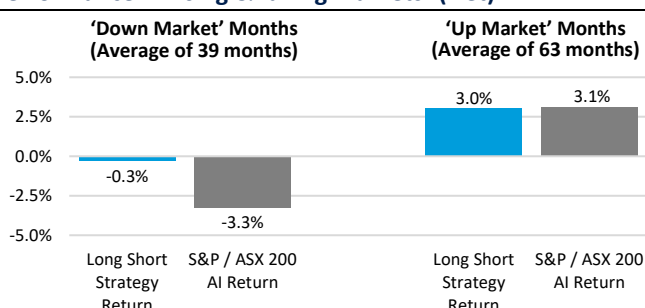
Gross Exposure as a % of Total Exposure²



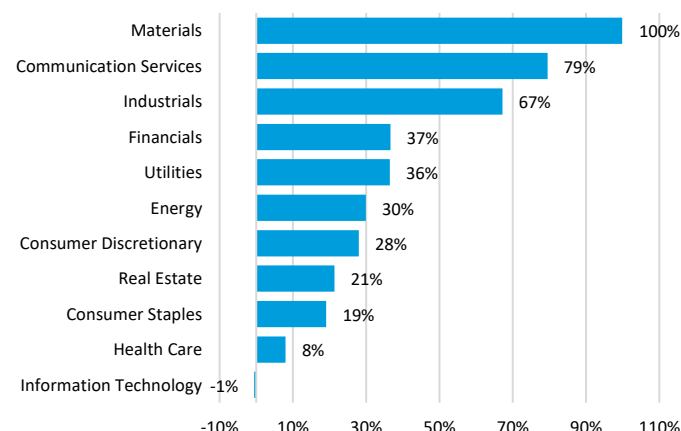
Fund information as at 28 February 2023³

Unit Price	\$1.9413
Fund NAV	\$989m

Performance in rising & falling markets² (Net)



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 RITC
Performance Fee	20.50% inclusive of GST and 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, 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.

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.

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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