L1 CAPITAL

Daily Class

L1 Capital Long Short Fund

Monthly Report | FEBRUARY 2024

- **The L1 Capital Long Short Fund returned -0.8%[1] in February (ASX200AI 0.8%).**
- **Over the past 3 years, the portfolio has returned 11.6%[1] p.a. (ASX200AI 9.3% p.a.).**
- **Global equity markets rose in February as relatively resilient corporate earnings supported markets despite a tempering in expectations for interest rate cuts.**

Global markets were supported by a robust U.S. reporting season with companies generally managing cost inflation better than the market expected. This contributed to more than 70% of S&P500 companies exceeding earnings expectations over the Q4 reporting season.

Domestically, however, the picture was considerably more mixed, with only 40% of ASX200 firms beating consensus expectations relative to 32% that missed expectations. FY24 earnings for the ASX200 are now estimated to decline ~5.5% vs. the prior period, a further weakening of 60bps relative to estimates at the start of the year.

Bond yields in the U.S and Australia rose over the month as both the Fed and the RBA adopted a more hawkish tone on the timing and pace of potential interest rate cuts. In the U.S., consensus expectations for the first rate cut have now pushed out from March to June this year.

The S&P/ASX 200 Accumulation Index returned 0.8% during February. Information Technology (+19.5%), Consumer Discretionary (+9.1%) and Property (+5.1%) were the strongest sectors, while Energy (-5.9%), Materials (-5.0%) and Healthcare (-2.7%) lagged.

The portfolio was modestly down for the month as several positive stock updates were offset by weakness in certain commodities and a rally in high-multiple growth stocks where we have some short positions.

We expect global markets to oscillate based on future economic data updates as Central Banks attempt to navigate 'soft landing' outcomes. Ongoing geopolitical tensions, war in the Middle East and potential impacts from events such as the U.S. elections provide an additional layer of uncertainty. Against this backdrop, recent equity market performance has been driven primarily by a narrow group of Technology/A.I. stocks. We see equity markets as being relatively fully priced overall, but within that we see numerous compelling opportunities in low P/E, highly cash generative companies, along with select opportunities on the short side, particularly in some expensive growth stocks with overly optimistic market expectations.

Fund returns (Net)[1] (%)	L1 Long Short Fund	S&P/ASX 200 AI	Out-performance
1 month	(0.8)	0.8	(1.6)
3 months	3.1	9.4	(6.3)
1 year	4.4	10.6	(6.2)
2 years p.a.	2.8	8.9	(6.1)
3 years p.a.	11.6	9.3	+2.3
5 years p.a.	17.0	8.6	+8.4
7 years p.a.	12.0	8.6	+3.4
Since inception p.a.	18.5	7.7	+10.9

Figures may not sum exactly due to rounding.

Returns since inception (Net)[1] (%)	Cumulative return	Annualised return p.a.
L1 Capital Long Short Fund	403.8	18.5
S&P/ASX 200 Accumulation Index	102.2	7.7
MSCI World Net Total Return Index (USD)	125.5	8.9
HFRX Global Hedge Fund Index (USD)	14.3	1.4

Key contributors to portfolio performance in February were:

Imdex (Long +25%) shares performed well as the company reported H1 2024 results materially ahead of consensus expectations, highlighting business resilience in a difficult market environment where funding availability for junior explorers has been soft. The strong result was underpinned by the company's Devico business, which it acquired in H2 2023, materially beating expectations and increasing product cross-selling within Imdex's broader business. While exploration activity remains muted, we see Imdex being well-positioned to capitalise on improved activity as the cycle recovers.

Downer (Long +18%) shares strengthened over the month as the company announced it was increasing its targeted cost-out program by $75m p.a. to a revised total of $175m p.a. to be achieved by FY25. In addition, the company reported that its utilities division successfully returned to profitability during H1 2024, which, together with the expanded cost-out program, saw Downer reaffirm that it remains on track to achieve target EBITA margins of at least 4.5% in FY25. Downer also continues to explore non-core divestments and to finalise a revised capital allocation strategy.

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 Oct 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 Sep 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.

While we continue to expect that FY24 will be a transition year for the company, we expect to begin seeing positive impacts from improvements in the cost base and the utilities division materialise during H2 2024. With a renewed leadership team at both the Board and senior management levels committed to efficiency improvement measures and simplification initiatives, we expect the company to evolve into a more resilient, less capital-intensive and lower risk services business exposed to growing, annuity-style contracts.

CRH (Long +17%) shares continued to rally after delivering strong Q4 FY23 numbers and providing FY24 guidance ~5% ahead of consensus expectations. The company is a significant beneficiary of the exceptional growth in U.S. infrastructure spending which will underpin many years of robust demand. The Infrastructure Investment and Jobs Act ('IIJA'), Inflation Reduction Act ('IRA') and the Chips and Science Act will together add roughly US$2 trillion in investment to ageing U.S. infrastructure. These market tailwinds, together with CRH's ability to drive value-accretive M&A, position the company to deliver consistent double-digit earnings growth over the medium term. The company also made a $2.1b offer together with the Barro Group to acquire ASX-listed building materials company Adbri in December.

Key detractors to portfolio performance in February were:

Santos (Long -10%) underperformed following the announcement that preliminary merger discussions with Woodside had concluded without an agreed deal. The company reinforced that it is continuing to review options to unlock shareholder value. As detailed in our **September 2023 Quarterly Report**, we see Santos' asset base as materially undervalued by the market and we believe that the company has attractive structural options to unlock this value, independent of any transaction with a third party. Santos continued to make material progress on its key growth initiatives, with the Barossa project nearly 70% complete and on track for first production in 2025, and the Pikka project nearly 40% complete. We anticipate that Santos will have one of the most attractive cash flow profiles globally in the sector in 2026 when both major projects have been completed.

NexGen (Long -8%) shares pulled back as uranium market sentiment moderated. Uranium spot prices retreated from 15-year highs on the back of stronger-than-expected 2024 production guidance from major producer Cameco, and from potential U.S. sanctions on Russian nuclear fuel exports not materialising. We continue to see the uranium market as having positive fundamental supply/demand tailwinds over the medium to long term. NexGen is preparing to develop the world's largest uranium deposit, Arrow, located in Saskatchewan, Canada. This would be a major, new, strategic Western source to address the anticipated market deficit. At the current uranium spot prices, Arrow has the potential to generate more than C$2b of cash flow annually, once developed – a highly attractive proposition given NexGen's market cap of C$5.6b. We made the majority of our investment in NexGen when it had a market cap of around C$2b.

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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	(0.18)[2]	0.55	2.13	**29.43**
2017	2.48	1.79	2.83	1.01	4.14	1.68	2.61	1.67	1.91	2.50	0.86	3.50	**30.50**
2018	0.54	(0.49)	(1.68)	1.59	(3.77)	(6.31)	0.79	(5.93)	(2.13)	(4.01)	(2.62)	(6.07)	**(26.60)**
2019	4.33	5.14	0.19	2.82	(2.80)	3.84	1.16	0.41	2.59	3.34	0.30	2.19	**25.87**
2020	(7.83)	(7.11)	(23.04)	22.93	10.95	(2.21)	(1.96)	9.97	0.50	(2.64)	30.80	4.33	**26.54**
2021	(0.14)	9.06	(0.14)	4.96	4.08	(0.56)	1.81	5.22	4.79	2.29	(7.20)	3.56	**30.35**
2022	2.72	6.98	1.45	3.28	0.10	(13.69)	(4.66)	5.86	(7.98)	5.08	8.10	4.24	**9.39**
2023	3.65	(2.00)	0.62	1.84	(3.45)	1.76	5.41	(4.70)	0.88	(3.14)	2.48	3.64	**6.62**
2024	0.29	(0.79)											**(0.51)**

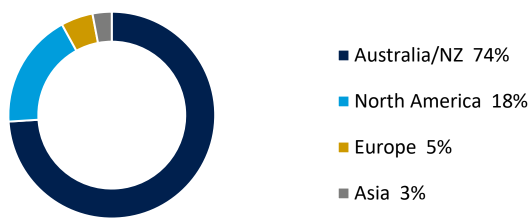
Portfolio positions	Current	Avg. since inception
Number of total positions	78	81
Number of long positions	58	56
Number of short positions	20	24
Number of international positions	21	25

Net & gross exposure by region[2] (%)

Geography	Gross long	Gross short	Net exposure
Australia / NZ	116	80	36
North America	39	7	31
Europe	13	-	13
Asia	8	-	8
Total	**176**	**87**	**89**

Figures may not sum exactly due to rounding.

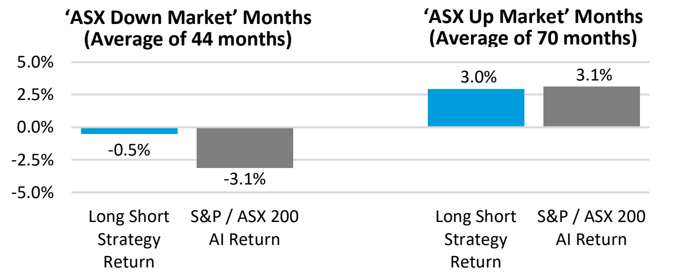
Gross geographical exposure as a % of total exposure[2]



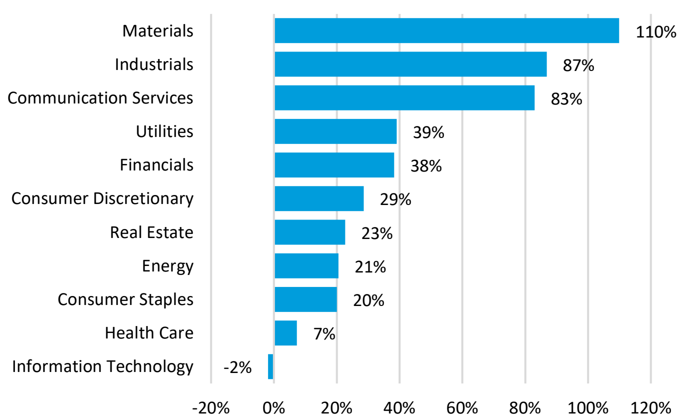
Fund information as at 29 February 2024[3]

Unit price	$1.43
Fund NAV	$1.36b

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



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. 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	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, MLC, Netwealth, North, Powerwrap, Praemium, uXchange

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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, 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.

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. All performance prior to 3 Oct 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.