



L1 CAPITAL

L1 Long Short Fund Limited

Monthly Report | APRIL 2022

- The L1 Long Short Fund (LSF) portfolio returned 3.4%¹ in April (ASX200AI -0.9%).
- The portfolio has returned 31.4%¹ over the past year (ASX200AI 10.2%) and 29.2% p.a.¹ over the past 3 years (ASX200AI 9.4% p.a.).
- The portfolio performed well in April due to several positive stock-specific company updates, along with short positions in Nasdaq and non-profitable technology stocks.
- We invite you to join Mark Landau for a LSF investor webinar where he will discuss portfolio positioning and the outlook for equity markets at 11am AEST on Thursday 19 May. Please register [here](#).

Global markets fell sharply in April as rising inflation fears and a more hawkish U.S. Federal Reserve escalated concerns of a slowdown in economic growth. U.S. stocks have experienced their worst ever start to a calendar year with the Nasdaq falling 13.2% in April, its biggest monthly drop since 2008, and the S&P 500 falling 8.7%, its biggest monthly drop since March 2020. Technology stocks and COVID ‘winners’ were the hardest hit during the month with U.S. bond markets pricing in over 200bps of interest rate rises over the next 12 months.

The S&P ASX 200 Accumulation Index fell 0.9% in April outperforming most major developed markets, primarily due to its greater exposure to Resources and lower exposure to Technology stocks. The strongest sectors were Utilities (+9.3%), Industrials (+3.5%) and Consumer Staples (+3.3%), while Information Technology (-10.4%), Materials (-4.3%) and Consumer Discretionary (-3.1%) lagged.

The portfolio performed well during the month due to broad-based stock gains – 12 stocks contributed 0.3% or more to performance. The portfolio benefitted from short exposures to some profitless technology stocks whose share prices fell sharply in April. We believe this part of the market remains vulnerable to further large falls given how extreme and irrational the rally in their share prices has been over the past two years.

We expect equity markets to remain volatile due to geopolitical tensions, the ongoing fragility of global supply chains, reduction in central bank liquidity and increasing interest rates. After a period of stronger than normal equity returns over the past two years, our expectation is for market performance to be more subdued. While these periods of heightened market volatility can be unnerving, we believe they present us with attractive opportunities to generate alpha for our shareholders.

Returns (Net) ¹ (%)	L1 Long Short Portfolio	S&P ASX 200 AI	Out-performance
1 month	3.4	-0.9	+4.3
3 months	12.0	8.2	+3.8
6 months	10.6	3.6	+7.0
1 year	31.4	10.2	+21.2
2 years p.a.	54.3	20.0	+34.3
3 years p.a.	29.2	9.4	+19.7
LSF Since Inception p.a.	15.6	9.9	+5.6
Strategy Since Inception ² p.a.	23.8	8.0	+15.8

Key contributors to portfolio performance during the month of April were:

Ramsay Health Care (Long +25%) shares rose in April following an \$88 per share take-over bid (~37% premium to pre-bid share price) from a KKR-led consortium. Ramsay is the largest independent hospital operator in Australia with over 70 hospitals and day surgery units nation-wide and a well-established global footprint that includes Europe, Indonesia, Malaysia and Hong Kong. We invested in the company as we believed it had a set of irreplaceable assets with several potential catalysts including extreme public and private sector wait lists, brownfield expansion opportunities, portfolio simplification, unlocking value from its Australian property portfolio and capital management opportunities. The takeover offer reaffirms our constructive view on Ramsay and recognises some of the value catalysts we saw above.

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 Apr 2018. Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014). NOTE: Fund returns and Australian indices are shown in A\$. Returns of U.S. indices are shown in US\$.



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Cenovus Energy (Long +14%) shares rallied on the back of strong quarterly results demonstrating improved performance in the company's downstream (refining and marketing) business, solid upstream (production and operations) cash generation and enhanced capital management. The company announced a significant increase in dividends which gives us greater confidence on the potential for a 100% return of free cashflow generation via dividends and buybacks from early CY23 and into the medium term. Given the long-life nature of its oil sand assets and its low cost of production, we estimate the company is free cashflow break-even at an oil price of ~\$40/bbl. At present, oil prices are more than double this break-even point, implying considerable upside to consensus cashflow estimates (if prices remain near current levels). There are also additional value realisation catalysts with the company continuing to progress the de-gearing of its balance sheet via organic cash generation and asset sales.

Shopify (Short -37%) shares collapsed in April on broader weakness in the ecommerce market as well as Amazon's launch of 'Buy with Prime', which allows merchants to sell through Amazon on their own websites. Shopify enables small and medium size businesses to easily manage an online shopfront. We started shorting the company at ~US\$1,360 per share in December 2021, closing it out at the end of April around \$420-430 per share. Shopify was a significant 'COVID winner' as numerous businesses were forced to open online stores (driving up subscriptions) and consumers shopped more online (driving up payment volumes). Our view was that despite some demonstrable strengths, the company had become significantly overvalued with the market underestimating the risks around slowing growth as economies re-opened, as well as increased competition from ecommerce players and well-funded copycat platforms. In addition, Shopify, like many ultra-high P/E stocks, has also de-rated as a result of higher bond yields which essentially reduce the present value of 'long duration' cashflows (that are many years or decades in the future).

SES (Long +9%) shares rallied after the company announced the receipt of a US\$170m payment from Verizon to accelerate U.S. C-band clearing (which facilitates the rollout of 5G in the U.S.). This was one of the monetisation opportunities we highlighted in our previous reports. SES also announced an agreement to acquire DRS Global Enterprise Solutions, a retailer of satellite services to the U.S. Government. We think the deal has sound strategic logic and will be highly EPS accretive over time. We believe SES remains extremely undervalued due to the limited value the market currently ascribes to the scheduled C-band spectrum payments. SES has announced that it is set to receive a further ~US\$2.4b in cash payments (after tax) over the next two years, amounting to ~60% of the company's current market cap.

Strategy Returns (Net)³ (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	-	-	-	-	-	-	-	-	(2.42)	3.03	2.85	1.61	5.17
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.62	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)	(1.32) ³	(4.05)	(5.96)	1.01	(5.34)	(2.06)	(3.90)	(2.60)	(5.95)	(27.74)
2019	4.26	5.11	0.16	3.05	(2.73)	3.87	0.63	0.40	2.54	3.46	0.36	2.06	25.46
2020	(7.75)	(6.85)	(22.93)	23.16	10.94	(2.12)	(1.69)	9.99	0.63	(2.37)	31.94	4.29	29.50
2021	(0.17)	9.00	(0.14)	5.11	4.07	(0.52)	1.75	5.10	4.86	2.32	(7.36)	3.66	30.29
2022	2.79	6.87	1.34	3.44									15.16

Portfolio Positions

Number of total positions	91
Number of long positions	70
Number of short positions	21
Number of international positions	34

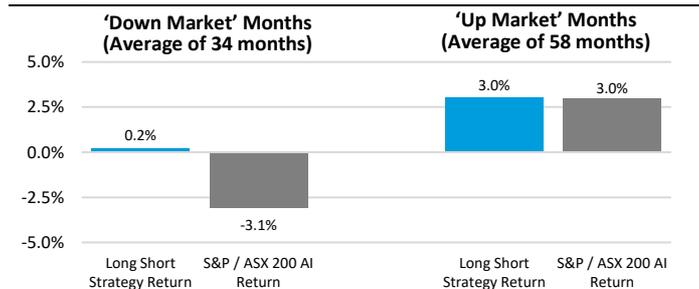
Company information as at 30 April 2022⁴

Share Price	\$2.96
NTA before tax	\$3.2713
NTA after tax	\$3.0645
Shares on issue	611,162,437
Company market cap	\$1,809,040,814

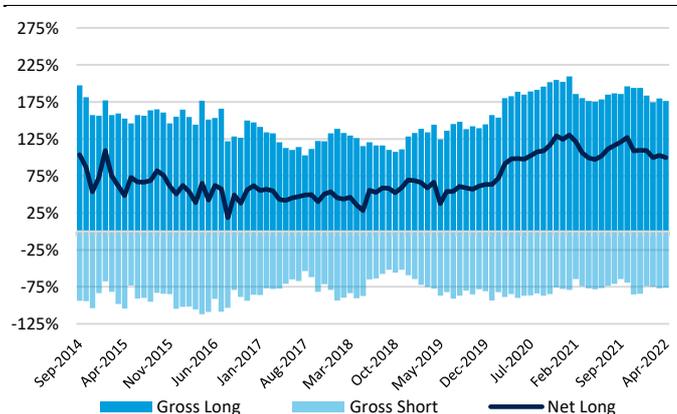
Net & Gross Exposure by Region³ (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia/NZ	113	66	47
North America	34	10	24
Europe	24	0	24
Asia	6	0	6
Total	177	76	100

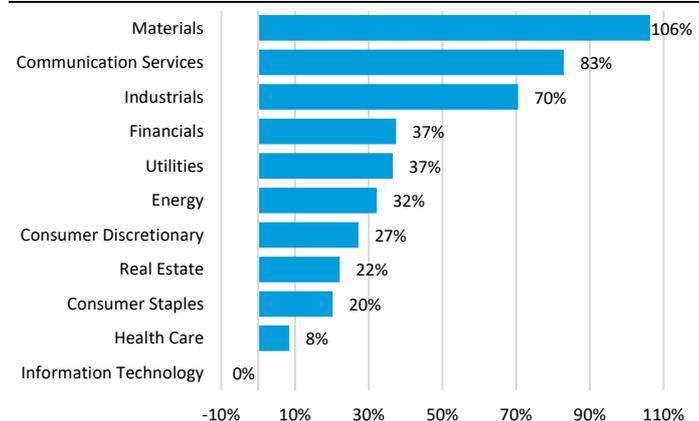
Strategy Performance Since Inception³ (Net)



Historical Strategy Exposures³



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
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Company Information – LSF

Name	L1 Long Short Fund Limited
Structure	Australian Listed Investment Company (ASX:LSF)
Inception	24 April 2018
Management Fee	1.44% p.a. inclusive of GST and RITC
Performance Fee	20.0%
High Watermark	Yes

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 100% 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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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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