



L1 CAPITAL

L1 Long Short Fund Limited

Monthly Report | AUGUST 2022

- The L1 Long Short Fund (LSF) portfolio returned 5.4%¹ in August (ASX200AI 1.2%).
- The portfolio has returned 23.0%¹ p.a. over the past 3 years (ASX200AI 5.5% p.a.).
- Portfolio performance was strong in August, with several portfolio positions delivering upbeat results ahead of market expectations.

Global equity markets declined in August (MSCI World -4.2%, S&P500 -4.1%, NASDAQ -4.5%), with sentiment turning negative following comments from Fed Chair Jerome Powell at the Jackson Hole symposium. Powell emphasised that the Fed would continue its tightening policy until it is confident inflation is moving closer to its 2% long-range target. Market expectations leading into the symposium were for the Fed to have to 'pivot' quickly to interest rate cuts due to rising recession fears. However, following the Fed Chair's speech, bond yields spiked in both the U.S. and Australia as consensus expectations of sustained interest rate hikes increased.

The S&P/ASX 200 Accumulation Index returned 1.2% in August. The strongest sectors were Energy (+7.8%), Materials (+4.4%) and Communication Services (+2.5%) while Property (-3.5%), Consumer Staples (-1.8%) and Utilities (-1.6%) lagged.

The portfolio performed strongly in August with a number of our holdings delivering better results and outlooks than consensus expectations over the reporting season.

We believe equity markets are entering a more difficult and uncertain period due to a combination of aggressive central bank policy tightening, deteriorating leading economic indicators in the U.S, worsening geopolitical tensions and continued war in the Ukraine, along with an energy crisis in Europe. As a result, we have significantly reduced our net market exposure and made further reductions since month end. We continue to find both safety and value in low P/E stocks with undergeared balance sheets and strong cashflow generation. In contrast, we believe high P/E stocks and 'expensive defensives' look crowded, risky and unappealing.

Key contributors to portfolio performance in August included:

Flutter (Long +31%) shares rallied after reporting strong first half results with the U.S. business moving to positive EBITDA in Q2, well ahead of its U.S. peers. Flutter's U.S. sports betting market share accelerated to 51% in Q2 2022, from ~40% six months ago, driven by its superior product, efficient customer acquisition strategies and strong operational execution.

Returns (Net) ¹ (%)	L1 Long Short Portfolio	S&P ASX 200 AI	Out-performance
1 month	5.4	1.2	+4.2
3 months	(11.9)	(2.4)	(9.5)
6 months	(7.6)	0.7	(8.4)
1 year	4.5	(3.4)	+8.0
2 years p.a.	33.7	11.2	+22.5
3 years p.a.	23.0	5.5	+17.5
4 years p.a.	16.7	6.4	+10.3
LSF Since Inception p.a.	11.0	7.9	+3.1
Strategy Since Inception ² p.a.	20.6	7.0	+13.7

The U.S. division is now the largest by revenue for the company, with a clear path to profitability in 2023. This shift to profitability, together with the continued exponential growth in the U.S. market, underpins the ability for Flutter to significantly accelerate its earnings growth over the next few years. Trading on only 22x (consensus) FY23 P/E, we believe Flutter remains significantly undervalued given its exceptional growth outlook.

Mineral Resources (Long +19%) shares rallied over the month supported by strong lithium prices and the formal sanction of its Ashburton iron ore project (now called Onslow Iron) with production due in late CY23. We believe Onslow Iron will deliver a step-change in earnings for the company. Mineral Resources will own a controlling interest in a high-quality, long life, low-cost asset as well as the associated mining services contract and infrastructure tolling.

From a lithium perspective, the company remains focused on developing its massive growth pipeline (full downstream integration for >100kt of lithium hydroxide production) over the next four years. The lithium market continues to remain very tight, supported by battery demand for electric vehicles. We continue to believe that all key areas of Mineral Resources' business (iron ore, lithium, and mining services) have favourable medium-term tailwinds with significant optionality that is not fully reflected in current market prices.

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\$. Returns are on a total return basis unless otherwise specified.



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Qantas (Long +17%) shares performed strongly after reporting results at the top end of its guidance range and reaffirming its FY24 financial targets. Qantas also managed to dramatically reduce its net debt during the year, enabling a ~\$400m share buyback to be announced at the result. The travel recovery continues to gain momentum, with leisure demand tracking 25% above pre-COVID levels and corporate / SME demand tracking at close to pre-COVID levels. Like many airlines around the world, Qantas has suffered from major operational issues this year, but we are now starting to see material improvements in call centre performance, flight delays/cancellation rates and baggage handling disruptions. These issues are complicated and are due to a number of disparate factors, but we believe they should gradually resolve.

We continue to view Qantas as having emerged from the pandemic even stronger than before, given its \$1b cost out program, improved market position and the massive pent-up demand for leisure and business travel, which we expect will persist despite macroeconomic headwinds. If Qantas management can achieve its FY24 targets, there is potential to deliver close to \$1 of earnings per share, with Qantas currently trading on only ~5x P/E on that basis. We believe there is more than 100% share price upside through earnings growth and a P/E re-rating as the company's earnings mix shifts towards the higher quality domestic earnings and loyalty business.

Hastings Technology Metals (Long +34%) is a leading Australian rare earth company. Its main project is the Yangibana mine in Western Australia, which is likely to be the next major ex-China rare earth mine. The company's shares surged in August on the back of strong results and the proposed acquisition of a 22% strategic shareholding in Neo Performance Materials, a rare earth processor and magnets producer listed in Canada. The acquisition will be funded by a A\$150 million cornerstone investment in Hastings by Andrew Forrest's private investment vehicle Wyloo Metals through the issuance of secured, redeemable, exchangeable notes. We believe the acquisition aligns with Hastings focus on creating a fully integrated, mine-to-magnet supply chain and the investment by Wyloo supports the upside we see in the company going forward.

QBE (Long +5%) shares rose in August after the company delivered a robust first half result with underwriting profit 15% ahead of consensus expectations. The step-change in growth for the business is best illustrated by Gross Written Premiums (GWP), where, after enduring a flat and challenging premium market for over a decade, the company has delivered a 21% increase in 2021 and an 18% increase in the first half of 2022 (on a constant currency basis). The North American business – which has historically struggled – demonstrated a notable improvement in both operating trends and reserving (implying a lower chance of future issues). QBE is also a significant beneficiary of rising interest rates, with its ~\$27b investment book on track to generate an incremental ~\$240m of earnings based on prevailing bond yields.

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 clear headwinds, we believe the company is finally at a turning point and is set to deliver stronger margins, dividends and return on equity. We believe this inflection point in business performance is not yet factored into market expectations, with QBE trading on only ~8.5x FY23 consensus P/E (versus a 10 year pre-COVID average of ~13x).



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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	0.06	(13.39)	(3.34)	5.37					1.47

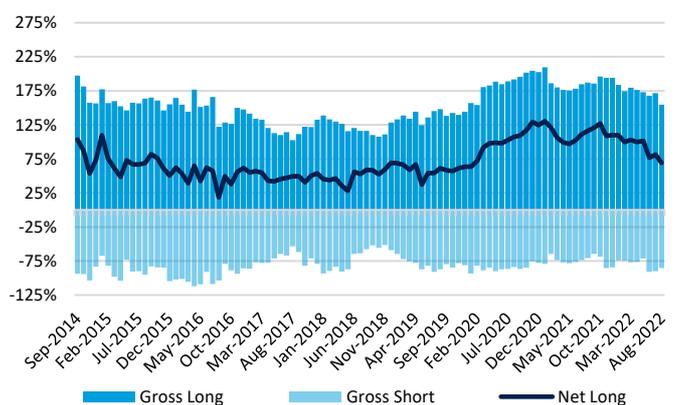
Portfolio Positions

Number of total positions	77
Number of long positions	57
Number of short positions	22
Number of international positions	28

Net & Gross Exposure by Region³ (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia/NZ	97	69	28
North America	35	16	19
Europe	18	0	18
Asia	3	0	3
Total	153	85	68

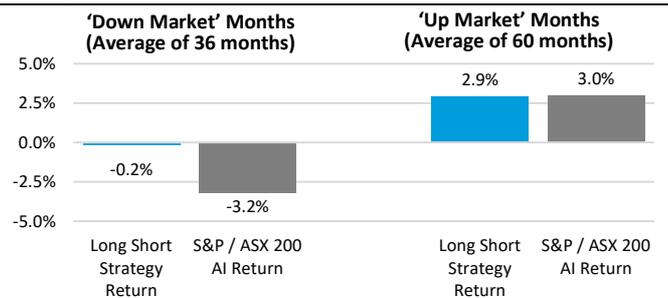
Historical Strategy Exposures³



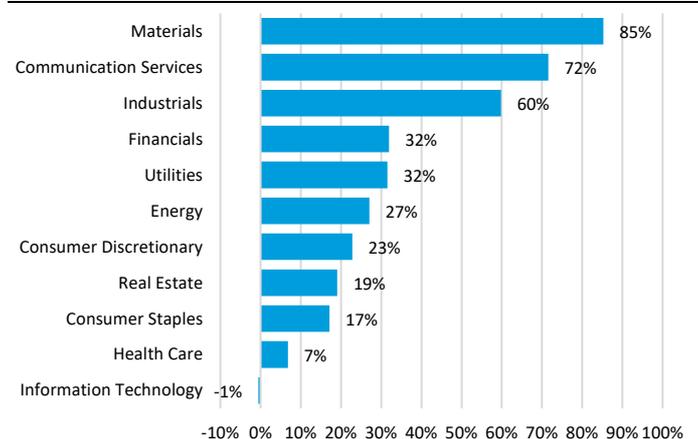
Company information as at 31 August 2022⁴

Share Price	\$2.53
NTA before tax	\$2.7578
NTA after tax	\$2.7920
Shares on issue	611,162,437
Company market cap	\$1.55b

Strategy Performance Since Inception³ (Net)



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
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Manager website	www.L1.com.au
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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 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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