



L1 CAPITAL

L1 Long Short Fund Limited

Monthly Report | JANUARY 2022

- The L1 Long Short Fund portfolio returned 2.8% (net)¹ in January (ASX200AI -6.4%).
- Global equities markets fell sharply, delivering the largest falls since the onset of the COVID-19 pandemic in March 2020 (NASDAQ -9.0%, MSCI World -5.3%, S&P500 -5.2%).
- The portfolio performed strongly in January due to stock-specific company updates, long exposure to energy and short positions in several ultra-high P/E stocks.

Global equity markets fell sharply in January as investors braced themselves for tighter monetary policy from central banks. Bond yields in both the U.S. and Australia spiked (U.S. ten-year yield +27bps and the Australian 10-year yield +22bps) as market expectations of interest rate hikes increased. This led to a more pronounced sell-off in high-multiple, unprofitable stocks that are more sensitive to higher bond yields.

The S&P/ASX 200 Accumulation Index fell 6.4% in January. The strongest sectors were Energy (+7.9%), Utilities (+2.6%) and Materials (+0.8%), while Information Technology (-18.4%), Healthcare (-12.1%) and Consumer Staples (-9.6%) were particularly hard hit.

The portfolio performed well over the month through broad-based stock gains with 16 individual stock positions contributing 0.3% or more to returns. The portfolio also had tailwinds from strong commodity prices, including a continued rally in oil prices, as well as several short positions in ultra-high P/E companies. These stocks continue to look expensive, despite the large share price falls.

The market movements in January continue to support our preference for short duration (Value/Cyclical) versus long duration (Growth/Defensive) stocks as we enter a central bank tightening cycle.

We expect share prices of ultra-expensive growth stocks to remain under pressure due to the increase in bond yields and the imminent reduction of central bank liquidity (along with the likely moderation of retail investor speculation). We believe a re-focus of investor mindsets on cashflow-based valuations and traditional finance fundamentals will be a welcome change that should provide a tailwind to portfolio performance. While we expect market returns to moderate significantly over the coming year, we continue to identify numerous mispriced stocks which should enable the portfolio to achieve its investment objectives.

Returns (Net) ¹ (%)	L1 Long Short Portfolio	S&P ASX 200 AI	Out-performance
1 month	2.8	-6.4	+9.1
3 months	-1.3	-4.3	+3.0
6 months	11.3	-3.8	+15.1
1 year	34.2	9.4	+24.7
2 years p.a.	37.1	3.0	+34.1
3 years p.a.	27.8	9.8	+18.0
LSF Since Inception p.a.	13.2	8.3	+4.9
Strategy Since Inception ² p.a.	22.8	7.1	+15.6

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

Enovus Energy (Long +19%) shares rallied with a strong rise in oil prices (up ~17% over the month). 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.

Santos (Long +13%) shares rallied in line with the strong oil price and on the back of completing its merger with Oil Search in late 2021. We retained our interest in Oil Search, which has now converted into Santos shares post-merger. In our view, the combined business, led by the highly regarded Santos management team, is well placed to outperform. Key upside drivers include strong organic cashflow generation supported by high oil and gas prices, the potential to deliver merger synergies above guidance and catalysts from partial asset sales in both Papua New Guinea and Alaska.

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).



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Shopify (Short -30%) is a Canadian software company that enables small and medium size businesses to easily manage an online shopfront. The company has performed extremely well during the COVID-19 period as businesses have been forced to move to an online model, driving up subscriptions, and consumers shopped more online, driving up payment volumes. We began shorting Shopify in December 2021 at ~\$1,360 per share. Our view was that despite demonstrable strengths and likely enduring benefits from a pull-forward of demand during the COVID-19 period, the company's share price had become very overvalued. There were also growing risks of a significant slow-down in Shopify's growth in 2022 from a general economic re-opening and from the emergence of well-funded copycat platforms. Shopify was also impacted by the spike in bond yields over the month which drove a significant de-rate in its valuation. With the stock now trading more in line with peers and our key catalysts having played out, we covered the short in late January at around \$890 per share.

Teck Resources (Long +7%) shares performed well following a very strong earnings quarter driven by the prices of coking coal, copper and zinc all rallying strongly. The company continues to make good progress on the construction of one of the world's largest copper mines (QB2), which we expect to generate further upside as it hits commercial production in late 2022. This comes at a time when the world continues to become short copper due to ongoing grade declines at major copper mines globally combined with medium-term demand support from expansion of the electricity grid in the developing world, along with the structural shift to electric vehicles. Despite the strong performance to date, Teck continues to be materially undervalued, trading on a FY22 P/E of only ~5.5x (consensus earnings). With the benefits of QB2 earnings and a large cost out program still to come over the next few years, we continue to believe Teck remains a very attractive investment.

CK Hutchison (Long +10%) shares rose due to renewed optimism around a global economic recovery post COVID-19. CK Hutchison is a diversified conglomerate with European and Australian infrastructure and telecom assets comprising the majority of its value. We believe CK Hutchison will deliver a much stronger operating performance in 2022 as the company's ports, retail division and energy operations recover strongly, while the core telecom and infrastructure businesses continue to be highly resilient. Additionally, the company's recent sale of its telecom towers business for ~€10b provides scope for meaningful share buybacks throughout this year. We continue to see strong upside in CK Hutchison with the shares trading on a P/E of less than 6x FY22 (consensus earnings), with a 6% dividend yield, undergeared balance sheet and solid EPS growth for many years to come.

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												2.79

Portfolio Positions

Number of total positions	86
Number of long positions	71
Number of short positions	15
Number of international positions	31

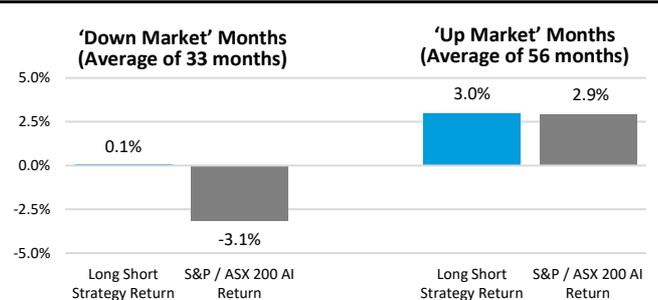
Company information as at 31 January 2022⁴

Share Price	\$2.81
NTA before tax	\$3.15
NTA after tax	\$2.83
Shares on issue	609,823,954
Company market cap	\$1,713,605,311

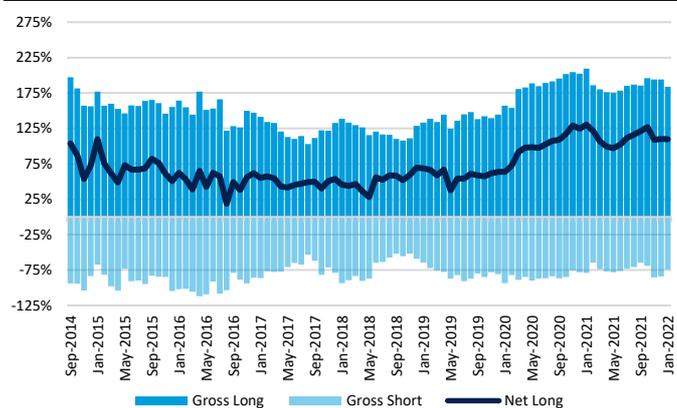
Net & Gross Exposure by Region³ (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	113	67	46
North America	41	5	37
Europe	22	3	19
Asia	7	0	7
Total	184	74	110

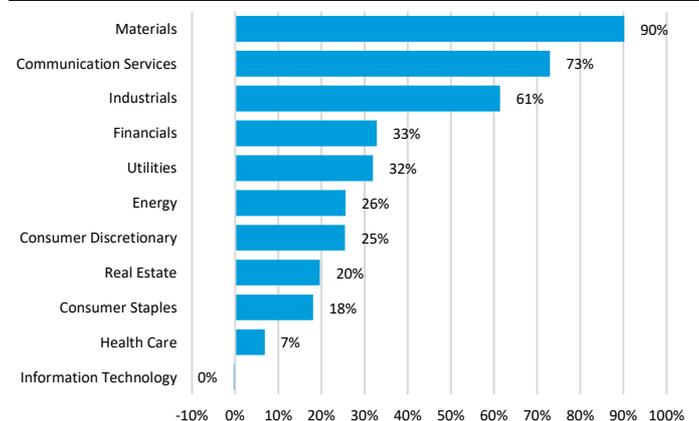
Strategy Performance Since Inception³ (Net)



Historical Strategy Exposures³



Sector Contribution Since Strategy Inception³ (Net)



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L1 Long Short Fund Limited

Monthly Report | JANUARY 2022

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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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 only Australian equities, long short 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 versus both benchmarks and peers. 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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