

L1 Capital Long Short Fund

Monthly Report | SEPTEMBER 2021

Unit Price: \$1.7666^{1,2} | Fund NAV: \$760m

The Long Short Fund returned 4.8% (net) in September (ASX200AI -1.9%).

The portfolio has returned 76.2% (net) over the past 12 months (ASX200AI 30.6%).

Performance was strong in September due to numerous positive company updates, along with portfolio positioning designed to benefit from the reopening trade and higher inflation.

Global equity markets fell in September (NASDAQ -5.7%, S&P500 -4.7%, MSCI World -4.2%), with investor sentiment impacted by ongoing fears around high inflation, the potential default of Evergrande (one of China's largest property developers) and more hawkish commentary from the U.S. Federal Reserve. These factors contributed to a sharp rise in bond yields with the US 10-year rising 24bps to 1.52% and the Australian 10-year rising 33bps to 1.49%.

The S&P/ASX 200 Accumulation Index returned -1.9% in September. The strongest sectors were Energy (+16.7%), Utilities (+2.5%), Financials (+1.6%), while Materials (-9.3%), Health Care (-4.9%) and Information Technology (-3.9%) lagged.

The portfolio performed strongly over the month primarily due to broad-based stock gains with 15 individual stock positions contributing 0.3% or more to returns. The portfolio also had tailwinds from our exposure to reopening beneficiaries, which we believe remain undervalued given our positive views on the recovery path from COVID-19, as well as from our positioning for higher inflation (e.g. long resources and short ultra-high P/E growth stocks).

The investment team continued to significantly increase its position in LSF in September, reconfirming our strong alignment with investors and our positive outlook for the portfolio. Our expectations remain underpinned by the large number of portfolio stocks with significant upside to valuation and the extreme stock dispersion across the market, which provides attractive opportunities for stock picking.

| Fund Returns (Net) ³ (%) | L1 Long Short Fund | S&P ASX 200 AI | Out-performance |
|-------------------------------------|--------------------|----------------|-----------------|
| One year | 76.2 | 30.6 | +45.7 |
| Two years p.a. | 33.3 | 8.3 | +25.1 |
| Three years p.a. | 22.9 | 9.7 | +13.2 |
| Five years p.a. | 15.7 | 10.4 | +5.3 |
| Seven years p.a. | 24.1 | 9.1 | +14.9 |
| Since inception p.a. | 23.3 | 8.2 | +15.1 |
| Since inception cumulative | 341.7 | 74.6 | +267.1 |

| Returns Since Inception (Net) ³ (%) | Cumulative Return | Annualised Return p.a. |
|--|-------------------|------------------------|
| L1 Capital Long Short Fund | 341.7 | 23.3 |
| S&P ASX 200 Accumulation Index | 74.6 | 8.2 |
| MSCI World Index Total Return (USD) | 71.9 | 7.9 |
| HFRX Global Hedge Fund Index | 14.4 | 1.9 |

Some of the key contributors to portfolio performance during the month of September were:

Oil Search (Long +17%) rallied due to a ~10% increase in oil prices. Oil Search is one of the highest quality energy stocks listed in Australia, with its low cost of production, long life assets, attractive growth options and partnership with a high-quality operator (Exxon Mobil). Oil Search also has a large stake in two very substantial growth projects in Papua New Guinea and Alaska. The Oil Search board recently approved entering into a scheme or arrangement for an all scrip merger with Santos at a modest premium to the pre-deal Oil Search price. We believe the combined Santos/Oil Search business led by the highly credentialed Santos management team is well-positioned to re-rate as the market reflects on the substantial synergies available, excellent producing asset base and strong suite of growth assets across the portfolio.

¹ The value of the Fund's assets less the liabilities of the Fund net of fees, costs and taxes. ² 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. ³ 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.



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Qantas (Long +11%) shares performed well as investor sentiment significantly improved for the 'reopening trade'. Vaccination rates across Australia accelerated in September, while case numbers in NSW peaked, providing improved confidence that Australia was on track to reopen for both domestic and international travel. Qantas brought forward the re-start of its key Sydney-Melbourne route to early November and also its recommencement of international travel from mid-November. While it will take some time for Qantas' flight activity to return to 2019 levels (given lingering quarantining restrictions and some states remaining closed to interstate travel), we believe the outlook for Qantas on a medium-term view is extremely positive. We believe Qantas will re-emerge from the pandemic even stronger than before, given its \$1b cost out program, improved market position and the massive pent-up demand for leisure travel.

Entain (Long +10%) shares rallied after the company announced that it had received a takeover proposal from DraftKings at £28 per share (£6.30 per share in cash and the balance in DraftKings Class A common shares), representing a ~46% premium to the unaffected share price. The takeover proposal adds further support to our view that Entain remains significantly undervalued relative to its peers. Entain has a joint venture with MGM Resorts in the U.S. (BetMGM) which is now the second largest player in the overall U.S. sports betting and iGaming market (behind Fan Duel and ahead of DraftKings). We believe the DraftKings offer could act as a catalyst for MGM Resorts to either consider bidding for the whole company or for the remaining 50% in BetMGM that it does not own. MGM had previously made an all scrip bid for Entain in January this year. MGM has a meaningfully stronger balance sheet now with access to more than ~US\$10b in cash from a combination of current cash on hand and proceeds from announced asset sales which positions the company very strongly to make a counter-bid. While there is inherent uncertainty in any takeover scenario, we continue to believe Entain has strong earnings growth potential over the medium term, with further upside should a strong M&A offer be confirmed.

Teck Resources (Long +10%) shares continued to trend higher driven by a surge in coking coal prices. Teck is one of the world's highest quality mining companies with very low-cost operations in coking coal, copper and zinc. The company continues to make good progress on the construction of one of the world's largest copper mines (QB2). This comes at a time when the world is gradually becoming short copper due to ongoing grade declines at major copper mines globally combined with medium-term demand support from rapid electrification. Despite the strong performance to date, Teck continues to be materially undervalued, trading on a FY22 P/E of only ~7x (consensus earnings) with likely near-term upgrades to consensus. 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 is exceptionally well-positioned.

News Corp (Long +8%) shares rose in September with the company announcing a US\$1b share buy-back program. This reflects increasing optimism on the outlook for its core operations, an improving free cash flow profile and a view from the News Corp board and management on the underlying value of the company. News Corp's latest result highlighted the strong operating momentum for the Group, which is being driven by its three core segments of Digital Real Estate, Dow Jones and Book Publishing. Complementing strong organic growth trends, News Corp has undertaken selective M&A to further bolster the operating outlook for these segments in coming years. Also during the month, News Corp held a Foxtel Investor Day. Presentations from management highlighted the substantial progress made to transition this business from a legacy, linear pay-TV model that was in decline, to a capital-lite, streaming-led operation that is well-positioned to deliver revenue growth and materially higher cash flow generation going forward. The success of this turnaround creates optionality for News Corp to pursue an IPO of Foxtel as a measure to unlock value for shareholders. Such a move – which we would encourage – would be consistent with News Corp management's recent efforts to better highlight the underlying value of its assets via portfolio rationalisation, cost initiatives, improved shareholder disclosures and the recently announced share buyback program.



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Daily Class

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Fund Returns (Net)⁴ (%)

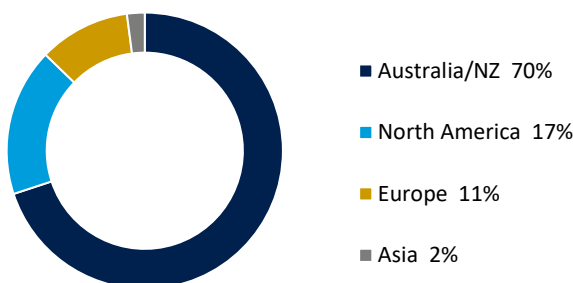
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year |
|-------------|--------|--------|---------|-------|--------|--------|--------|--------|--------|---------------------|--------|--------|----------------|
| 2014 | – | – | – | – | – | – | – | – | (2.42) | 3.03 | 2.85 | 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) ⁴ | 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 | | | | 32.61 |

| Portfolio Positions | Current | Avg. Since Inception |
|-----------------------------------|---------|----------------------|
| Number of total positions | 85 | 80 |
| Number of long positions | 71 | 55 |
| Number of short positions | 14 | 26 |
| Number of international positions | 32 | 24 |

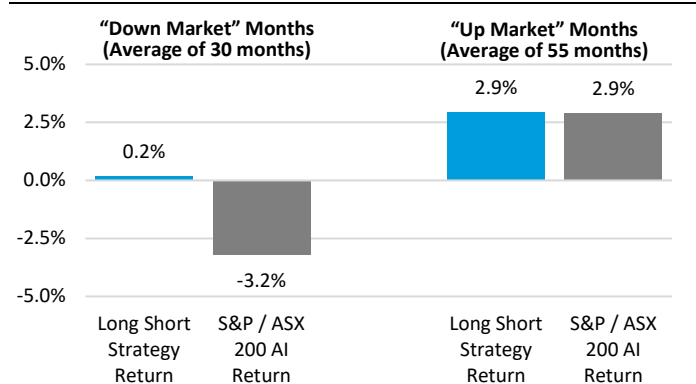
Net & Gross Exposure by Region⁴ (%)

| Geography | Gross Long | Gross Short | Net Exposure |
|----------------|------------|-------------|--------------|
| Australia / NZ | 118 | 57 | 60 |
| North America | 38 | 6 | 32 |
| Europe | 25 | 2 | 24 |
| Asia | 5 | 0 | 5 |
| Total | 186 | 65 | 121 |

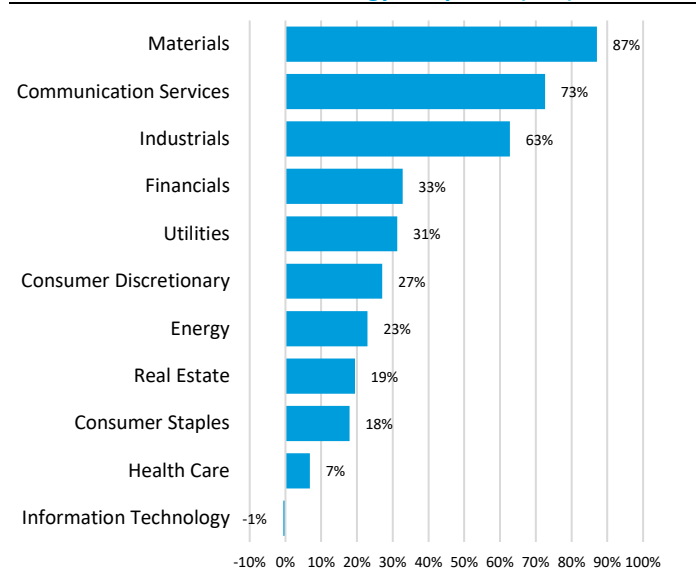
Gross Exposure as a % of Total Exposure⁴



Performance in Rising & Falling Markets⁴ (Net)



Sector Contribution Since Strategy Inception⁴ (Net)



⁴ 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.

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 RITC |
| Performance Fee | 20.50% inclusive of GST and RITC ⁵ |
| High Watermark | Yes |
| Buy / Sell Spread | 25bps / 25bps |
| APIR / ISIN | ETL0490AU / AU60ETL04909 |
| Minimum Investment | A\$25,000 |
| Subscription / Redemption Frequency | Daily |
| Platform Availability | Asgard, BT Wrap, CFS FirstWrap, HUB24, IOOF, Mason Stevens, MLC, Macquarie Manager / Consolidator, Netwealth, North, Powerwrap, uXchange |

Service Providers

| | |
|---------------------------|-------------------------------|
| Responsible Entity | Equity Trustees Limited |
| Prime Brokers | Morgan Stanley, Credit Suisse |
| Fund Administrator | Mainstream Fund Services |
| Fund Auditor | EY |
| Legal Advisor | Hall & Wilcox |

There have been no changes to key service providers since the last monthly report.



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.

Contact Us

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|--|---|--|--|--|
| Chris Clayton Head of Distribution M: + 61 417 279 183 E: cclayton@L1.com.au | Aman Kashyap Investment Specialist M: +61 477 341 403 E: akashyap@L1.com.au | Alexander Ordon Investment Specialist M: +61 413 615 224 E: aordon@L1.com.au | Wayne Murray Investment Specialist M: + 61 424 300 003 E: wmurray@L1.com.au | Alejandro Espina Investment Specialist M: + 61 423 111 531 E: aespina@L1.com.au |
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⁵ 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 Mainstream Fund Services, Bloomberg and L1 Capital.

Information contained in this publication

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