

L1 Capital Long Short Fund

Monthly Report | OCTOBER 2021
Unit Price: \$1.8071^{1,2} | Fund NAV: \$795m

The Long Short Fund returned 2.3% (net)³ in October (ASX200AI -0.1%).

The portfolio has returned 85.2% (net)³ over the past 12 months (ASX200AI 28.0%).

Performance was generated from a broad range of stock contributors, along with portfolio positioning designed to benefit from higher inflation.

Global equity markets rebounded strongly in October following a strong start to the U.S. corporate earnings season and reduced risk that Evergrande's potential default would result in wider contagion across the Chinese property sector.

The S&P/ASX 200 Accumulation Index returned -0.1% in October, underperforming most global markets, largely due to higher-than-expected inflation data and sharply higher Australian bond yields. The Australian 10-year bond rate rose by 59bps to 2.08%, the highest level since March 2019. The strongest sectors were Information Technology (+2.1%), Health Care (+1.0%) and Financials (+0.8%), while Industrials (-3.2%), Energy (-2.7%) and Consumer Staples (-2.3%) lagged.

The portfolio performed well over the month due to broad-based stock gains (16 individual stock positions contributed 0.2% or more to returns).

The investment team continued to significantly increase its position in LSF in October, 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.

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

Alibaba Group (Long +11%) We re-initiated a position in Alibaba after the shares had fallen ~45% since September 2020. Over the past month, the company's shares rallied due to improved sentiment as the market begins to digest the impact of new Chinese government regulations. Despite anti-monopoly rulings reducing the company's e-commerce market share, we believe that Alibaba remains a high-quality business with sustainable leading positions in both e-Commerce and Public Cloud. Previously, we had sold out of our position in Alibaba in the run-up to the Ant Financial IPO in November 2020 as the share price had rallied past our valuation.

Fund Returns (Net) ³ (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
One year	85.2	28.0	+57.2
Two years p.a.	32.6	8.4	+24.2
Three years p.a.	25.5	11.9	+13.6
Five years p.a.	16.3	10.9	+5.4
Seven years p.a.	23.9	8.5	+15.5
Since inception p.a.	23.4	8.1	+15.3
Since inception cumulative	351.8	74.4	+277.4

Returns Since Inception (Net) ³ (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	351.8	23.4
S&P ASX 200 Accumulation Index	74.4	8.1
MSCI World Index Total Return (USD)	81.6	8.7
HFRX Global Hedge Fund Index	15.5	2.0

We bought back into the stock in the last two months based on our view that on a risk-adjusted basis (factoring in a higher discount for Chinese regulatory uncertainty) the stock was very undervalued trading on only ~18x P/E despite a multi-year double-digit earnings growth outlook. With most core items of China's 14th Five Year Plan addressed ahead of the National Day holidays we believe we have passed peak regulatory uncertainty which should further support Alibaba's recovery.

Cenovus Energy (Long +19%) shares rose with a rally in oil prices (brent crude was up ~11% over the month) continuing to support strong free cashflow generation on a year-to-date basis. Given the long life nature of its oil sand assets and its conservative expense management, 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 free cashflow estimates should prices remain near current levels.

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.



L1 CAPITAL

Daily Class

L1 Capital Long Short Fund

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There are also additional value realisation catalysts with the company close to reducing their net debt below the threshold at which they would be able to pursue capital management. Subsequent to October month end, Cenovus announced a substantial buyback program and increase in dividends.

Imdex (Long +24%) shares rallied after its AGM update where the company disclosed Q1 revenue which was well above market estimates and provided a robust outlook on exploration spending and medium term growth. Imdex is the global leader in exploration drilling technology for the mining sector, with 80% of the business exposed to gold, copper and iron ore. The company has spent significantly on R&D over the past five years (fully expensed through its P&L) and is now in the early stages of launching the industry's best suite of new and improved products. We expect earnings growth of more than 20% p.a. for many years to come. Despite the strong share price rally, we believe Imdex remains undervalued, trading on only ~11.2x consensus FY22 EV/EBITDA. Finally, we believe Imdex's secure, cloud-based portal for providing access to validated field data (IMDEXHUB-IQ), will become a major contributor to client retention, will increase product penetration per site and is being quickly adopted across the client base.

Some of the key detractors to portfolio performance during the month of October were:

Star Entertainment (Long -18%) sold off heavily in October after negative media coverage on anti-money laundering (AML) controls. The negative media coverage complicated a scheduled license review for the Sydney Casino that was due to conclude by year-end and will now extend to June 2022. We viewed the market reaction as excessive and used the share price fall as an opportunity to add to our position. Star had delivered a robust FY21 result with good cost control and exceptional performance from the Queensland gaming assets, with recent AGM commentary suggest buoyant trends have continued into the new financial year. Star also announced it is exploring the sale of up to 49% of its Sydney property portfolio, which has the potential to release significant capital, and had completed a sale and leaseback of its Treasury Buildings and Car Park for \$248m at an attractive cap rate. We continue to believe the scarcity value of its casino licenses and the transformative impact of the Queen's Wharf development in Brisbane are not fully appreciated at the current valuation. While the market is very focused on the short-term risks around COVID-19 disruption and the Star Sydney license review, we believe the medium-term outlook for the company looks very attractive.

Aurizon (Long -11%) shares fell after announcing the purchase of One Rail Australia for \$2.3b. Aurizon is Australia's largest rail freight operator, with its main asset comprising the 2,670km Central Queensland Coal Network. We initially invested in Aurizon as we were attracted to its dominant rail infrastructure assets, conservative capital structure and strong dividend yield of ~7.5%. We were disappointed by the acquisition, given it reduces the company's dividend for the next 1-2 years, uses up the company's balance sheet capacity, was agreed at a premium multiple to comparable transactions and introduces substantial deal risk, with the requirement to divest the coal division (which comprises two thirds of the acquired asset base).

Fund Returns (Net)⁴ (%)

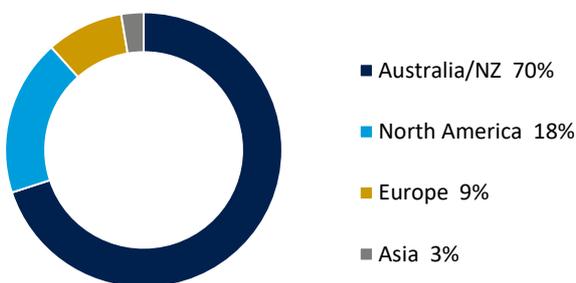
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	–	–	–	–	–	–	–	–	(2.42)	3.03	2.85	1.61	5.07
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.61	60.52
2016	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.18) ⁴	0.55	2.13	29.43
2017	2.48	1.79	2.83	1.01	4.14	1.68	2.61	1.67	1.91	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	2.29			35.65

Portfolio Positions	Current	Avg. Since Inception
Number of total positions	90	80
Number of long positions	75	55
Number of short positions	15	25
Number of international positions	32	24

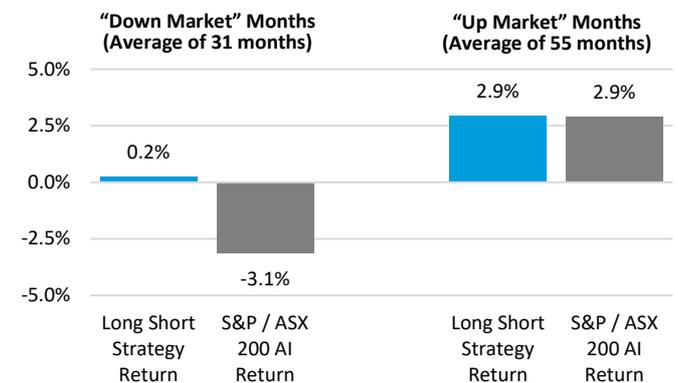
Net & Gross Exposure by Region⁴ (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	124	62	62
North America	43	6	37
Europe	22	1	21
Asia	7	0	7
Total	196	69	127

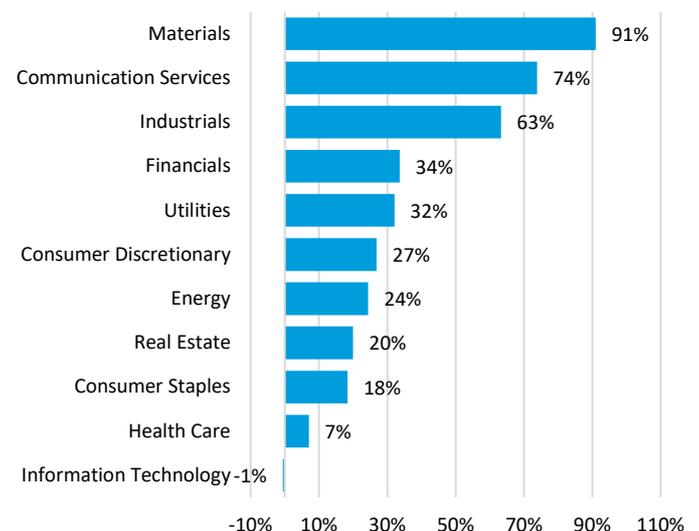
Gross Exposure as a % of Total Exposure⁴



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.

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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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