

# L1 Capital Long Short Fund

Monthly Report | MAY 2022  
Unit Price: \$2.0014<sup>1,2</sup> | Fund NAV: \$959m

- The L1 Capital Long Short Fund returned 0.1%<sup>3</sup> in May (ASX200AI -2.6%).
- The Fund has returned 26.5%<sup>3</sup> over the last 12 months (ASX200AI 4.8%) and 29.6% p.a.<sup>3</sup> over the past 3 years (ASX200AI 7.8% p.a.).
- Portfolio performance in May was pleasing, considering the fall in the Australian market. The portfolio benefitted from long exposure to energy, along with shorts in some 'COVID winners' that fell sharply.
- Mark Landau recently provided an investor webinar where he discussed portfolio positioning and the outlook for equity markets. To watch the replay, please click [here](#).

Global markets were volatile in May with investors increasingly concerned that rising inflation and the U.S. Federal Reserve's plan to address this by sharply hiking interest rates could trigger a recession. Technology stocks continued to be the hardest hit with the Nasdaq falling a further 1.9% over the month (after a 13.2% fall in April), extending its worst ever start to a calendar year (-22.5% CYTD).

The S&P ASX 200 Accumulation Index fell 2.6% over the month, with almost all sectors declining. The RBA announced its first interest rate increase since November 2010, which weighed on investor sentiment. The strongest sectors were Materials (+0.1%), Utilities (-0.2%) and Industrials (-0.5%), while Property (-8.7%), Information Technology (-8.7%) and Consumer Staples (-6.6%) lagged.

Portfolio performance was pleasing over the month considering the weak market backdrop, with stock specific catalysts, long exposure to energy and short positions in COVID 'winners' and profitless technology stocks offsetting broader market weakness.

We have used the recent market correction to invest in a handful of high quality businesses (such as James Hardie and Carsales) that we believe have reached oversold levels. We have also taken profits in some long positions that have rallied significantly over the past six months.

**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 two years of stronger than normal equity returns, our expectations for market performance over the coming year remains more subdued. While these periods of heightened market volatility can be unnerving, we believe they present us with outstanding opportunities to generate alpha for our investors.**

Fund Returns (Net) <sup>3</sup> (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 year	26.5	4.8	+21.6
2 years p.a.	45.5	15.9	+29.5
3 years p.a.	29.6	7.8	+21.8
5 years p.a.	15.2	8.8	+6.4
7 years p.a.	22.0	7.5	+14.5
Since inception p.a.	23.1	7.6	+15.5
Since inception cumulative	400.4	76.0	+324.4

Returns Since Inception (Net) <sup>3</sup> (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	400.4	23.1
S&P ASX 200 Accumulation Index	76.0	7.6
MSCI World Index Total Return (USD)	59.6	6.2
HFRX Global Hedge Fund Index	10.7	1.3

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

**Flutter (Long +20%)** shares rallied with the U.K. gambling review expected to be released in the coming weeks and with a continued moderation in competitive intensity in the U.S. We continue to believe clarity on the U.K. regulatory outcome will remove a key overhang on the stock. On the U.S. sports betting and gaming side, several competitors announced a sharp reduction in marketing activity, which should support the path to profitability for the industry. Flutter continues to be best placed to reach this milestone ahead of peers, with the cheapest customer acquisition costs and fastest payback period across the industry. Trading on only 18.5x (consensus) FY23 P/E, we think Flutter remains significantly undervalued given the decade of strong growth the company has ahead of it.

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.

**Bath and Body Works (Short -22%)** shares collapsed as the company downgraded their earnings outlook by ~12%. Bath and Body Works is a speciality retailer of home fragrance, body care, soap and sanitiser products. The business was a significant COVID-19 beneficiary with high exposure to 'stay at home' categories and increased consumer demand supported by stimulus payments. We shorted the stock based on our view that forecast earnings did not fully incorporate weaker consumer spending relative to the stimulus supported levels of 2021, as well as the impact of higher inflation across raw materials, wages and transport. The Bath and Body Works Q1 update reflected some of these risks, with gross margins in the second quarter expected to compress by 560bps versus the prior period. Given the large share price fall, we closed the position at the end of the month at around the \$40/share level.

**Cenovus Energy (Long +23%)** shares rallied driven by continued strong oil prices and free cash flow generation, as well as being positioned to benefit from strong refining margins and downstream operations. The company recently 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. 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 almost triple 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.

Key detractors from portfolio performance during the month of May were:

**News Corp (Long -14%)** shares declined over the month despite reporting March quarter results in line with consensus expectations. The decline was primarily driven by a softening in investor sentiment towards News Corp's Digital Real Estate assets against a backdrop of rising interest rates in both Australia and the U.S., with REA Group shares down 13% during the month. While concerns over property market drivers are likely to continue in the near-term, we see both REA Group and Move as being well positioned to structurally improve their businesses through this period. We continue to believe the News Corp assets are materially under-valued and remain supportive of ongoing initiatives to unlock value across the Group.

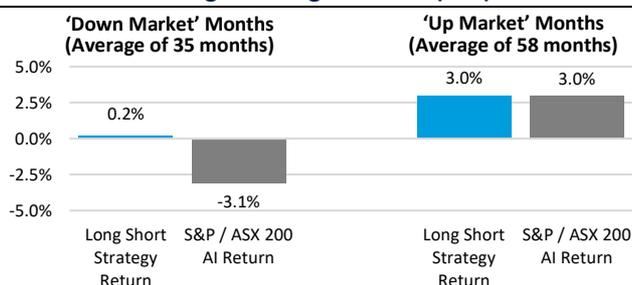
**Bluescope Steel (Long -11%)** is Australia's largest steel production company focused on providing steel materials, products, systems and technologies across Australia, New Zealand, Asia and North America. The company's shares fell during the month as the market projected a weaker (but still solid) FY23 outlook, despite the company slightly upgrading its guidance for FY22 net profits. Global steel peers experienced similar price declines due to Asian steel spreads remaining low and U.S. steel spreads recently weakening from very high levels. Overall, however, end market demand for steel remains strong in Bluescope's key Australian and U.S. regions. The board and management of Bluescope have continued to allocate capital sensibly, via a mix of high returning growth capex, increased dividends and on-market buybacks. We remain very confident in the medium term outlook for Bluescope with the supportive pricing environment as well as tailwinds from capacity expansions and a normalisation of working capital levels underpinning strong cash flow generation for the company over the medium term.

## Fund Returns (Net)<sup>4</sup> (%)

	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) <sup>4</sup>	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	(7.20)	3.56	30.35
2022	2.72	6.98	1.45	3.28	0.10								15.25

Portfolio Positions	Current	Avg. Since Inception
Number of total positions	88	81
Number of long positions	70	56
Number of short positions	18	25
Number of international positions	32	24

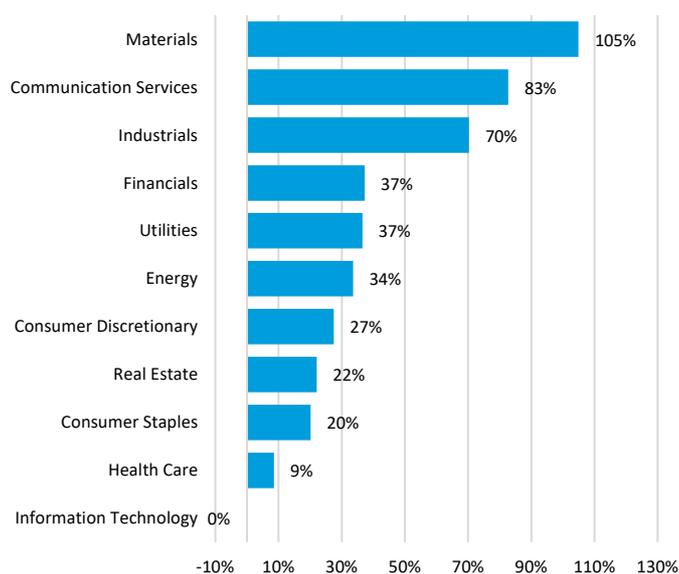
## Performance in Rising & Falling Markets<sup>4</sup> (Net)



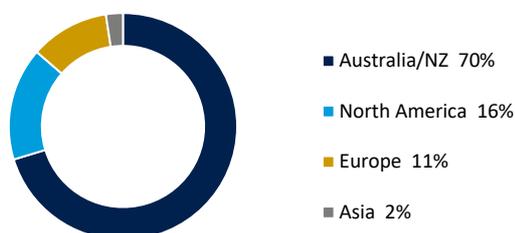
## Net & Gross Exposure by Region<sup>4</sup> (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	104	68	36
North America	36	3	32
Europe	27	0	27
Asia	6	0	6
<b>Total</b>	<b>173</b>	<b>71</b>	<b>102</b>

## Sector Contribution Since Strategy Inception<sup>4</sup> (Net)



## Gross Exposure as a % of Total Exposure<sup>4</sup>



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

<b>Class Name</b>	L1 Capital Long Short Fund – Daily Class
<b>Structure / Currency</b>	Australian Unit Trust / AUD
<b>Inception</b>	1 September 2014
<b>Management Fee</b>	1.54% p.a. inclusive of GST and RITC
<b>Performance Fee</b>	20.50% inclusive of GST and RITC <sup>5</sup>
<b>High Watermark</b>	Yes
<b>Buy / Sell Spread</b>	25bps / 25bps
<b>APIR / ISIN</b>	ETL0490AU / AU60ETL04909
<b>Minimum Investment</b>	A\$25,000
<b>Subscription / Redemption Frequency</b>	Daily
<b>Platform Availability</b>	Asgard, BT Panorama, CFS FirstWrap, HUB24, IOOF, Macquarie Wrap, Mason Stevens, Netwealth, AMP North, Powerwrap, uXchange

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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 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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**Key service providers** for the Fund are: Responsible Entity – Equity Trustees Limited, Prime Brokers – Morgan Stanley and 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.

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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