



L1 CAPITAL

DAILY CLASS

# Australian Equities Fund

Monthly Report | OCTOBER 2021

INCEPTION DATE: 23 AUGUST 2007 | UNIT PRICE: 1.83066<sup>1,2</sup> | FUND NAV: \$57M

The Fund returned -1.4% (net) in October, compared to the S&P/ASX 200 Accumulation Index which returned -0.1%.

Over the past 12 months, the Fund returned 34.1% (net), outperforming the index by 2.8%.

Since inception, the Fund has outperformed the index by 2.9% p.a. (net).

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.

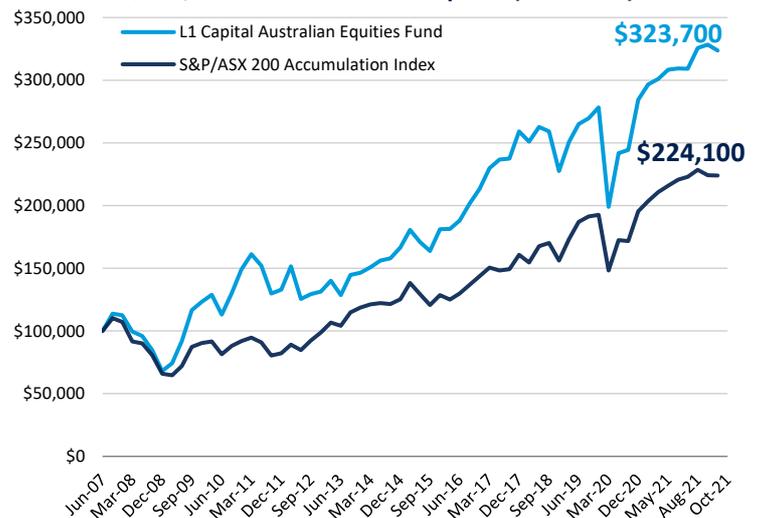
We continue to have a positive outlook for the Fund. Our expectations remain underpinned by the large number of portfolio stocks with significant upside to valuation and the extreme stock dispersion across the market, which provides attractive opportunities for stock picking.

## Performance Summary (Net) (%)

	Fund <sup>3</sup>	Index <sup>3</sup>	Out-performance
One month	-1.4	-0.1	-1.3
Three months	4.7	0.5	+4.2
One Year	34.1	28.0	+6.2
Two years p.a.	8.7	8.4	+0.3
Three Years p.a.	10.3	11.9	-1.6
Five Years p.a.	10.3	10.9	-0.6
Ten Years p.a.	8.3	10.0	-1.7
Since inception p.a.	8.6	5.8	+2.8
Since inception cumulative	223.7	124.1	+99.6

## Fund Performance vs S&P/ASX 200 Accumulation Index

### Growth of \$100,000 invested since inception (after fees)



<sup>1</sup> The value of the Fund's assets less the liabilities of the Fund net of fees, costs and taxes. <sup>2</sup> 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. <sup>3</sup> The Index is the S&P/ASX 200 Accumulation Index. 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 is for the Daily Class of units of the L1 Capital Australian Equities Fund since inception on 5 Oct 2017 (being the date that the first Daily Class units were issued). Prior to this date, data is that of the L1 Capital Australian Equities Fund Wholesale Class of units since inception (22 Aug 2007) which is subject to a different fee structure.



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A key contributor to portfolio performance during the month of October was:

**Challenger** shares rallied 10% over the month after reporting a solid first quarter update where full year guidance was reaffirmed. Challenger saw strong growth in the life book over the quarter as well as increased momentum in institutional annuity sales, which more than tripled relative to the prior period. We believe the company remains undervalued with medium-term tailwinds from a steepening in the yield curve and from greater demand for annuity-based retirement solutions due to expected changes in retirement covenant legislation.

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

**Star Entertainment** sold off by 18% 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** shares fell 11% 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).



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## Fund Information – Daily Class

<b>Name</b>	L1 Capital Australian Equities Fund
<b>Class of Units</b>	Daily
<b>Structure</b>	Unit Trust
<b>Domicile/Currency</b>	Australia/AUD
<b>Inception</b>	23 August 2007
<b>Management Fee</b>	0.77% p.a. inclusive of GST and RITC
<b>Expenses</b>	Maximum of 0.20% p.a.
<b>Performance Fee</b>	15.38% above S&P/ASX200 Acc Index <sup>4</sup>
<b>High Watermark</b>	Yes
<b>APIR/ARSN</b>	LCP0001AU/621 183 195
<b>Minimum Investment</b>	A\$25,000
<b>Subscription Frequency</b>	Daily
<b>Redemption Frequency</b>	Daily
<b>Platform Availability</b>	Hub24, Macquarie Wrap, Mason Stevens, Netwealth, Powerwrap, Praemium, uXchange

## Service Providers

<b>Responsible Entity</b>	Equity Trustees Limited
<b>Fund Administrator</b>	Mainstream Fund Services
<b>Fund Auditor</b>	EY
<b>Fund Custodian</b>	Mainstream Fund Services
<b>Legal Advisor</b>	Hall & Wilcox



Level 28, 101 Collins Street  
Melbourne VIC 3000 Australia

Email [info@L1.com.au](mailto:info@L1.com.au)  
[www.L1.com.au](http://www.L1.com.au)

## L1 Capital 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

<b>Chris Clayton</b> Head of Distribution M: + 61 3 9286 7021 E: <a href="mailto:cclayton@L1.com.au">cclayton@L1.com.au</a>	<b>Aman Kashyap</b> Investment Specialist M: +61 477 341 403 E: <a href="mailto:akashyap@L1.com.au">akashyap@L1.com.au</a>	<b>Alexander Ordon</b> Investment Specialist M: +61 413 615 224 E: <a href="mailto:aordon@L1.com.au">aordon@L1.com.au</a>	<b>Wayne Murray</b> Investment Specialist M: + 61 424 300 003 E: <a href="mailto:wmurray@L1.com.au">wmurray@L1.com.au</a>	<b>Alejandro Espina</b> Investment Specialist M: + 61 423 111 531 E: <a href="mailto:aespina@L1.com.au">aespina@L1.com.au</a>
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<sup>4</sup> The performance fee is equal to the stated percentage of the amount by which the Fund's performance exceeds the S&P ASX 200 Accumulation Index (after management expenses but before performance fees) in a Performance Period.

All performance numbers in this update are quoted after fees. All performance numbers prior to 15 September 2017 relate to the L1 Capital Australian Equities Fund wholesale class of units. The L1 Capital Australian Equities Fund PDS and RG (first issued 5 September 2017, last updated 19 March 2019) are a daily class of units. 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. Past performance is not predictive of future returns.

### Information contained in this publication

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the L1 Capital Australian Equities Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).

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The L1 Capital Australian Equities Fund's Target Market Determination is available at <https://bit.ly/3a0Kj68>. A Target Market Determination is a document which was required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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