



L1 CAPITAL

MAY 2021

L1 Long Short Fund Limited

(ASX Code: LSF)

The L1 Long Short Fund Limited (“the Company”) returned 4.1% (net)¹ in May (ASX200AI 2.3%).

Over the past year, the Company has returned 70.1% (net)¹ (ASX200AI 28.2%).

The Company’s pleasing performance in May was driven by strong stock selection, along with portfolio construction designed to benefit from rising inflation and from the continued outperformance of cyclical stocks.

Global equity markets rose moderately in May with continued upgrades to corporate earnings, further economic re-opening and positive vaccine progress lifting markets higher. Inflation concerns increased over the month with the release of April data indicating that U.S. CPI spiked to 4.2%, a 13 year high. This was the biggest differential between consensus expectations and officially reported CPI on record. This supported a pro-cyclical and reflationary rotation, with Financials and Materials stocks outperforming, while growth stocks lagged.

The S&P/ASX 200 Accumulation Index returned 2.3% in May, outperforming most developed markets. The Australian market’s positive performance was supported by a larger-than-expected 5-year stimulus package of \$96 billion in the Federal Budget. The strongest sectors in Australia were Financials (+5.7%), Consumer Discretionary (+3.5%) and Healthcare (+3.5%) while the worst performers were Information Technology (-9.9%), Utilities (-6.6%) and Energy (-1.8%).

Multiple drivers contributed to the strong portfolio performance in May. The primary driver was good stock picking, with a range of companies releasing positive trading updates. Our long positions in Financials and Mining and short positions in ultra-high P/E growth stocks were beneficial to performance as our anticipated views on rising inflation began to be realised. Finally, the portfolio had tailwinds from improved prices in gold, copper and other commodities.

We believe equity markets will remain supported in the near term, with a further rotation into value and cyclical stocks likely as global GDP growth accelerates through 2021. We have intentionally positioned the portfolio to benefit from continued inflationary pressure throughout 2021. This should place pressure on high multiple concept stocks while at the same time supporting sectors such as Resources and Financials.

Returns (%) (Net) ¹	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 month	4.1	2.3	+1.7
3 months	9.2	8.5	+0.7
6 months	24.0	11.7	+12.3
1 year	70.1	28.2	+55.9
2 years p.a.	32.5	9.4	+23.1
LSF Since Inception p.a.	11.9	10.4	+1.5
Strategy Since Inception² p.a.	23.1	8.0	+14.6

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

ALS Limited (Long +18%) shares rallied as the company reported FY21 results that were ahead of consensus expectations and provided a positive current trading update, noting strong momentum in its key segments. ALS’s geochemistry business is the global leader for copper and gold sample testing across greenfield and brownfield mining operations. We have previously written about our positive views on both ALS and Imdex (the global leader in mining drilling technology), with growth underpinned by the significant uptick we have seen in junior miner capital raisings and exploration spending. The positive commodities backdrop coupled with this additional capital inflow has started to translate into increased drilling activity and significant sample flow growth for ALS’s geochemistry business. We believe we are at the start of a multi-year bull cycle for exploration spending which will support a sustained double-digit growth outlook for ALS driven by the strong operating leverage evident in its geochemistry business.

¹ All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Past performance should not be taken as an indicator of future performance. ² Full performance history is for L1 Long Short Limited (LSF:ASX) since inception on 24 Apr 2018. Performance prior to this date is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014).



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Teck Resources (Long +17%) shares continued to trend higher driven by strong rises in copper and zinc prices, continued tightness in the domestic Chinese coking coal market and an emerging recovery in benchmark Australian 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 the world's largest copper mines combined with medium-term demand support from rapid electrification. Despite the strong performance to date, Teck continues to be materially undervalued, trading on a FY21 P/E of only ~10x (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.

Treasury Wine Estates (TWE) (Long +16%) performed strongly in May following the company's investor day at which management clarified its regional and brand strategies and provided greater confidence in its ability to develop increased demand for its key Penfolds brand. During 2020, TWE's shareprice pulled back significantly after a series of adverse announcements, including negative impacts on the US business, the retirement of its long time CEO and exorbitant tariffs that all but barred exports to China. In November 2020 we bought in at around \$8 following the market's over-reaction to the China tariff news. Notwithstanding the negative newsflows, we have always held TWE's brand portfolio (especially Penfolds) and its operating management in high regard. Acknowledging that the now limited access to the Chinese market makes the current medium-term outlook somewhat unclear, we believe that the company has been able to preserve its brand integrity and, more importantly, its pricing power. This should position TWE well to reallocate the portfolio to adjust for the loss of China over time, with significant upside should there be any tariff relief.

QBE (Long +11%) shares performed strongly after management gave an upbeat trading update in their AGM commentary in early May. After enduring a flat and challenging premium market for many years, QBE stated that Gross Written Premium (GWP) increased 23% in the first quarter (on a constant currency basis). Excluding crop insurance (which distorts the underlying trends), GWP across the QBE business increased 13%, which reflects positive industry trends and improving combined operating ratios across all regions. We have been cautious on QBE for many years, given the clear industry headwinds they were facing. However, after 15 years of weak industry dynamics, we believe QBE is finally set to deliver improving margins, dividends and ROE which we believe are not yet fully factored into market expectations.

The investment team continued to add to its position in LSF in May, reconfirming our continued 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. We expect the global vaccine rollout, extreme monetary and fiscal stimulus and an acceleration in economic growth to support the continued rotation into value and cyclical stocks, which should be a tailwind for Company performance.

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)	(5.97)	1.02	(5.34)	(2.04)	(3.92)	(2.60)	(5.95)	(27.74)
2019	4.26	5.11	0.17	3.04	(2.73)	3.84	0.65	0.40	2.61	3.46	0.37	2.04	25.46
2020	(7.75)	(6.83)	(22.94)	23.16	10.94	(2.12)	(1.69)	9.99	0.63	(2.43)	31.94	4.29	29.50
2021	(0.16)	9.02	(0.14)	5.11	4.07								18.90

Portfolio Positions

Number of total positions	90
Number of long positions	69
Number of short positions	21
Number of international positions	30

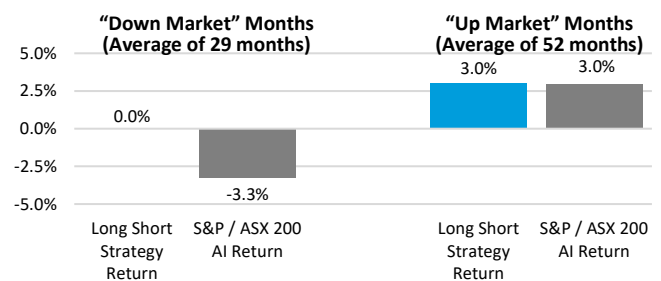
Share Price & NTA as at 31 May 2021⁴

Share Price	\$2.38
NTA pre-tax per share	\$2.8019
NTA post-tax per share	\$2.5959

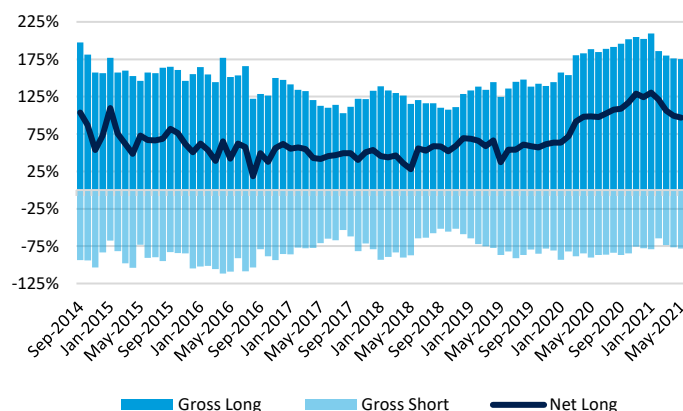
Net & Gross Exposure by Region (%)

Geography	Gross long	Gross short	Net Exposure
Australia / NZ	117	66	51
North America	24	11	13
Europe	29	0	29
Asia	6	1	4
Total	176	78	97

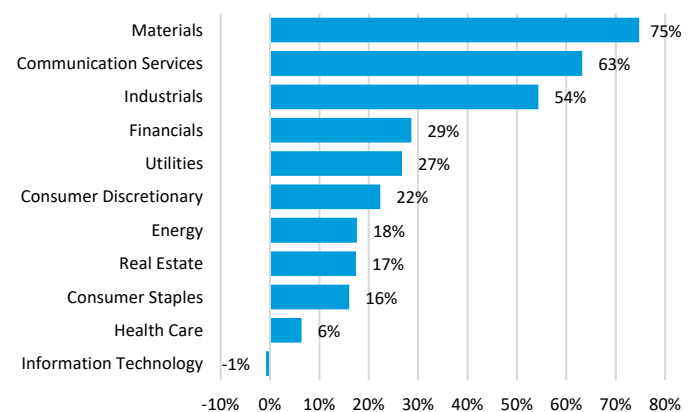
Strategy Performance Since Inception (Net)³



Historical Strategy Exposures³



Sector Contribution Since Strategy Inception (Net)³



³ All performance numbers are quoted net of fees. Full performance history is for the L1 Long Short Limited (LSF:ASX) since inception on 24 Apr 2018. Performance prior to this date is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014). Percentages have been rounded to the nearest whole number. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. ⁴ The NTA pre-tax is calculated before the provision for deferred tax on unrealised gains and losses on the investment portfolio. The NTA post-tax is calculated after all realised tax and deferred tax on unrealised gains.

Investment Guidelines

Typical no. of positions	50-100 securities
Geographic exposures	Max 30% gross outside of Aust/NZ
Net exposure limits	Max 150% of NAV; typically 30-100%
Gross exposure limits	Max 300% of NAV; typically 150-300%

Board of Directors

Andrew Larke	Independent Chair
John Macfarlane	Independent Director
Harry Kingsley	Independent Director
Raphael Lamm	Non-Independent Director
Mark Landau	Non-Independent Director

Key Contacts

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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, a global multi-strategy hedge fund and UK 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 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. The portfolio is managed by L1 Capital Pty Ltd, which has established a reputation for offering clients best of breed investment products. L1 Capital manages money for a range of clients including large superannuation funds, endowment funds, financial planning groups, asset consultants, family offices, high net worth individuals and retail investors. Sources of information in this report are Mainstream Fund Services, Bloomberg and L1 Capital.

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.

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