JUNE 2021

# L1 Long Short Fund Limited

(ASX Code: LSF)

**The L1 Long Short Fund portfolio returned -0.5% (net)[1] in June (ASX200AI 2.3%).**

**The portfolio has returned 72.9% (net)[1] over the past 12 months (ASX200AI 27.8%).**

**In June, the portfolio was impacted by a strong rotation into growth stocks (and away from value) given a decline in long term bond yields. Strong stock-specific alpha enabled the portfolio to remain largely unaffected.**

Global equity markets rose modestly in June led by the continued improvement in economic data and a strong recovery in growth names. The US Federal Reserve turned more hawkish in June, accelerating the pace of expected policy tightening amid optimism about the rate of the economic recovery. This led to a flattening of the yield curve causing growth and defensive stocks to strongly outperform value and cyclical stocks.

The S&P/ASX 200 Accumulation Index returned 2.3% in June. The strongest sectors in Australia were Information Technology (+13.4%), Communication Services (+5.5%) and Property (+5.5%) while Financials (-0.2%), Materials (+0.3%) and Healthcare (+2.2%) lagged.

Following strong performance in both April and May, the portfolio was marginally negative this month, with stock picking gains offset by the underperformance of value/cyclical stocks. We believe this factor rotation is temporary, anticipating that continued upgrades to corporate earnings, further economic re-opening and positive vaccine progress should lead to a positive tailwind for cyclical stocks over the remainder of the year.

**We believe equity markets will remain supported in the near term, with strong GDP growth and reflation likely to support the renewal of the rotation to value and cyclical stocks. As such, we continue to position the portfolio to benefit from ongoing inflationary pressure throughout 2021. This should lead to a de-rating in high multiple concept stocks while at the same time supporting sectors such as Mining & Energy.**

| Returns (%) (Net)[1] | L1 Long Short Fund | S&P ASX 200 AI | Out-performance |
|---|---|---|---|
| **1 month** | (0.5) | 2.3 | (2.8) |
| **3 months** | 8.8 | 8.3 | +0.5 |
| **6 months** | 18.3 | 12.9 | +5.4 |
| **1 year** | 72.9 | 27.8 | +45.1 |
| **2 years p.a.** | 29.7 | 8.6 | +21.0 |
| **3 years p.a.** | 16.6 | 9.6 | +7.0 |
| **LSF Since Inception p.a.** | 11.4 | 10.9 | +0.5 |
| **Strategy Since Inception[2] p.a.** | 22.7 | 8.2 | +14.4 |

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

**Entain (Long +6%)** shares continued to perform positively as the company's U.S. joint venture with MGM Resorts, BetMGM, continued to show strong market share growth. BetMGM is now the second largest player in the overall U.S. sports betting and iGaming market, overtaking DraftKings. We continue to believe Entain has material upside from current levels. On a sum-of-the-parts basis, we estimate that BetMGM trades at a ~70% discount to DraftKings, despite its greater market share and outstanding execution to date. The company's core online business could double over the next few years and there is potential for M&A upside with Entain looking at a number of strategic opportunities.

*[1] All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. [2] Strategy performance and exposure history is for the L1 Long Short Limited (LSF:ASX) since inception on 24 Apr 2018. Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014).*

**Cenovus Energy (Long +18%)** is an integrated energy company that develops, produces and markets crude oil, natural gas liquids and natural gas, primarily in Canada. Cenovus shares rose as oil prices continued to strengthen, driving 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 close to double this break-even point, implying considerable upside to consensus free cashflow estimates should prices remain near current levels. 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.

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

**SES (Long -9%)** is a French satellite network provider that supplies data and video connectivity to broadcasters, telecommunications companies, governments and airlines globally. SES also owns a 45% economic interest in C-Band spectrum that is critical to the development of 5G services in the U.S. The shares pulled back over the month on no company-specific newsflow. We took advantage of this to further add to our position. We believe SES remains extremely undervalued with the market currently ascribing limited value to the company's C-Band spectrum. This spectrum is set to deliver ~US$3.2b in cash payments (after tax) over the next 3 years, amounting to ~80% of the company's current market cap. We also believe SES could monetise its valuable spectrum position in Canada and Brazil, as well as receive further payments from the early clearing of its U.S. spectrum.

**Star Entertainment (Long -9%)** shares declined with the announcement of new COVID-related restrictions at its NSW casino. We continue to believe Star has an attractive outlook given the scarcity value of its casino licenses and the transformative impact of the Queen's Wharf development in Brisbane. In our view, Star's market cap of ~$3.6b hugely undervalues the asset base, licenses and likely cashflow generation of the company. While the market is very focused on the short-term risks around COVID-19 disruption, we believe the medium-term outlook for Star looks very attractive.

**The investment team's positive outlook for the portfolio remains 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 ongoing global vaccine rollout, extreme monetary and fiscal stimulus and an acceleration in economic growth to provide a tailwind for corporate earnings and portfolio performance.**


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## 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) | (5.96) | 1.01 | (5.34) | (2.06) | (3.90) | (2.60) | (5.95) | **(27.74)** |
| **2019** | 4.26 | 5.11 | 0.16 | 3.05 | (2.73) | 3.87 | 0.63 | 0.40 | 2.54 | 3.46 | 0.36 | 2.06 | **25.46** |
| **2020** | (7.75) | (6.85) | (22.93) | 23.16 | 10.94 | (2.12) | (1.69) | 9.99 | 0.63 | (2.37) | 31.94 | 4.29 | **29.50** |
| **2021** | (0.17) | 9.00 | (0.14) | 5.11 | 4.07 | (0.52) | | | | | | | **18.25** |

## Portfolio Positions

| | |
|---|---|
| **Number of total positions** | 83 |
| **Number of long positions** | 64 |
| **Number of short positions** | 19 |
| **Number of international positions** | 29 |

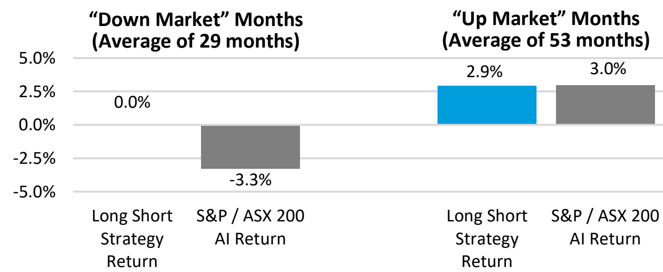
## Share Price & NTA as at 30 June 2021[4]

| | |
|---|---|
| **Share Price** | $2.54 |
| **NTA pre-tax per share** | $2.8038 |
| **NTA post-tax per share** | $2.5922 |

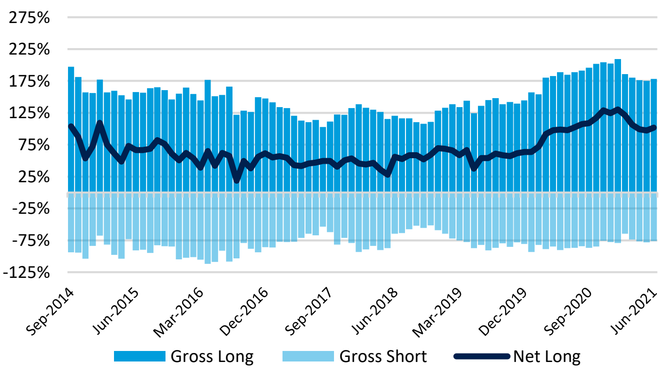
## Net & Gross Exposure by Region[3] (%)

| Geography | Gross Long | Gross Short | Net Exposure |
|---|---|---|---|
| **Australia / NZ** | 120 | 65 | 55 |
| **North America** | 26 | 9 | 18 |
| **Europe** | 27 | 2 | 25 |
| **Asia** | 6 | 1 | 5 |
| **Total** | 179 | 77 | 102 |

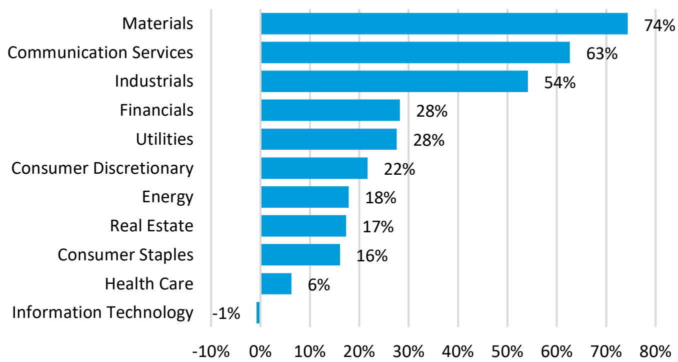
## Strategy Performance Since Inception (Net)[3]




## Historical Strategy Exposures[3]




## Sector Contribution Since Strategy Inception (Net)[3]

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## 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

| | |
|---|---|
| **Company Secretary** | Mark Licciardo |
| **Investor Relations** | Wayne Murray<br>WMurray@L1.com.au |
| **Manager** | L1 Capital Pty Ltd<br>+61 3 9286 7000<br>info@L1LongShort.com |
| **Registry** | Link Market Services Limited<br>1300 554 474<br>registrars@linkmarketservices.com.au |

## 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 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.

L1 CAPITAL

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**Information contained in this publication**
L1 Long Short Fund Limited, managed by L1 Capital Pty Ltd, 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.