L1 Long Short Fund Limited

Quarterly Report | JUNE 2021

L1 CAPITAL

The L1 Long Short Fund portfolio returned 8.8% (net)[1] for the June quarter (ASX200AI 8.3%).

Over the past year, the portfolio has returned 72.9% (net)[1] (ASX200AI 27.8%) and the LSF share price has increased 108.2%.

The strong performance over the past year has been driven by stock selection with a broad range of contributors across the portfolio.

Global markets continued to perform well over the quarter supported by robust economic data, further corporate earnings upgrades and positive vaccine progress. The upbeat quarter contributed to the ASX200 returning 27.8% for the financial year, its strongest performance in more than 30 years. Whilst the sharp rebound in markets has meant that we currently see less upside in equities relative to 12 months ago, we believe markets should remain supported in the near term driven by continued fiscal and monetary stimulus, rising M&A activity and further economic re-opening.

Returns (%) (Net)[1]	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
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

Portfolio Positioning

While we are more positive on lower P/E (value) stocks at present, than higher P/E (growth) stocks, our portfolio is not exposed to structurally challenged "deep value" stocks. As shown in the table below, the companies that we are long are expected to grow their earnings very strongly (much stronger than the market average) despite trading at lower multiples. They are typically trading below a market multiple due to concerns about a short term or historical issue or they are currently about to enjoy a cyclical recovery or benefit from an operational turnaround. Our longs are also expected to generate more than twice the free cashflow of our shorts, which provides them more opportunities for dividends, buybacks or bolt-on acquisitions. The numbers below use consensus broker forecasts, rather than L1 earnings estimates.

Figure 1 – Portfolio metrics (median)

FY22 Forecasts	Portfolio longs	Portfolio shorts	ASX 200
P/E	13.5x	22.0x	19.6x
EPS Growth YoY	16.0%	19.1%	9.9%
Free Cash Flow Yield	7.2%	2.9%	4.8%
Dividend Yield	2.9%	1.7%	2.9%

Source: Bloomberg consensus estimates as at 9 July 2021, calculated as the median for the relevant constituents. Excludes entities with no estimates over the forecast period.

From an individual stock perspective, with the positive performance over the quarter we have taken profits in several "winners" including companies where value catalysts have played out, such as Aristocrat Leisure, Lovisa, Nine Entertainment and Wells Fargo. We have recycled this capital into existing high conviction positions and a selection of new ideas. As many sectors continue to trade on "top-down" trends, rather than stock-specific fundamentals, we continue to find numerous exciting stock opportunities yet to be recognised by the market on both the long and short sides.

[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).

Key Stock Contributors for the Quarter

Wells Fargo (Long +16%) was the strongest contributor to portfolio performance over the quarter. Wells Fargo shares rallied given a better outlook for bad debts driven by improving employment and house price trends. The company had been very undervalued due to excessive fears around likely bad debts due to the pandemic, the continued regulatory "asset cap" (a punishment that was put in place in 2017 for numerous compliance failures) and an inability to commence buybacks. The share price has subsequently recovered strongly in recent months as the company has progressed its turnaround program under the leadership of the well-regarded CEO, Charles Scharf (former CEO of Visa and BNY Mellon). Wells Fargo is now closer to getting the asset cap lifted and has announced a huge cost out program (US$8b+) as well as an $18b buyback program to be completed over the next 12 months. Wells Fargo shares have rallied more than 50% since we initiated the position in late 2020. Given the strong rally, we elected to exit our position and rotate into stocks with larger valuation upside.

Imdex (Long +24%) is the global leader in exploration drilling technology for the mining sector, with 80% of the business exposed to gold, copper and iron ore. Imdex shares rose on the back of recent base metals price strength, which is likely to extend the exploration recovery from gold to the broader resources sector. In our visit with Imdex management in Western Australia, we continued to be impressed by their focussed approach to growing the business for the long term. 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, which is not reflected in the current multiple of ~10x 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.

Mineral Resources (Long +41%) shares rallied, driven by strong increases in lithium and iron ore prices over recent months. In April, we attended a Mineral Resources analyst event in Western Australia where an energised management team highlighted the huge pipeline of growth projects across all key areas of the business – lithium, iron ore and mining services. In particular, the company re-affirmed its objective to grow its iron ore production from around 20mt p.a. to over 80mt p.a. in the coming years. We believe Mineral Resources is a very compelling investment, offering a rare combination of attractive valuation, high quality management, supportive industry tailwinds, strong long-term earnings growth and a rock solid balance sheet.

Tabcorp (Long +11%) provides gambling and entertainment services through a range of brands across three segments: lotteries & keno, wagering & media and gaming services. Tabcorp shares rose after reporting a very strong half-year result, which showed both lotteries and wagering ahead of consensus estimates, as well as corporate interest in its wagering business. Lotteries had a particularly strong period with an uplift in digital sales, a significant increase in keno (reflecting excellent operational execution) and higher long-term margins. In the second half of the financial year, lotteries are expected to benefit from a more normal jackpot sequence and a change in lottery game design, while wagering should benefit from retail venues reopening and the launch of new wagering products. Following multiple approaches from a range of corporate and financial buyers, the Board carried out a strategic review and recently announced a demerger of the wagering business. While the demerger is a positive step in achieving a structural separation of the wagering business from the lotteries businesses, we have encouraged the Board to continue engaging with interested buyers should there be an accelerated path to achieving this outcome and delivering significant value to shareholders.

QBE (Long +12%) performed well over the quarter 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.

Entain (Long +15%) 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.

Treasury Wine Estates (TWE) (Long +13%) performed strongly in June 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 U.S. business, the retirement of its long time CEO and exorbitant tariffs that all but banned exports to China. We bought into TWE after the shares had collapsed following the market's over-reaction to the China tariff news. Notwithstanding the negative newsflow, 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.

Airbus (Long +12%) shares gained over the quarter after stepping up its production guidance for the critical A320 plane to 45 per month by year end and 64 per month by Q2 2023, higher than the 60 per month it was producing before COVID-19. The company also announced its ambition to build 70 A320's per month by 2024 and 75 per month in 2025. Airbus has the leading market share in narrow-body planes which has further increased in recent years due to the issues that have plagued Boeing's 737 Max, its only meaningful competitor in the category. We expect narrow-body demand to continue to grow strongly with the planes exceptionally well positioned for the post-COVID-19 travel landscape. Narrow-body planes are expected to continue winning market share over wide-body planes given they are better suited to direct, point-to-point travel (which is typically preferred by the passenger). Airbus' new planes, particularly the A321XLR, are now able to offer a longer flight range than traditional narrow-bodies, which further extends their flexibility for airlines trying to manage an ever-changing list of destinations and traveller preferences. The A320 is Airbus's most profitable product and generates very high incremental returns on invested capital which will support significant profit growth over the medium term. Despite the Airbus share price almost doubling since November last year, we believe the shares still remain undervalued. The shares are trading ~20-25% below their pre-COVID-19 levels, despite their production and margin outlook set to be even better than before the pandemic.

Key Stock Detractors for the Quarter

Perenti Global (Long -34%) fell after lowering its FY21 profit guidance and FY22 outlook due to the impact of COVID-19 on mining productivity, labour shortages in the Australian market and a stronger Australian dollar. Perenti is a mining services company operating surface and underground mining across Africa and Australia with its primary exposure to gold and copper mining. Labour shortages, particularly in Western Australia, have been flagged by a number of mining and contracting companies due to strong commodity prices driving increased demand and reduced inflow of labour from other states limiting supply. While the earnings downgrade is disappointing, many of the issues facing the company are transitory and driven by COVID-19-induced challenges which should pass as the vaccine roll-out accelerates and inter-state and international travel restrictions are relaxed. Perenti has "rise and fall mechanisms" in the majority of its contracts which provide a pass-through for incremental labour costs, however this has not fully compensated for the lower productivity of the workforce given new rostering in light of COVID-19. With the company trading on only ~7x FY22 P/E based on consensus earnings and ~20% below its tangible book value, we believe Perenti is materially undervalued. While COVID-19 headwinds are likely to persist in the near term, we expect Perenti's earnings to recover strongly over the medium term as travel restrictions ease and as the supportive commodity backdrop drives new project wins from the significant tender pipeline.

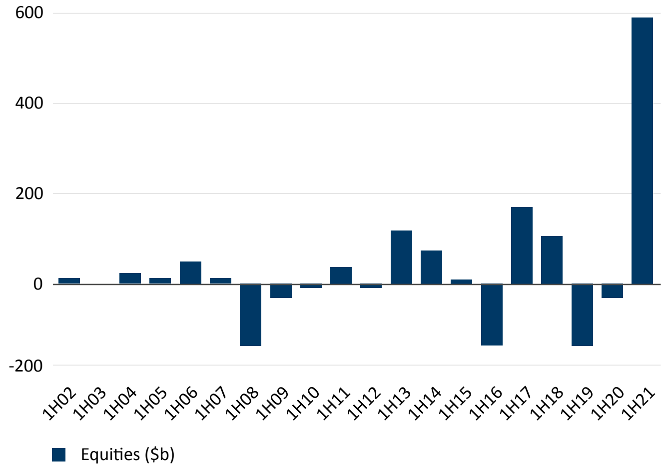
Chorus (Long -6%) shares declined in the June quarter as a result of a punitive determination by the New Zealand Commerce Commission on the allowed rate of return for Chorus's fibre assets. The very low allowed rate of return severely underestimates the real risks investors have taken on in building and operating the fibre network. We are hopeful this will be corrected through a much more commercial approach to the assumptions underlying the asset base and a re-examination of other assumptions through the rest of this year. Failure to do so would send a strong signal that there is huge risk in entering into long-term public private partnerships with the New Zealand government and that New Zealand is not a reliable destination for investing in regulated assets. In terms of company fundamentals, Chorus's fibre build has been consuming the majority of cashflow for many years, preventing the company from paying out its true underlying earnings in dividends. With the peak capex period now past, we are hopeful that shareholders will finally begin to see the returns on this 10-year investment program.

Equity Market Observations

Over the past year, we have seen an enormous flood of money into equities (a result of central bank buying of bonds forcing some traditional buyers of bonds into equities). We have also seen sudden moves in factor and sector performance given the dynamic moves in the outlook for COVID-19, the global economy and bond yields.

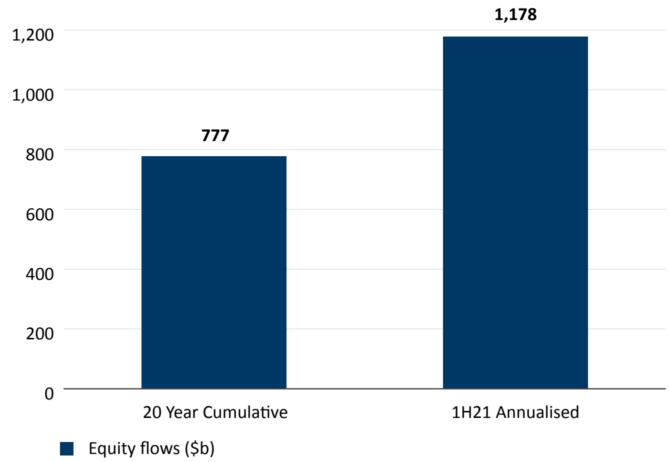
From an equities perspective, global inflows over the past 6 months were the greatest on record (refer Figure 2). To put the scale of equity inflows into context, if flows continue at the current pace, this year will see greater net inflows than the preceding 20 years combined (refer Figure 3).

Figure 2 – H1 annualised inflow to equities largest ever



Source: BofA Global Investment Strategy, EPFR

Figure 3 – H1 annualised equity inflows > previous 20 years



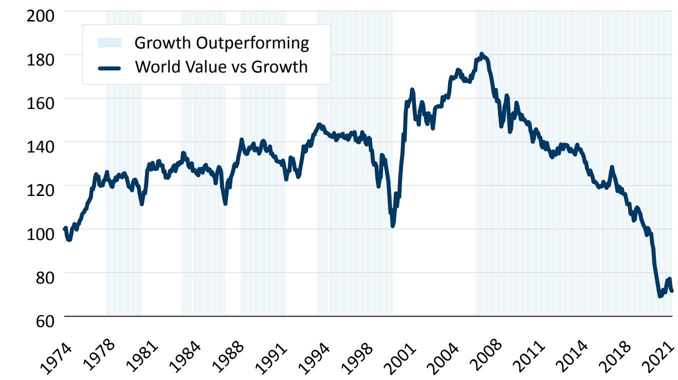
Source: BofA Global Investment Strategy, EPFR. Note H1'21 is annualised

Over April and May the rotation into value/cyclical stocks and away from growth/defensive stocks continued. However, this trend reversed from mid-June with the Fed flagging a slightly faster pace of likely policy tightening (given a more positive outlook for the economic recovery). This led to a flattening of the yield curve with growth/defensives stocks strongly outperforming.

We believe this pause in value/cyclical outperformance should be temporary. Despite the sharpest economic recovery in history and a starting point of unprecedented valuation dispersion, we have only seen a very modest value rotation to date (refer Figure 4). Growth stocks have only ever traded at such an extreme premium to value stocks once in the past 30 years (circa 2000), which was followed by 7 years of value outperformance (refer Figure 5).

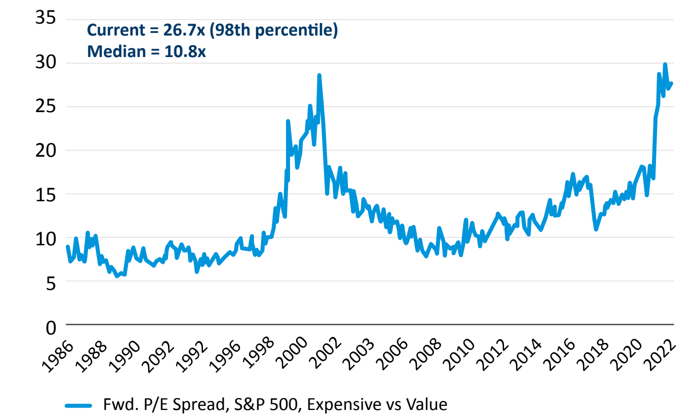
Figure 4 – MSCI World Growth vs Value

Relative price performance of MSCI Indices in local currency



Source: Datastream, Goldman Sachs Global Investment Research

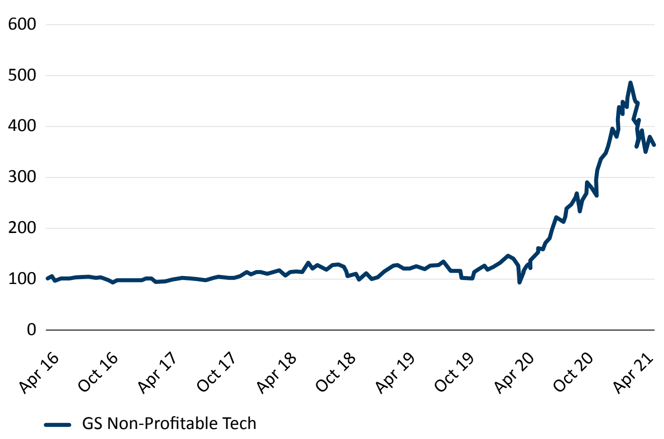
Figure 5 – P/E premium of Growth vs. Value (S&P 500)



Source: J.P. Morgan U.S. Equity Strategy & Global Quantitative Research

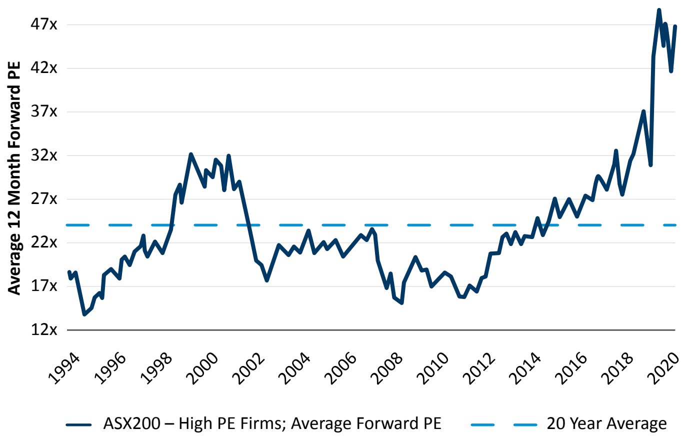
Positioning continues to be crowded in ultra-high P/E stocks that we believe are at risk of a large fall given extreme retail investor positioning and little valuation support. Figure 6 illustrates the partial correction in non-profitable tech stocks in recent months, however, these shares continue to trade way above their pre-COVID-19 levels despite most having no major change to their outlook or earnings trajectory. From an ASX 200 perspective, Figure 7 outlines where high P/E firms are currently trading relative to long-term averages. Whilst we acknowledge that interest rates have moved structurally lower in recent years, the re-rate in high P/E stocks looks excessive to us, with a current forward P/E of ~47x which is 95% above the 20-year average. These factors continue to support our view that there is much further to go for conditions to revert to a more balanced "equilibrium".

Figure 6 – Performance of the GS Non-Profitable Tech Basket



Source: Goldman Sachs Research

Figure 7 – ASX 200 – High P/E firms relative to long-term average



Source: Goldman Sachs Research

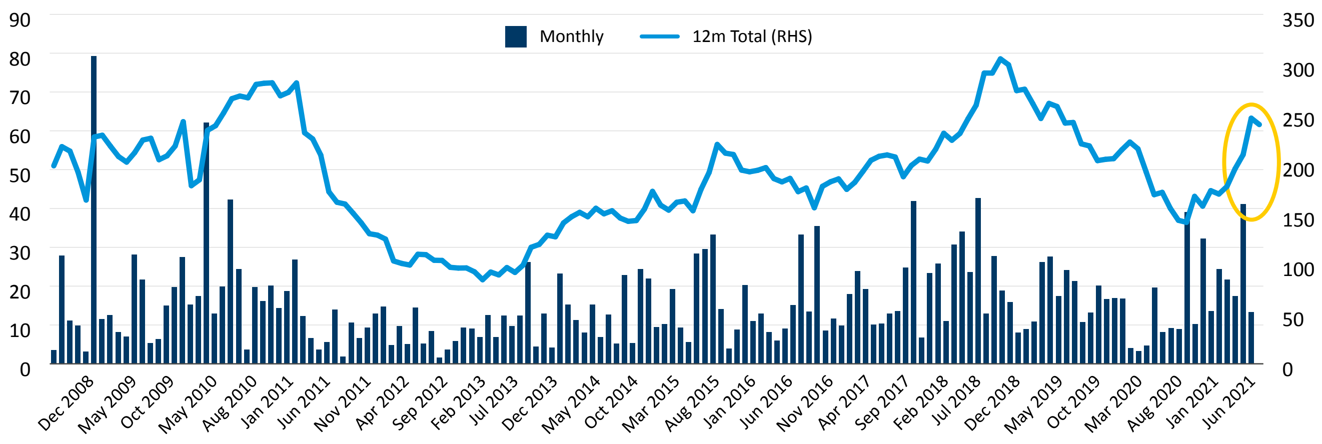
A key risk we noted in our March quarterly report and investor presentations was inflation, where our analysis suggested we would experience very significant inflationary pressures above market expectations in 2021. Subsequently, the April U.S. CPI reading of 4.2% was far above consensus forecasts (it was the biggest surprise versus broker consensus for an inflation print on record). On page 7 we have outlined our current views on the key drivers of this inflation reading and how we have positioned the portfolio to hedge against the potential risk this may be more than a transitory impact.

Finally, last quarter we wrote about the huge wave of mergers and acquisitions (M&A) activity we expected and how the portfolio is well positioned to benefit from this activity with our skew to undervalued companies that have strategic appeal. As anticipated, this quarter saw a significant step-up in M&A and restructuring activity. For the first half of the year ~$148b worth of deals were announced across Australia and New Zealand – more than 2.5x the 5-year average. On page 6, we provide further colour supporting our views on why we continue to believe we are in the early stages of the M&A bull-market and the potential opportunities this offers the portfolio.

M&A and corporate restructuring

As expressed previously, we believe we are on the cusp of a major M&A supercycle. As shown in Figure 8 below, Australian activity has started to accelerate on a year-to-date basis, with a further step up in deals over the June quarter. Notable recent transaction announcements are the ~$22b takeover offer for Sydney Airport from a consortium of investors, the ~$12b merger proposal for Star Entertainment Group and Crown Resorts, the ~$5b takeover offer for Altium from Autodesk and the ~$4.5b offer for Vocus from a Macquarie Infrastructure and Real Assets led consortium.

Figure 8 – Announced M&A involving an Australian company (A$b)



Source: MST Marquee as at 30 June 2021

We expect this deal momentum to continue, driven by improving business confidence, debt and equity becoming cheap and easy to access, and a massive pool of available capital from private equity, infrastructure funds and industry super funds.

Furthermore, COVID-19 has accelerated corporate strategic reviews and potential consolidation, which we expect to underpin future deal volumes. Our anecdotal feedback from numerous conversations with investment bankers, private equity investors and lawyers supports this outlook with many stating their deal pipelines are at record levels and noting this is the busiest they have ever been in their careers.

This backdrop is also very supportive for the new L1 Capital Catalyst Fund, which launched on 1 July 2021. L1 Catalyst is a long only, activist listed equities strategy that focuses on unlocking company value to achieve private equity-style returns. The Long Short Fund will benefit directly from the research and engagement of the Catalyst team, led by experienced and well-regarded corporate adviser James Hawkins, and will be investing alongside it in companies where there are opportunities to unlock value.

By way of an update on the individual positions we identified in the last quarterly as having M&A/restructuring catalysts, many have moved closer to realising this upside over the quarter:

- **Telstra** announced the sale of a 49% stake in its mobile towers portfolio, valuing the entity at $5.7b or 28x EBITDA – well ahead of market expectations and also ahead of recent comparable tower deals. While a positive in its own right, the successful transaction has turned the focus to Telstra's other fixed network assets which contribute ~20% of Telstra's group earnings and based on comparable transactions could be valued at north of 20x EBITDA. With Telstra currently trading on an EV/EBITDA multiple of less than 8x, we see strong upside potential as the share price adjusts to better reflect the true value of its high-quality infrastructure assets.
- **Link** proceeded with an IPO of PEXA, which provides a true look-through value for Link's stake in PEXA. PEXA began trading on the ASX in early July, and currently has a market cap of ~$3.1b, well above the implied non-binding offer level of ~$1.9b from Pacific Equity Partners and Carlyle and also well above prevailing broker valuations.
- **Tabcorp** released the outcome of their strategic review noting the demerger of the wagering and media business as the preferred path. We believe this demerger will unlock significant value for shareholders as it will both catalyse interest in the wagering business and enable a re-rating for the lotteries business, which we think is well-deserved given its high-quality, infrastructure-like characteristics.

Inflation

Since the start of the year, we have been flagging our expectation of rising inflation. Our research and extensive company meetings suggested that input cost pressures were building rapidly and were likely to convert into rising consumer prices towards the end of 2021. Based on this outlook, we hedged against the risk that inflation may overshoot relative to consensus and central bank expectations by increasing our portfolio exposure to energy, gold and financial stocks and by shorting some ultra-high P/E growth stocks that should de-rate if inflation persists.

Subsequently, the U.S. CPI data for April validated our concerns with a spike in U.S. CPI to 4.2%, considerably above consensus expectations of 3.6%. The May print of 5.0% was also well ahead of expectations and was the fastest year-on-year increase in nearly 13 years.

Over the quarter, we supplemented our research on inflation with numerous discussions with ASX listed executives as well as more than 40 consumer-focused calls with offshore corporates across multiple industries. The overarching theme that has emerged is that most companies are not just seeing pockets of inflationary spikes, but broad-based increases across several key inputs including labour costs, energy costs, raw materials and logistics. The majority of these businesses are planning to pass on these input cost pressures by raising prices (or cutting discounts), rather than absorbing the impacts and suffering reduced margins.

The quotes below are just a few examples of some of the largest industrial companies in the world flagging large and unexpected cost pressures that will translate into price rises over the coming year:

"We are seeing very substantial inflation. We are raising prices. People are raising prices to us, and it's being accepted."
Berkshire Hathaway Chair & CEO – Warren Buffet

"We are well-hedged in '21, but there's pressure built up for '22, and so there will have to be some price increases."
Coca Cola CEO – James Quincey

"Most people haven't had a 40-plus year career, and they've only seen declining inflation over the last 30-plus years. So this is going to be a pretty big shock."
Blackstone CEO – Larry Fink

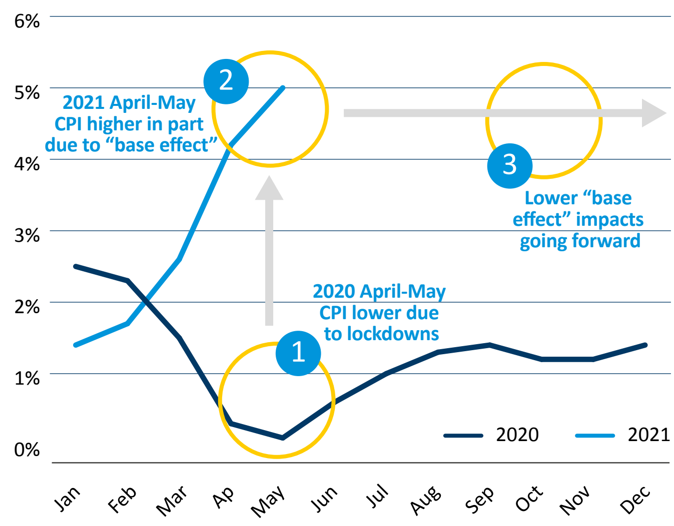
"Obviously, we're facing an environment where we just see cost inflation. I don't think that cost inflation will go away overnight. We saw a need to come up with price increases and... implemented price increases in the range of 5% to 12%."
Whirlpool CEO – Marc Bitzer

"We are very concerned – concerned but acting to mitigate the possibility of increasing prices through efficiencies. There's big cost spikes going on."
Kraft Heinz CEO – Miguel Patricio

The key debate in financial markets at the moment is whether the current inflation spike is transitory or more persistent. The consensus view from central banks and economists is that the impact is transitory, with the "base effect" being the largest contributor to recent inflation spikes and a normalisation in this trend, as well as a correction in supply/demand imbalances, expected to temper forward looking estimates.

The "base effect" impact is driven by the comparative increase relative to the prior period. As illustrated in Figure 9, the April and May 2021 periods had extensive "base impacts", having been referenced against 2020 which was most impacted by COVID-19 and global lockdowns. As the comparative period normalises, we expect to see lower CPI prints over the next few months. However, this factor should not be regarded as a signal that inflation risks have abated as it is purely the mathematical impact of rolling through the trough of the pandemic impact in the prior period.

Figure 9 – Headline Consumer Price Index, 2020 vs 2021



Source: U.S. Bureau of Labor Statistics

From our analysis of looking through 100 years of inflation data, significant increases in inflation are typically driven by (at least one) of three main factors:

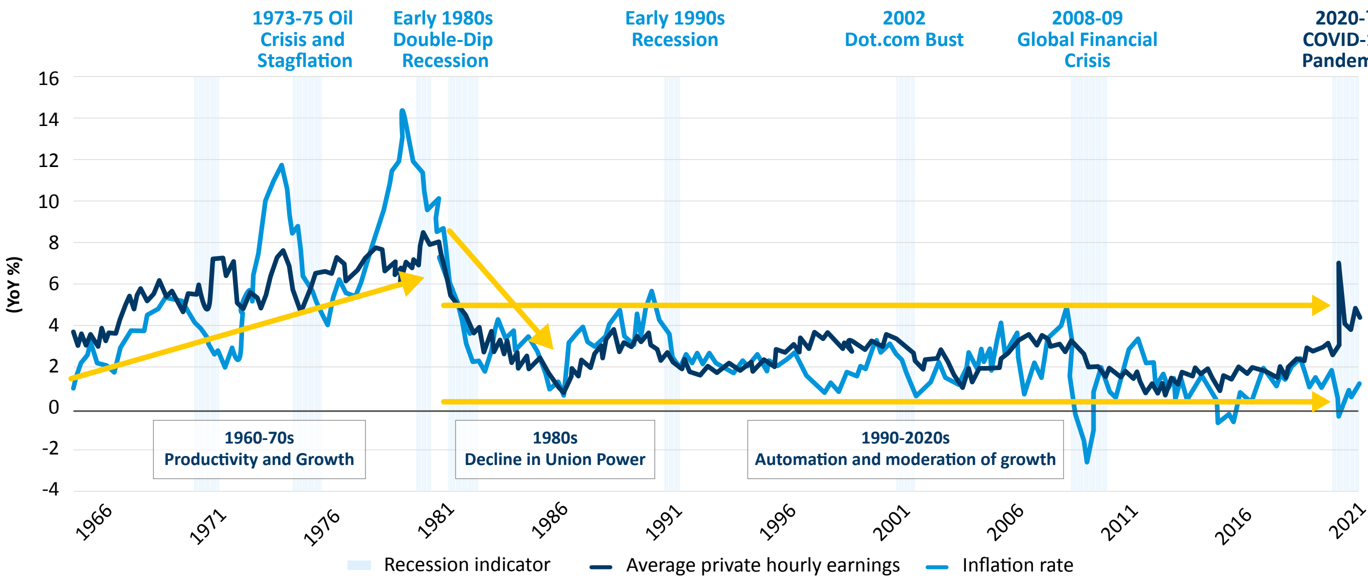
1. **Wage pressure**,
2. **Rising energy prices**, and
3. **High capacity utilisation**.

In each of these components, while many factors appear to be driving transitory price pressures, we do see some risk that the impacts may become more persistent.

1. Wage pressure

Since the 1980s, the decline in union power, enhanced labour mobility and offshoring have all acted as deflationary forces helping to contain hourly wage growth to 1-4% p.a. in the U.S.. However, in 2021 we have seen an increase in average hourly earnings above this long-run average. Our view is that this is largely job mix related (in the crisis, the lowest paid jobs were lost, e.g. hospitality and tourism, while higher paid sectors, such as technology and professional services, hired). As we move into 2022, we expect the labour market to continue tightening and the risk of broader wage pressure to rise given high CPI rates (that act as a reference for negotiations) and the balance of power shifting to the employee in a tightening labour market.

Figure 10 – U.S. average private hourly earnings and inflation

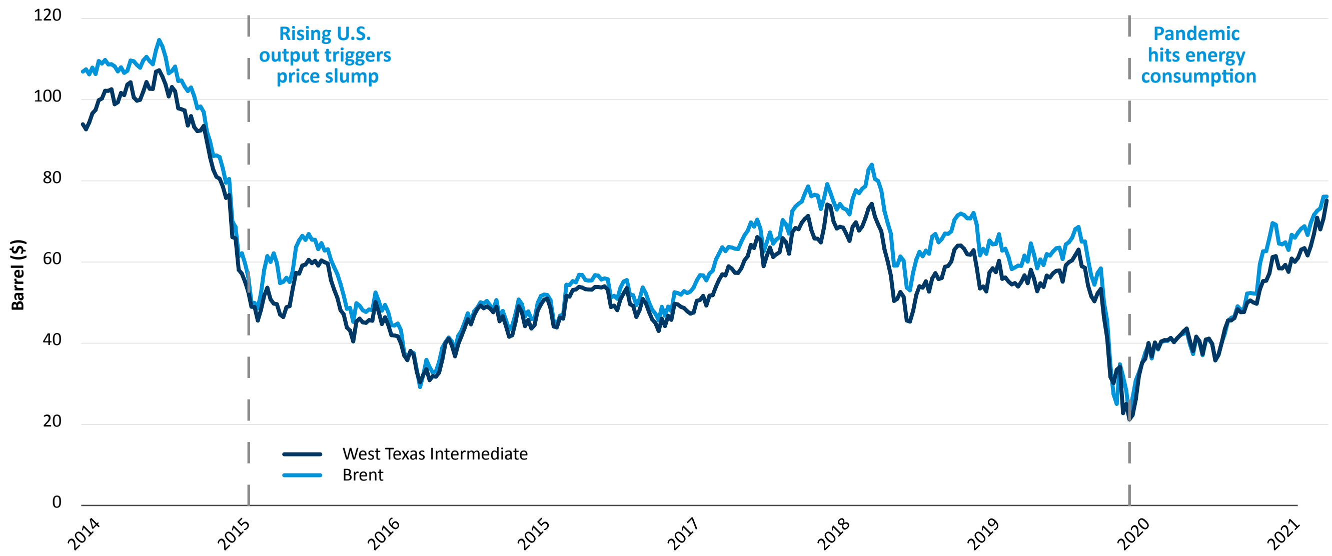


Source: NBER, Bloomberg, RSM U.S.

2. Increasing energy prices

At the height of the pandemic, and as the world ground to a halt, the Brent oil price hit an 18 year low of ~US$20/bbl. However, with the subsequent rapid economic recovery combined with supply-side discipline from OPEC+ and other large oil companies, the oil price has more than tripled from this low point and is now well above pre-COVID-19 levels of ~US$60/bbl. We believe prices could remain elevated as oil majors and national oil companies continue to restrict capex spending while demand should continue to recover strongly as the vaccine rollout progresses. The impact of higher energy prices comes through to CPI with a lag that should manifest over the coming year.

Figure 11 – Crude oil futures prices since 2014

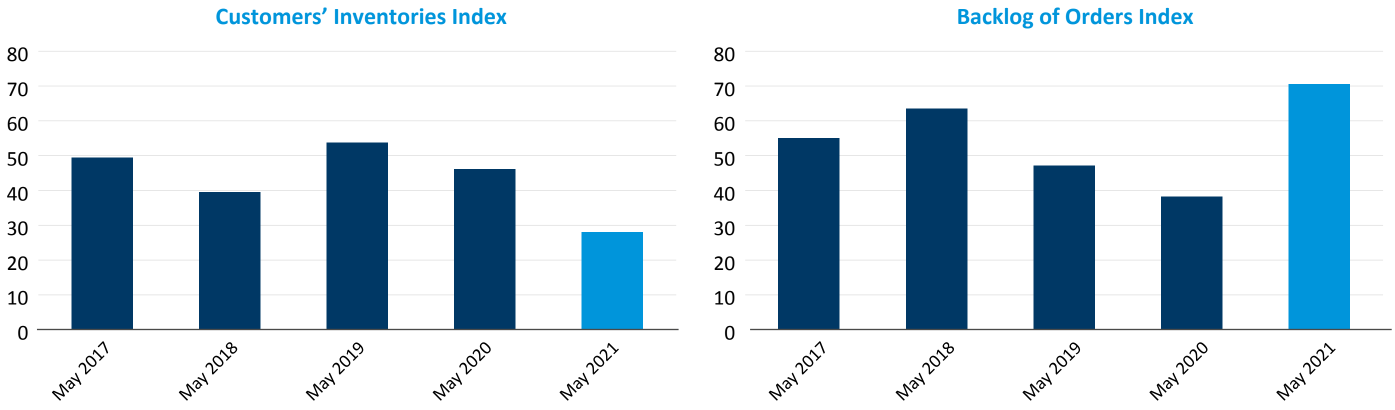


Source: IRESS

3. High capacity utilisation

The May ISM Purchasing Managers Index (PMI) survey, a key indicator of business conditions, highlights the extreme capacity tightness across U.S. supply chains. Manufacturers reported that their customers' inventory levels were at the lowest levels on record and their order backlogs were at the highest levels ever recorded by the survey. This tightness has translated into the highest Manufacturing Price Index reading since 2008. Whilst supply constraints could ease in the coming months, the level of backlog may take longer to clear than expected, with continued tightness likely to lead to further consumer price increases.

Figure 12 – ISM PMI Survey selected statistics

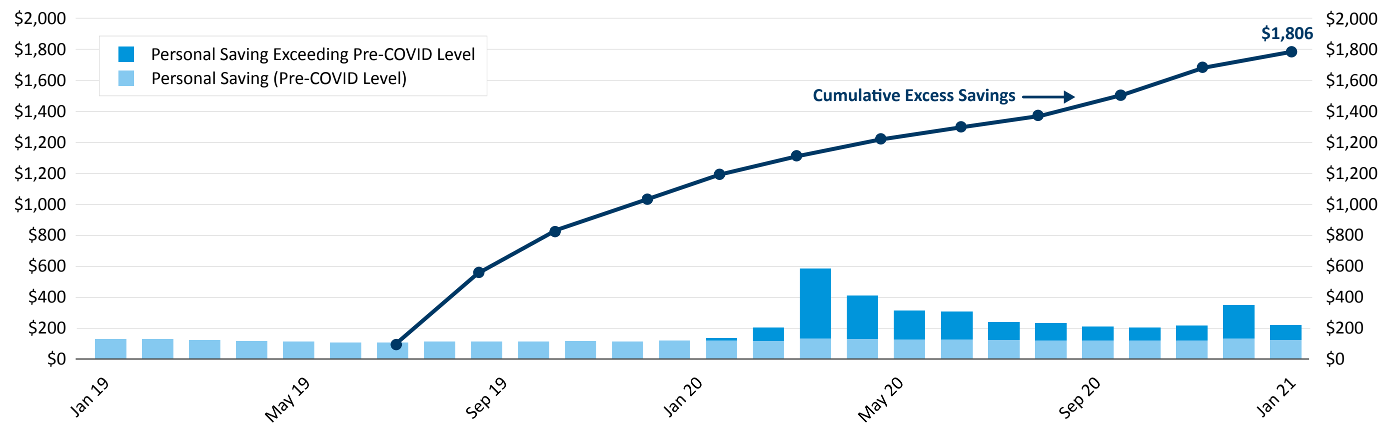


Source: ISM PMI Survey, Institute for Supply Management

In addition to the above factors, we expect demand to remain strong in the near term, primarily driven by household consumption. Consumers are more cashed up than ever with personal savings rates at record highs which, together with government stimulus cheques, has led to a dramatic increase in cumulative savings (Figure 13 below). The double-digit surge in house prices in many developed markets over the past twelve months, including Australia and the U.S., has also led to an enormous wealth effect that has been constrained into spending primarily on goods. Consumers will soon be able to broaden their spending to services, such as travel and entertainment, as the vaccine rollout broadens and enables Governments to reduce their restrictions.

Figure 13 – "Excess" personal savings over pre-COVID-19 level

Based on Jan 2020 Savings Rate (7.6%) and Total Excess Savings (US$b)

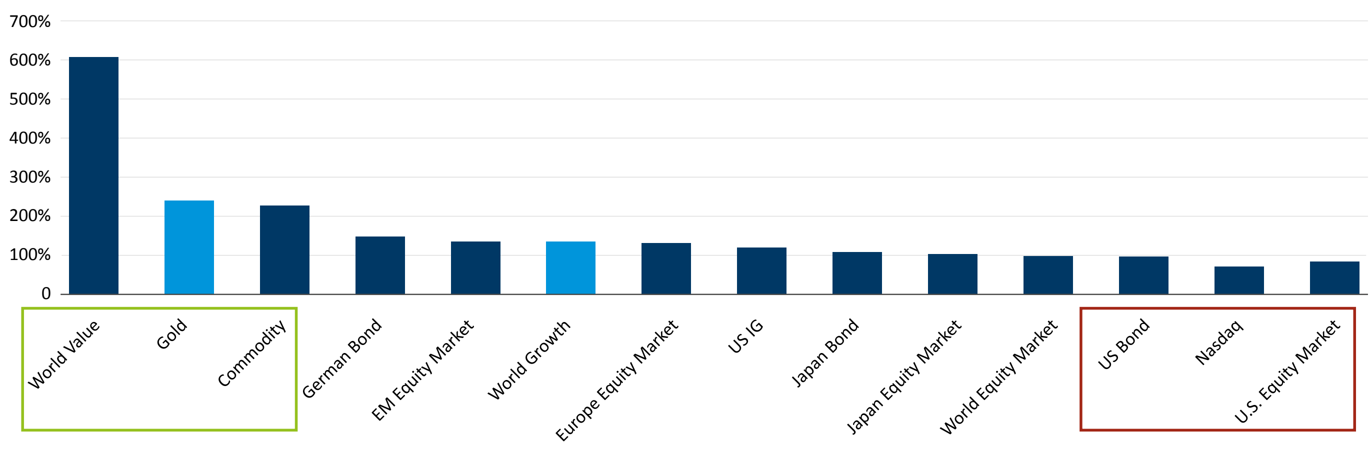


Source: U.S. Department of Commerce and Wells Fargo Securities

In summary, our research indicates there are elevated risks that the current spike in inflation may be more persistent than the consensus view. We have had 30 years of benign inflation and falling interest rates which have catapulted the valuation of bonds, growth stocks and U.S. equities. If this trend were to reverse, we would expect to see very broad implications for asset and sector performance. We believe the areas of the market that are less crowded, such as gold, commodities and short duration, low P/E stocks, offer the best hedge against potential inflationary pressure. Given nothing is currently priced into equities for this potential scenario, we have positioned some of our portfolio to benefit from this "free option". Figure 14 below shows those sectors that performed best (and worst) during the high inflation period from 1973-1983.

Figure 14 – Asset price inflation and "real economy" inflation

Total return performance in local currency from 1973-1983



Source: Datastream, STOXX, Haver Analytics, FRED, Goldman Sachs Global Investment Research

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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

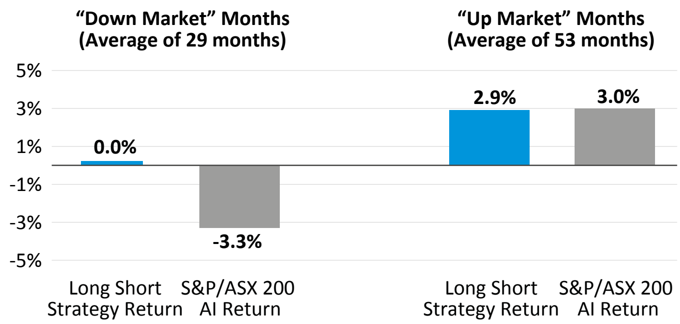
Share Price & NTA as at 30 June 2021[4]

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

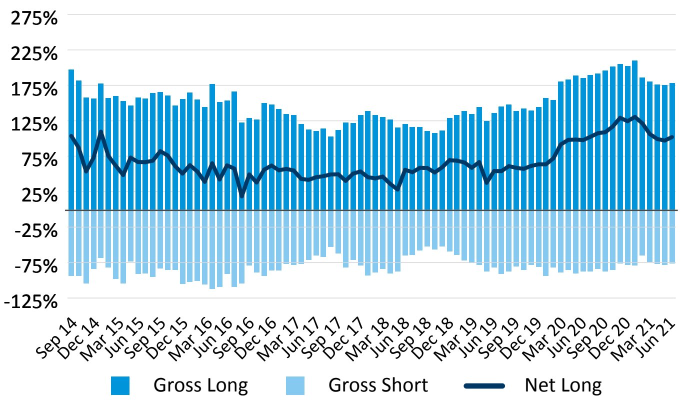
Net & Gross Exposure by Region[3] (%)

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

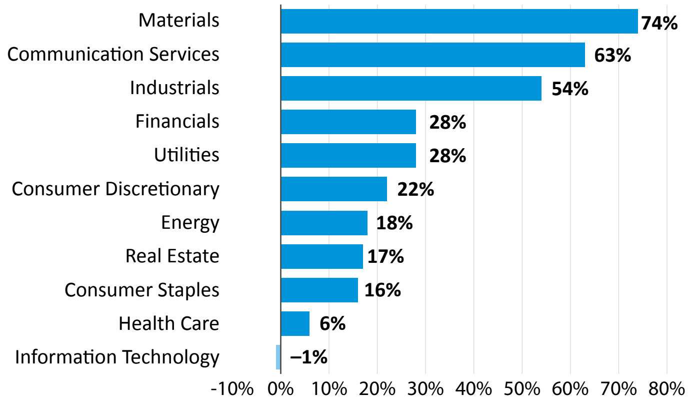
Strategy Performance Since Inception (Net)[3]



Historical Strategy Exposures[3]



Sector Contribution Since Strategy Inception (Net)[3]



[3] 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. 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).
[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 and losses.

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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 WMurray@L1.com.au
Manager	L1 Capital Pty Ltd +61 3 9286 7000 info@L1LongShort.com
Registry	Link Market Services Limited 1300 554 474 registrars@linkmarketservices.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.

L1 CAPITAL

Level 28, 101 Collins Street
Melbourne VIC 3000 Australia

www.L1LongShort.com

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.