L1 Long Short Fund Limited

Monthly Report | NOVEMBER 2021

The L1 Long Short Fund portfolio returned -7.4% (net)[1] in November (ASX200AI -0.5%).

The portfolio has returned 31.1% (net)[1] over the past 12 months (ASX200AI 15.5%).

The portfolio experienced its first month of meaningful negative performance since March 2020 largely due to market concerns around the spread of the Omicron variant.

Global equity markets declined over the month driven by the emergence of the Omicron variant of the COVID-19 virus and by more hawkish comments from U.S. Federal Reserve Chair Jerome Powell on the pace of tapering bond purchases. Concerns over the variant led to an 11.6% drop in the oil price, the biggest one day drop since April 2020, and a 2.3% fall in the S&P500, its worst day since February 2021.

After strong performance over the past 18 months, the Fund experienced its first month of meaningful negative returns, as market concerns regarding the spread of the Omicron variant impacted our positioning in re-opening beneficiaries and in sectors such as travel and energy, which were aggressively sold off.

We believe the current volatility has presented some outstanding buying opportunities at exceptionally attractive prices. The world is much better placed today to deal with the current variant than it was when the virus initially impacted markets in March 2020:

- Existing vaccines should continue to provide strong protection from severe disease;
- In the event that vaccine efficacy declines significantly with Omicron, the mRNA vaccines can be quickly updated, manufactured and distributed;
- Manufacturing capacity and bottlenecks have significantly improved; and
- Anti-virals (such as Paxlovid from Pfizer) have demonstrated high efficacy at preventing hospitalisation and death and we believe they will remain highly effective regardless of mutations.

Together, these factors give us confidence that while the reopening path may be delayed, the recovery continues to broadly remain on track.

We expect volatility to remain heightened as the market reacts to headlines and new data surrounding the Omicron variant. Similar to previous periods of turbulence, we believe this will provide attractive opportunities for stock picking. We continue to remain very positive about the medium-term outlook for the portfolio given the large number of portfolio stocks with significant upside to valuation and the extreme stock dispersion across the market.

Returns (Net)[1] (%)	L1 Long Short Portfolio	S&P ASX 200 AI	Out-performance
One month	-7.4	-0.5	-6.8
Three months	-0.6	-2.5	+1.9
CYTD	25.7	14.1	+11.6
One year	31.1	15.5	+15.6
Two years p.a.	28.9	6.4	+22.5
Three years p.a.	24.3	12.6	+11.7
LSF Since Inception p.a.	11.9	9.9	+2.0
Strategy Since Inception[2] p.a.	22.3	7.9	+14.4

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

Peloton (Short -52%) shares collapsed after announcing a large reduction in its June FY22 revenue guidance as part of its first quarter trading update. This was the second consecutive downgrade after the company's below-consensus update with its FY21 results. Peloton is a connected exercise equipment manufacturer with a cult following in the U.S. The company has been a significant COVID-19 beneficiary with stay-at-home orders dramatically increasing the demand for at-home exercise bikes. We began shorting the company in August 2021 (before the above-mentioned downgrades), when it was trading at ~US$120. Our view was that the U.S. was poised to re-open and interest in at-home fitness was diminishing. We saw competitors aggressively enter the market with new offerings at the same time as Peloton's new treadmill product was marred by significant product issues. We also thought Peloton's aggressive revenue recognition policies would exacerbate a potential demand slowdown, with small changes in subscriptions having a large impact on upfront revenue and profit generation. The softer demand outlook played out as we expected and the stock price collapsed, which enabled us to cover our short around US$52 per share.

[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 Fund Limited (ASX:LSF) 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).

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

Flutter (Long -26%) shares fell due to a combination of concerns around the impact of the upcoming U.K. gambling regulatory review and intense competition in the U.S. sports betting and gaming market. The review of the U.K. Gambling Act was initiated in 2019 and has been delayed on several occasions with the proposals for reform now expected to be released in Q1 2022. We already factor in a decline in our base case estimates for potential regulatory changes and expect that clarity on the outcome will remove a key overhang on the stock.

On the U.S. sports betting and gaming side, there were numerous comments across the industry on the ramp up in competitive intensity and increase in acquisition costs for customers over the key NFL season. Flutter's U.S. operations, comprising FanDuel and FOX Bet, are set to generate ~50% more revenue in FY21 than its nearest competitor but at half the estimated EBITDA losses (Flutter incurs temporary losses due to ramp up investment in newly opened states). As part of its FY21 results, the company outlined a blended U.S. customer acquisition cost ("CAC") of ~US$291 per customer and a payback period of 1.2x by the end of year 1. This gives us confidence that despite strong competition, Flutter remains best-placed to achieve profitability ahead of competitors and will continue to consolidate its leading position in the U.S. sports betting market. Trading on only 19x consensus FY23 P/E, we have confidence that Flutter remains significantly undervalued given the decade of strong growth the company has ahead of it. We have used the recent pull-back to add to our position.

Worley (Long -12%) shares declined due to the ~20% fall in the oil price over the month and general risk-off sentiment from the market. In early December, Worley held an investor day where the company outlined its aspiration to generate more than 75% of revenue from sustainability-related sources within the next five years. Worley remains one of the few global engineering consultancy firms and is uniquely positioned to benefit from the energy transition shift and significant spend that is likely to be invested in hydrogen, carbon capture and renewable energy. We believe Worley is in the early innings of the pivot to 'green' energy opportunities, with the market continuing to view the stock as a legacy oil and gas engineering contractor. The company trades on only ~14.5x consensus FY22 earnings despite signs of a recovery in conventional oil and gas capex and the huge opportunity in energy transition related activities.

Safran (Long -15%) shares fell due to concerns regarding the Omicron variant and the potential impact this may have on the outlook for air travel. Safran's key business is the sale of jet engines and parts for narrow-body Airbus and Boeing planes. In our view, Safran is the highest quality aerospace business globally, given it controls 60% market share of all jet engine sales for narrow-body aeroplanes and it has the most reliable and youngest engine fleet, which provides incredible predictability and visibility regarding its long term earnings outlook (due to the required replacement of aircraft parts). At Safran's Capital Markets Day in early December, management outlined their expectation of at least 10% revenue growth p.a. from 2021-2025, along with EBIT margin expansion to 16-18%. We believe each of these targets will prove conservative. Safran is an ideal way to play the structural growth in air travel demand (enabled by rising living standards in Asia), along with massive pent up leisure travel demand that will be released as concerns around COVID-19 subside over the next 1-2 years.

Qantas (Long -5%) shares declined due to concerns around the spread of the Omicron variant. While this is likely to delay the recovery in international travel, we believe the outlook for domestic travel continues to look solid due to Australia's high vaccination rates with ~90% of the 16+ population set to be double vaccinated by year-end. While it will take some time for Qantas' flight activity to return to 2019 levels (given lingering quarantining restrictions and some states remaining closed to interstate travel), our outlook for Qantas over the medium-term is extremely positive. We believe Qantas will re-emerge from the pandemic even stronger than before, given its $1b cost out program, improved market position and the massive pent-up demand for leisure travel. We have long viewed Qantas as one of the world's highest quality airlines, with its dominant industry position, high-growth loyalty (frequent flyer) division and outstanding management team.

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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)	1.75	5.10	4.86	2.32	(7.36)		**25.69**

Portfolio Positions

Number of total positions	84
Number of long positions	68
Number of short positions	16
Number of international positions	29

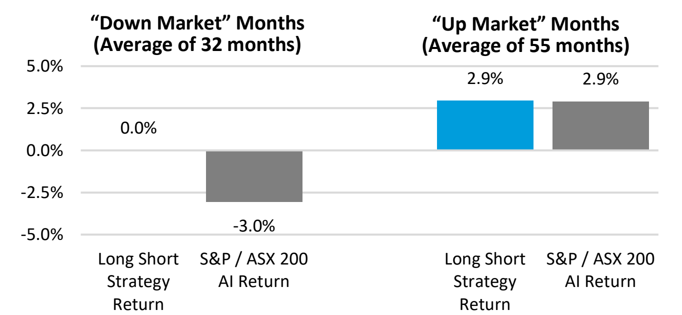
Share Price & NTA per share as at 30 November 2021[4]

Share Price	$2.77
NTA before tax	$2.95
NTA after tax	$2.70

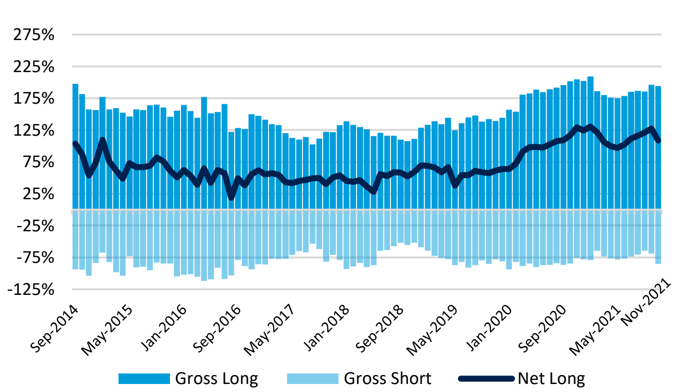
Net & Gross Exposure by Region[3] (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	123	75	48
North America	43	8	35
Europe	22	2	19
Asia	7	0	7
Total	**194**	**85**	**109**

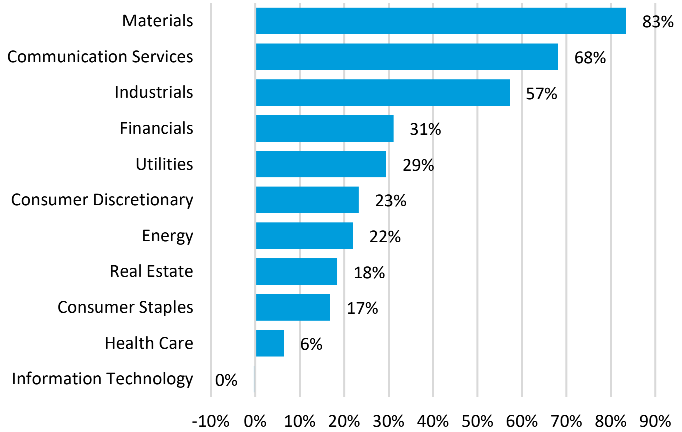
Strategy Performance Since Inception[3] (Net)



Historical Strategy Exposures[3]



Sector Contribution Since Strategy Inception[3] (Net)



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L1 CAPITAL

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

Manager	L1 CAPITAL Level 28, 101 Collins Street Melbourne VIC 3000 Australia www.L1LongShort.com
Company Secretary	Mark Licciardo
Registry	Link Market Services Limited 1300 554 474 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 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.

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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.