L1 Long Short Fund Limited

Monthly Report | DECEMBER 2021

The L1 Long Short Fund portfolio returned 3.7% (net)[1] in December (ASX200AI 2.7%).

In 2021, the portfolio returned 30.3% (net)[1] (ASX200AI 17.2%).

The portfolio has returned more than 25% (net) in each of the past 3 calendar years.

Global equity markets recovered in December as concerns regarding the impact of the Omicron variant moderated and investors adjusted to the more hawkish pivot from the U.S. Federal Reserve ("Fed"). Jerome Powell, the Fed Chair, announced a further acceleration in the tapering of its bond-buying program in mid-December in order to manage higher inflation risks. This signals the potential for earlier and multiple interest rate increases in 2022 and supports our preference for short duration (value/cyclical) versus long duration (growth/defensive) stocks as we enter a central bank tightening cycle.

The S&P/ASX 200 Accumulation Index returned +2.7% in December. The strongest sectors were Utilities (+7.9%), Materials (+6.5%) and Property (+4.9%), while Information Technology (-5.3%), Healthcare (-2.4%) and Consumer Staples (-2.3%) lagged.

The portfolio performed well over the month supported by broad-based stock gains (11 individual stock positions contributed 0.3% or more to returns) and by a recovery in re-opening beneficiaries following the aggressive sell-off in November. Our research and numerous calls with various experts overseas indicates that the Omicron variant is more contagious than the Delta variant, however, it is less likely to cause severe illness or death. Existing vaccines have also been shown to provide strong protection from severe illness with booster doses further enhancing protection.

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

We expect volatility to remain heightened as the market reacts to headlines and new data surrounding the Omicron variant and Central Bank actions. 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
1 month	3.7	2.7	+0.9
3 months	-1.7	2.1	-3.8
6 months	10.2	3.8	+6.3
1 year	30.3	17.2	+13.1
2 years p.a.	29.9	9.0	+20.9
3 years p.a.	28.4	13.6	+14.8
LSF Since Inception p.a.	12.7	10.5	+2.2
Strategy Since Inception[2] p.a.	22.6	8.2	+14.4

Key contributors to portfolio performance during the month of December were:

Mineral Resources (Long +24%) shares rallied, driven by a recovery in iron ore prices and continued increases in lithium prices. We believe all key areas of the business (iron ore, lithium and mining services) have favourable medium-term tailwinds. In particular, the company expects to increase its iron ore production from around 20mt p.a. to over 80mt p.a. in the coming years and is in the process of restarting Wodgina (one of the top 3 largest hard-rock lithium mines in the world) at a time when the lithium market is exceptionally tight. 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.

Flutter (Long +15%) shares recovered in December after the company announced the acquisition of Sisal (a leading Italian online gaming operator) and as investor concerns around intense competition in the U.S. sports betting and gaming market moderated. The Sisal acquisition should drive double digit earnings per share accretion and will be entirely debt funded, demonstrating the strength of Flutter's balance sheet. On the U.S. sports betting and gaming side, there was a ramp up in competitive intensity and an increase in acquisition costs for customers over the start of the NFL season, leading to concern about the path to profitability for the industry.

[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).

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 22x 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 used the pull-back in November to add to our position.

Airbus (Long +14%) shares rose as investor concerns over the potential impact of the Omicron variant moderated, with the company securing two significant aircraft orders from long-term Boeing customers. Airbus was awarded orders for 160 A320neo planes from Air France-KLM and 40 A320neo planes from Qantas, with further purchase rights for another 94 planes over the next 10 years as Qantas phases out its older Boeing fleet. The orders further demonstrate Airbus's dominant position in narrow-body planes, with its market share increasing 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. 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. We believe Airbus remains undervalued, with the shares still trading below their pre-COVID-19 levels, despite their production and margin outlook set to be even better than before the pandemic.

Worley (Long +11%) shares rallied over the month due to a recovery in oil prices and post its investor day where the company re-iterated its full year outlook and confirmed 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 FY23 earnings despite signs of a recovery in conventional oil and gas capex and the huge opportunity in energy transition related activities.

Chorus (Long +5%) shares rose in December based on the New Zealand Commerce Commission's determination of a Regulated Asset Base (RAB) that was less punitive than the worst-case scenario feared by the market. We are disappointed with the regulatory process undertaken by the Commission over the last two years. It dismissed legitimate investor concerns on wireless stranding, made no allowance for extra risk of building a network versus operating an existing one, and imposed arbitrary cuts to Chorus's allowed operating expenditure deductions. The risk-free rate was locked in at an arbitrary time, separate from the RAB calculation which is not in line with best practice and resulted in the determination of a rate that is one of the lowest for fibre assets anywhere in the world, and far lower than Chorus's cost of capital. There is now no incentive for Chorus to invest beyond the current regulatory period. The decision creates a cloud over long-term public-private partnerships in New Zealand, with Chorus as a cautionary tale that has likely raised the cost of future projects for all New Zealanders.

Despite our negative view of the determination, we continue to remain confident in Chorus management being strong capital allocators and returning capital where there is no strong incentive to invest. The end of the fibre build program will drive a strong uplift in cashflows which should be returned to shareholders after a lengthy 10 year investment period.

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L1 CAPITAL

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)	3.66	**30.29**

Portfolio Positions

Number of total positions	85
Number of long positions	70
Number of short positions	15
Number of international positions	31

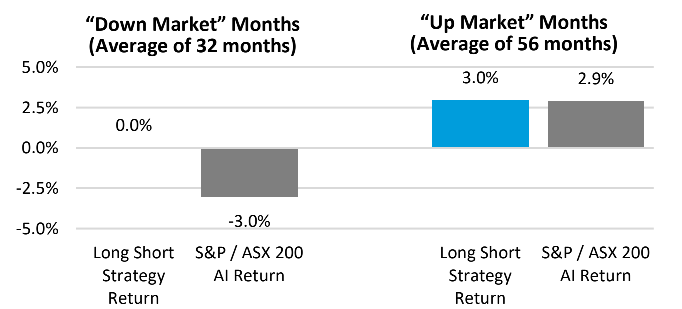
Share Price & NTA per share as at 31 December 2021[4]

Share Price	$2.74
NTA before tax	$2.97
NTA after tax	$2.78

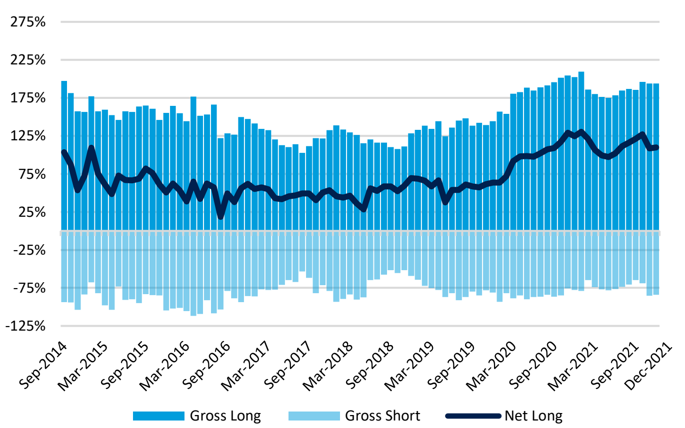
Net & Gross Exposure by Region[3] (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	122	74	48
North America	42	8	34
Europe	24	3	21
Asia	7	0	7
Total	**195**	**84**	**110**

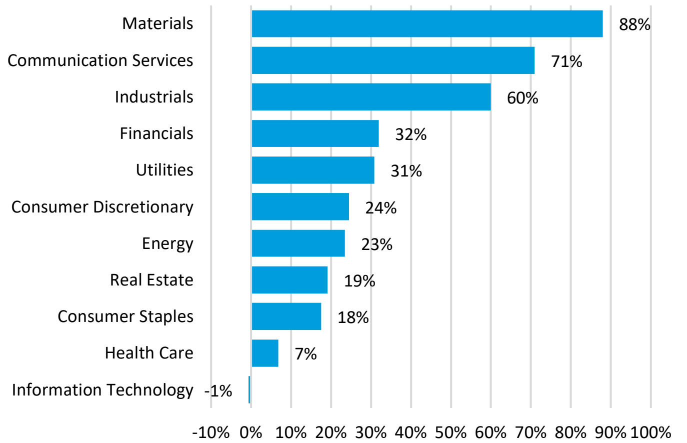
Strategy Performance Since Inception[3] (Net)



Historical Strategy Exposures[3]



Sector Contribution Since Strategy Inception[3] (Net)



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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

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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.

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. Past performance is not a reliable indicator of future performance.