

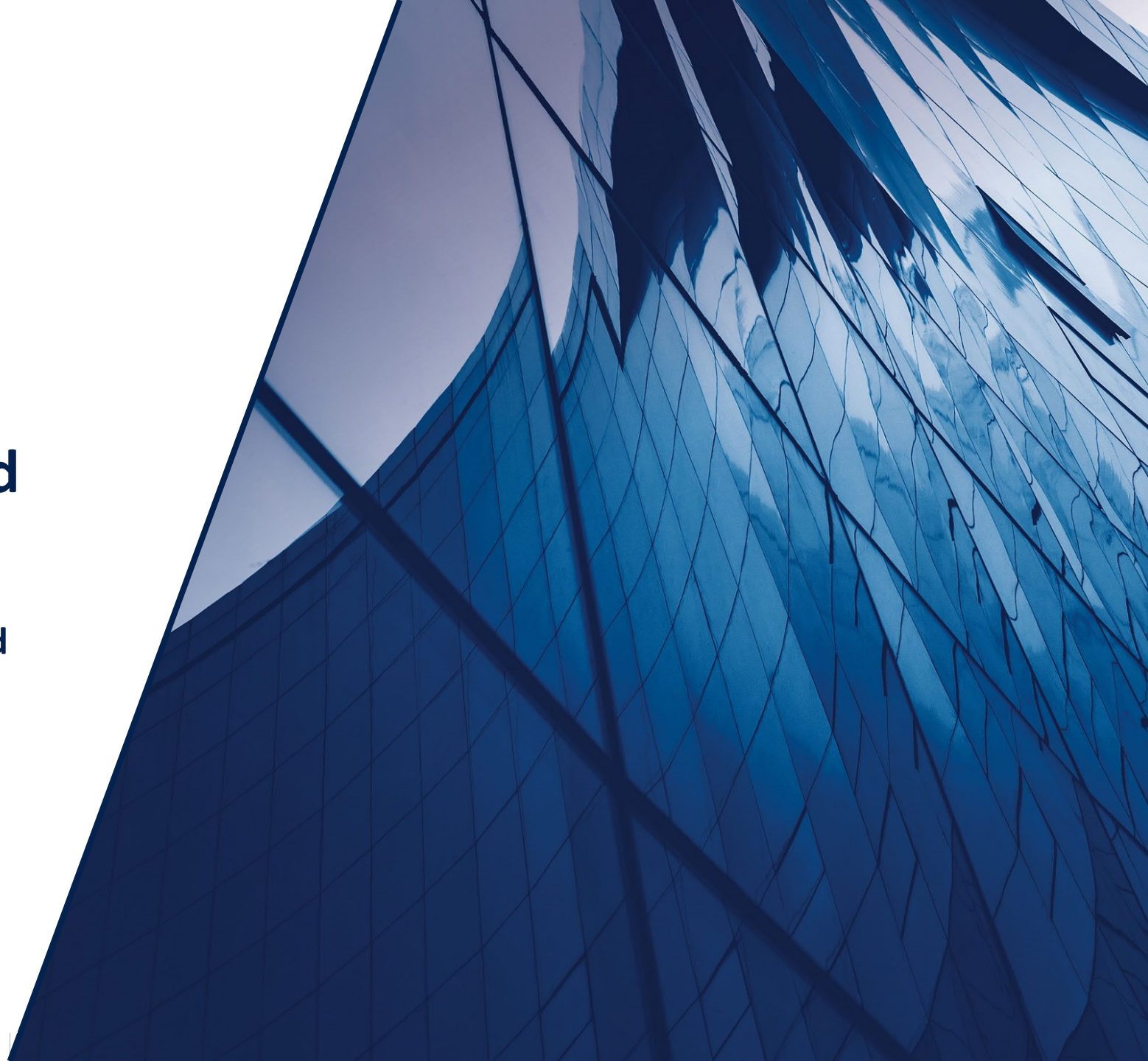


**L1 CAPITAL**

# **L1 Long Short Fund Limited Investor Webinar**

**Mark Landau, Joint Managing Director and  
Chief Investment Officer**

**19 May 2022**



Performance has been strong with broad-based stock contributors

**Over the past year, the portfolio has returned 31%<sup>1</sup> and LSF shares have returned 36%.**

**Strong performance versus Australian & global index returns  
(ASX200AI 10.2%, S&P500 -1.2%, MSCI World -4.9%)**

**The quality and breadth of performance has been pleasing with positive returns from:**

**Numerous stock contributors from company-specific research:**

- 27 stocks each contributed >1% to portfolio returns;
- Only 5 stocks detracted >1%.

**Portfolio construction**

Long exposure to:

- Energy and commodities
- Reopening trade
- Higher inflation

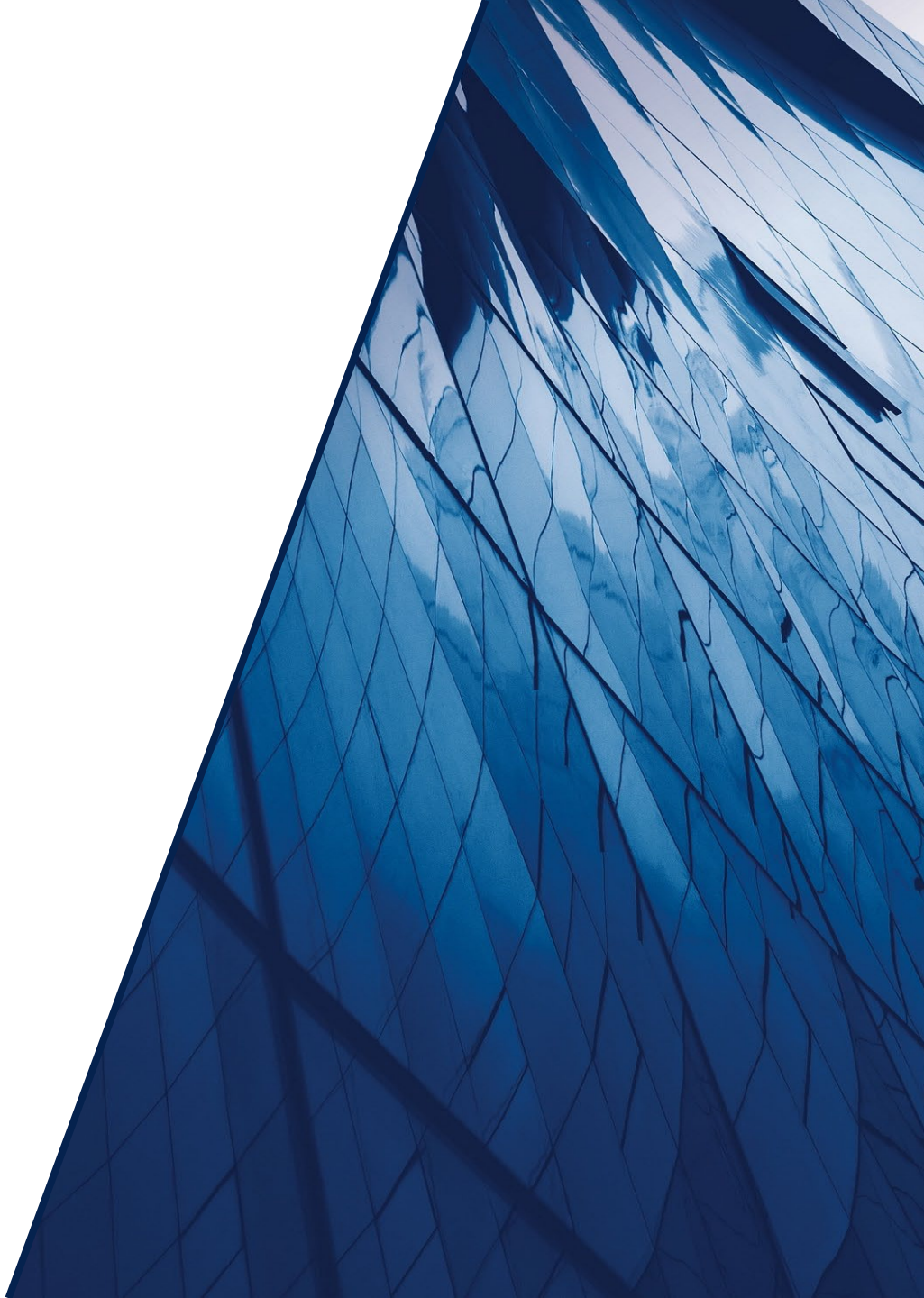
Short exposure to:

- COVID-19 'winners'
- Profitless concept stocks



**1**

# **Performance summary**



# Performance summary

Strong performance over all time periods



**Last 12 months: Portfolio +31%<sup>1</sup>, LSF share price total return +36%.**

Pre-tax NTA Net Performance to 30 April 2022 (%)	L1 Long Short Fund portfolio	S&P ASX 200 AI	MSCI World Index (USD)	HFRX Global Hedge Fund Index
3 months	12.0	8.2	-8.6	-0.6
6 months	10.6	3.6	-11.9	-2.9
1 Year	31.4	10.2	-4.9	-1.4
2 years p.a.	54.3	20.0	16.7	6.4
3 Years p.a.	29.2	9.4	8.7	4.5
LSF since inception p.a.	15.6	9.9	7.6	2.5
Strategy since inception <sup>2</sup> (p.a.)	23.8	8.0	6.3	1.5

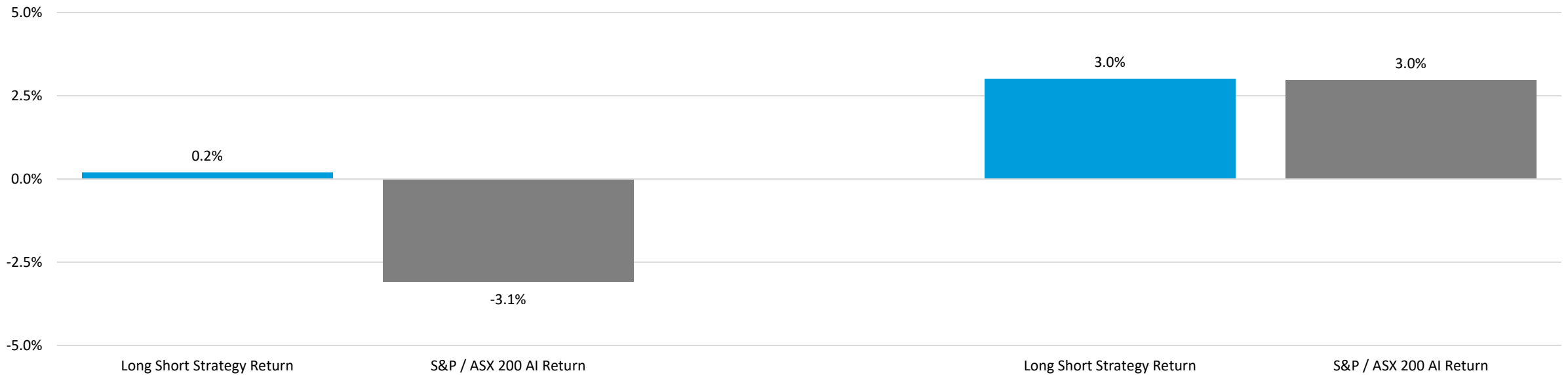
**The L1 Capital Long Short Strategy has been the best performing Australian long short strategy over 1, 3, 5 and 7 year periods and since inception in 2014.<sup>3</sup>**

# Strong performance in both rising and falling markets



Since inception of the Long Short Strategy

### Performance in 'down market' months (Average of 34 months)



### Performance in 'up market' months (Average of 58 months)

**Preserved 100% of investors' capital  
in down markets**

**Returns in line with market  
in up markets**

# Portfolio contributors and detractors



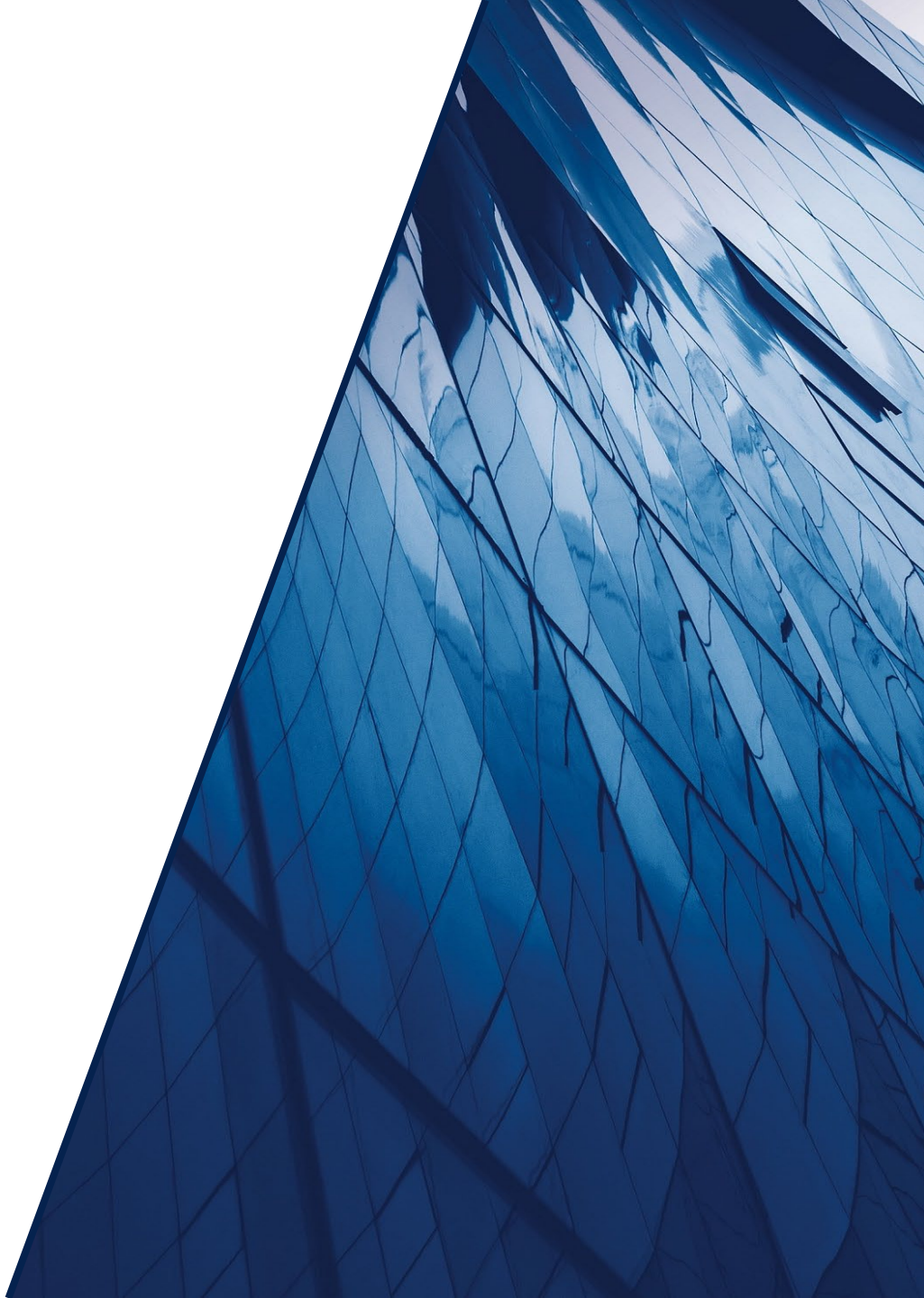
Calendar year to date

Company name	Company news
<b>Cenovus</b>	✓ Strong operational performance and low all-in cost structure supporting rapid de-gearing at prevailing oil prices.
<b>Flutter</b>	✗ Concerns on U.K. regulatory risk and path to profitability in the U.S. Added to our position post recent share price fall, which we viewed as excessive.
<b>Qantas</b>	✓ Surge in domestic travel activity and positive signs from International & Loyalty divisions.
<b>QBE</b>	✓ Strong premium rate environment, improving combined operating ratio and leverage to rising interest rates.
<b>Ramsay Health Care</b>	✓ Takeover offer from KKR-led consortium at a 37% premium to the unaffected share price (prior to deal announcement).
<b>SES</b>	✓ Receipt of the initial US\$1.2b in C-band related payments and accretive acquisition of DRS Global Enterprise Solutions.
<b>Shopify (short)</b>	✓ Decelerating operating trends, increased competition and slowing online growth as physical stores re-open.
<b>Tabcorp</b>	✓ Lotteries performance ahead of market estimates. Demerger of wagering business to be completed in June 2022.
<b>Teck Resources</b>	✓ Excellent operating performance along with rising copper, coking coal and zinc prices. Exited the position given the share price quadrupled over the past two years.
<b>Turquoise Hill</b>	✓ Takeover offer from Rio Tinto at a 32% premium to the unaffected share price (prior to deal announcement). Exited the position.
<b>Worley</b>	✓ Continued recovery in oil prices and sentiment to the oil services sector. Exited the position with the strong year-to-date rally.



**2**

## **LSF advantages**



LSF has a number of key advantages over many other funds:

## Market exposure

Adjust portfolio net long to reflect the risk-reward of the market.

## Shorting

Able to profit from both rising and falling share prices.

## International

Exploit research insights offshore, not just domestically.

**Able to exploit all investment and market insights**

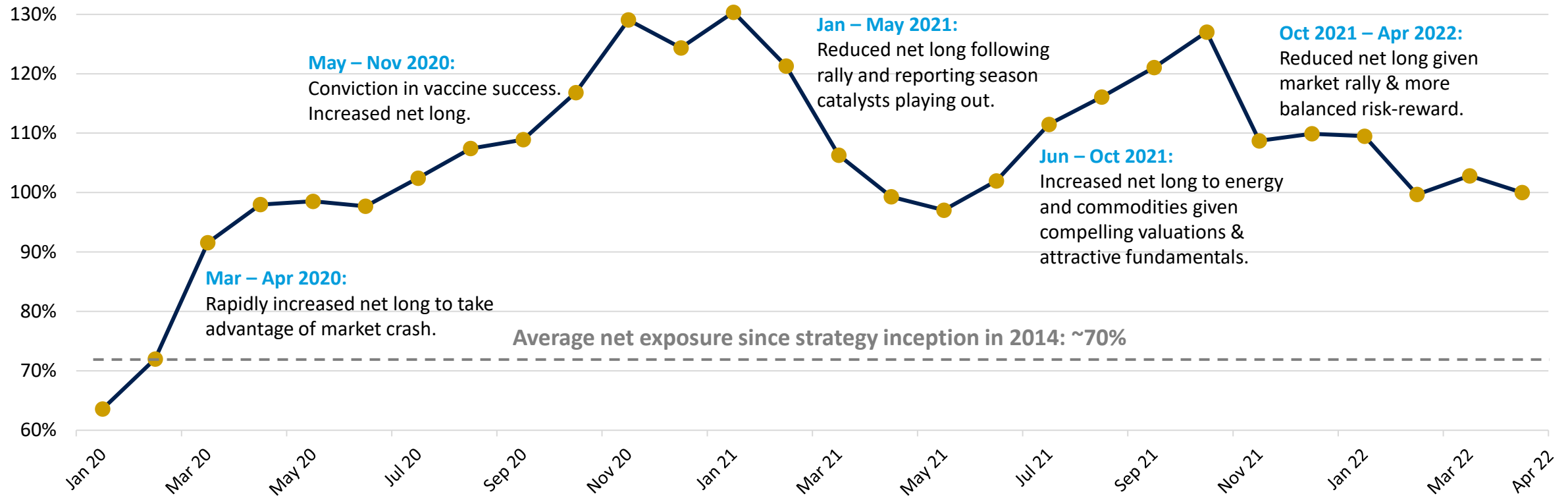


# Portfolio tools – Market exposure



Adjust portfolio exposure to reflect the risk-reward of the market

## Net long exposure of the LSF portfolio



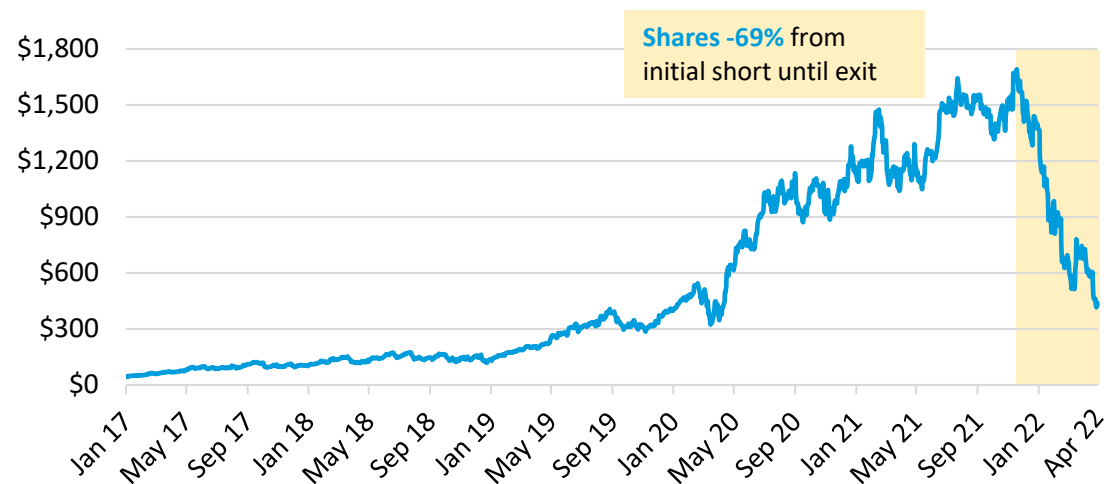
# Portfolio tools – Shorting

Able to profit from both rising and falling share prices

**LSF stock and index shorts contributed meaningfully to returns on a CYTD basis.**

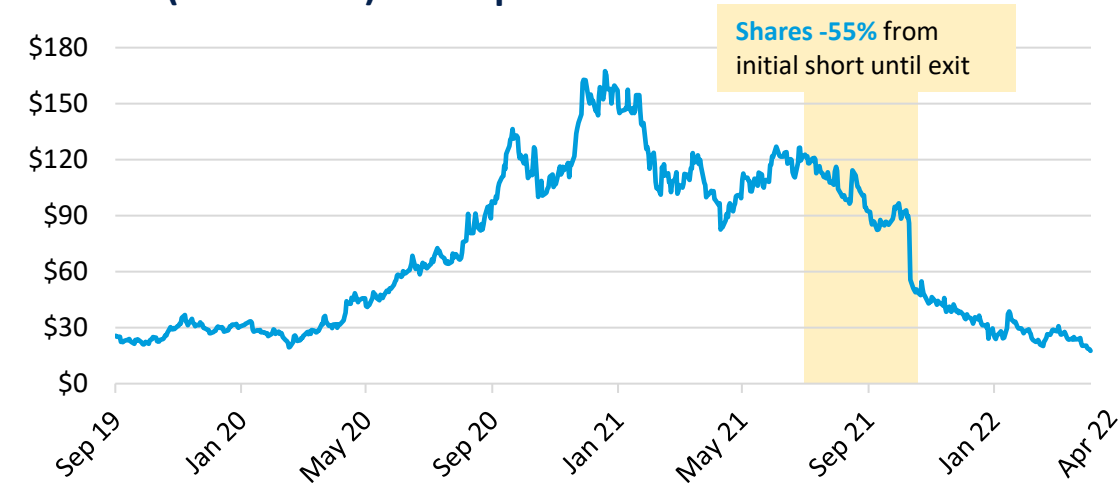
- Ultra-high multiple concept stocks that are many years away from profitability (e.g. Shopify).
- ‘COVID-19 winners’ that have not structurally improved their business models (e.g. Peloton).

## Shopify (NYSE:SHOP) share price



- E-commerce platform for small and medium size businesses.
- Sharp upturn in volumes and profits during pandemic.
- Market erroneously extrapolated growth going forward.

## Peloton (NAS:PTON) share price



- Premium subscription-based home fitness company.
- Surged during pandemic when gyms were closed.
- Aggressive accounting overstated profits and cash flows.

# Portfolio tools – International exposure

Exploit research insights offshore, not just domestically

**LSF international positions have contributed ~30% of returns in CYTD 2022.**

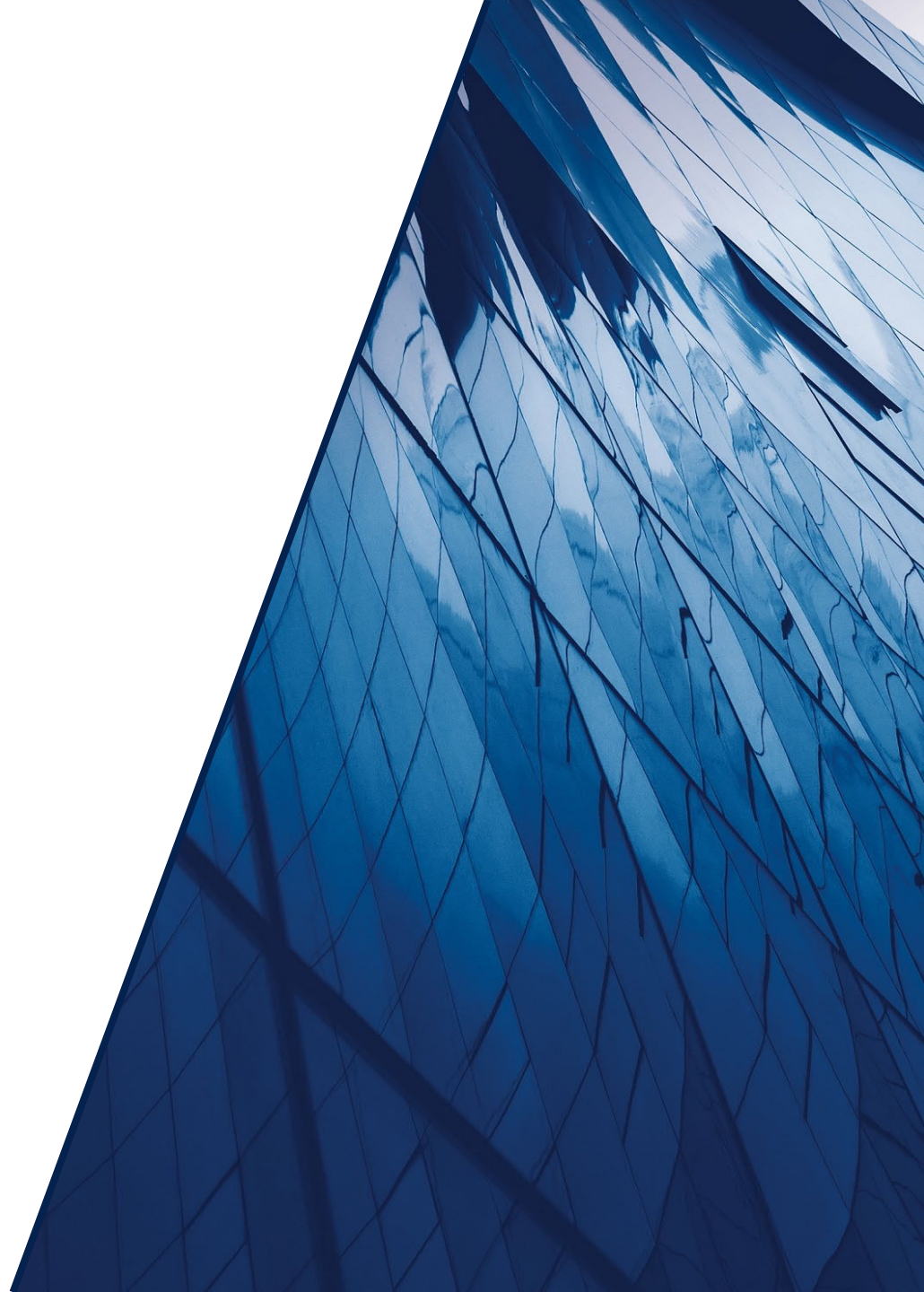
- Capitalise on research insights by buying best-in-class companies globally, rather than just domestically.
- Broader opportunity set is a significant advantage for capturing additional returns.

**LSF international positions vs. domestic peers**  
**Copper stocks share price performance CYTD**



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## Market outlook



# Market outlook – Summary

Equity markets likely to remain volatile in the near-term



**We expect market returns to be more modest going forward.**

## Equities backdrop: Last two years

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- Incredibly attractive valuations
- Excessive COVID-19 pessimism
- Massive monetary & fiscal stimulus
- Company earnings set to beat expectations
- Heightened M&A activity



## Equities backdrop: Today

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- Full valuations
- Increased geopolitical tensions
- Reduction in central bank liquidity
- Increasing interest rates
- Fragile global supply chains

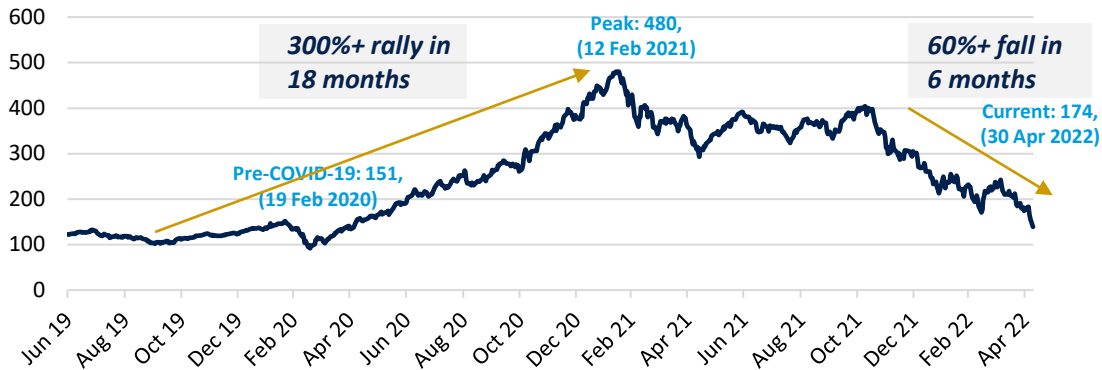
**To achieve attractive real returns, equity investors will now need to find sources of alpha (excess return), rather than just relying on beta (market returns).**

# Market outlook – Market rotation

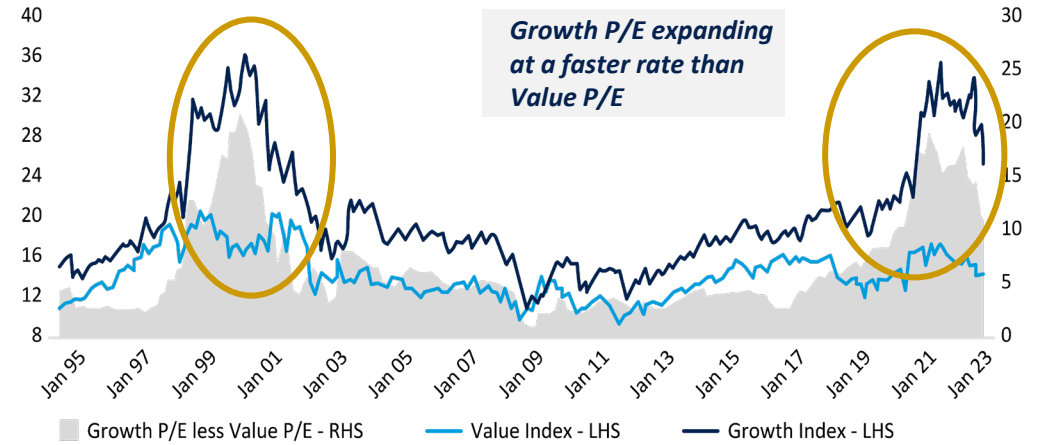
‘Value’ underperformance starting to reverse

- Since 2007, value stocks have endured the largest and longest period of underperformance ever on record.
- **Recovery in Value and Cyclical stocks has been modest and has further to go.**
- Ultra-high P/E stocks have de-rated with rising interest rates and the market (finally!) focusing on profitability.
- Despite this correction, we continue to see further downside risk in many of these names.

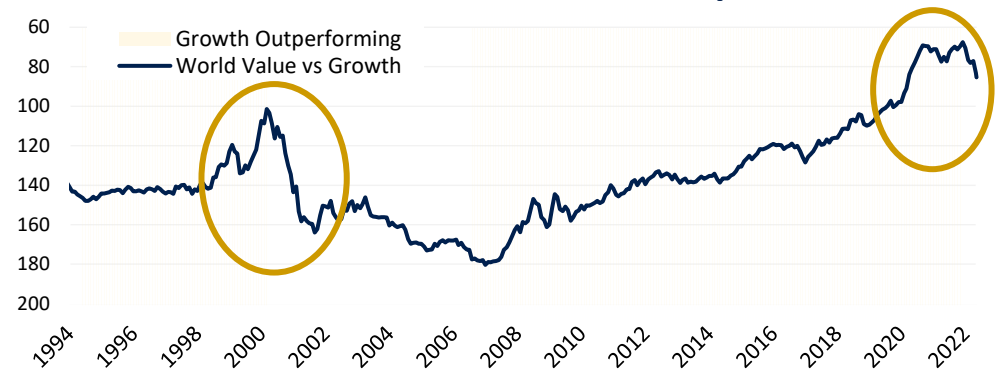
## Performance of the Non-Profitable Tech Basket (indexed to 100)



## MSCI USA Value/Growth – 12M Forward P/E



## MSCI World Value/Growth – Historical performance



**LSF Strategy performance has been pleasing considering the huge headwind for value and contrarian investors.**

# Market outlook – Inflation



Inflation unlikely to moderate to historic levels anytime soon

## A year ago we flagged the risk of much higher inflation:

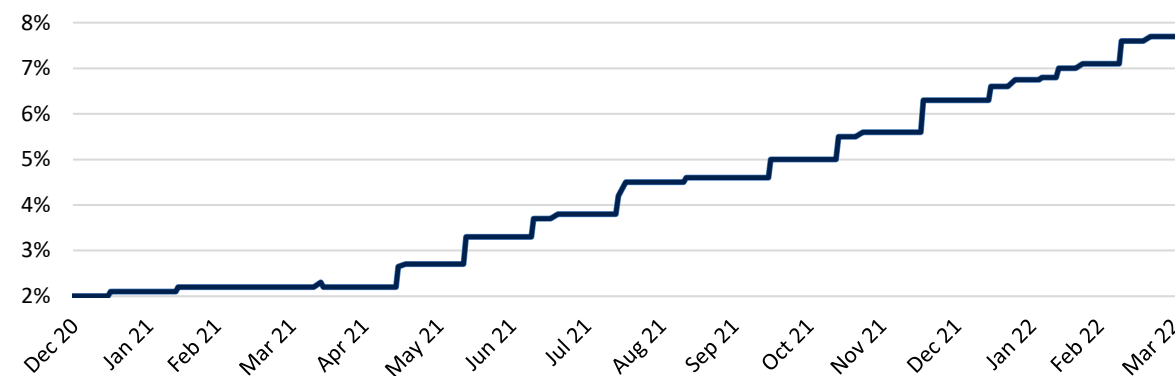
- Consensus CPI expectations rose from ~2% to ~8%.
- CPI being driven by oil, supply chain issues, wages, Ukraine war, hard and soft commodities.

**While all investors now accept the prospect of higher inflation, few investors have made large structural asset allocation and sector changes to reflect the new reality.**

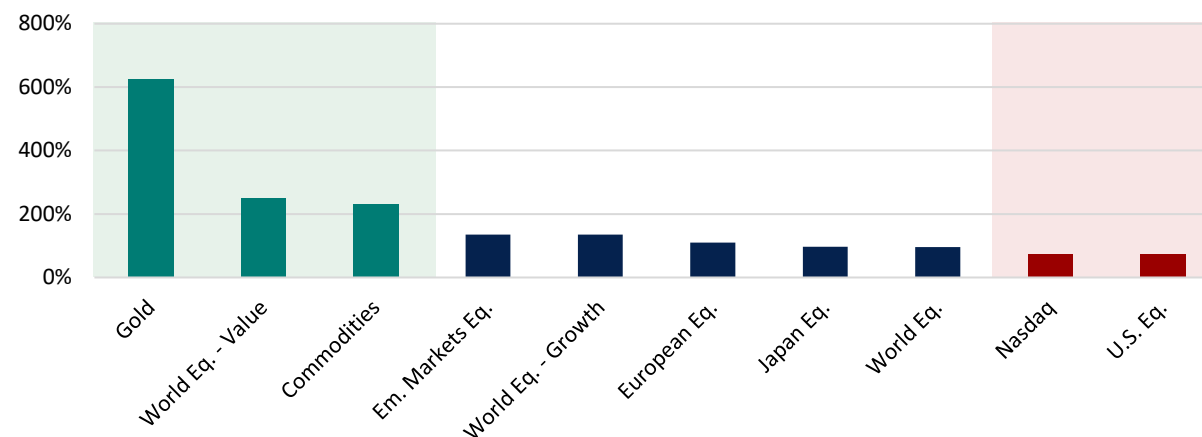
## ▪ We continue to be positioned to mitigate against higher inflation:

- Long energy, gold, financials and low P/E stocks.
- Short ultra-high P/E concept stocks.
- Positioning supported by last high inflationary period (1973-1983).

## Consensus U.S. CPI Economic Forecast – Q2 2022



## Sectors that outperformed from 1973-1983



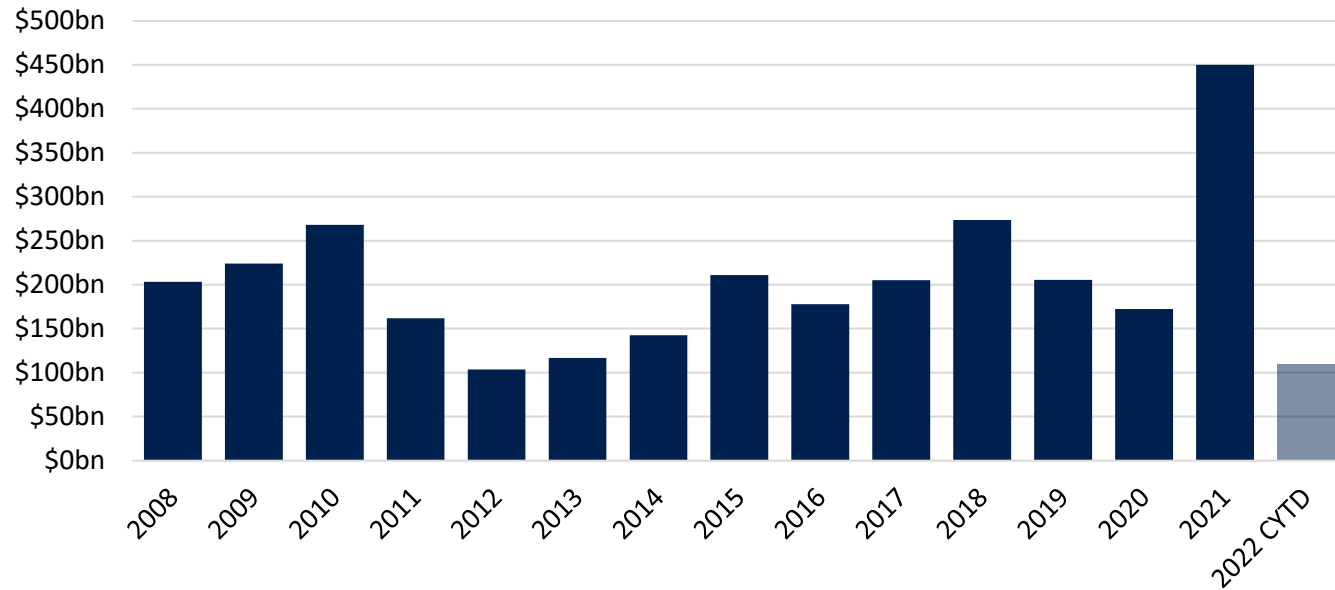
# Market outlook – M&A

Expect M&A activity to rebound quickly as markets stabilise

## We expect elevated M&A activity to continue:

- 2021 was a record year for M&A (see chart below).
- Portfolio benefitted given our skew to undervalued companies with strategic appeal.
- Deals are being delayed by elevated market volatility and an uncertain outlook.

### M&A activity in Australia – Total value of deals by calendar year



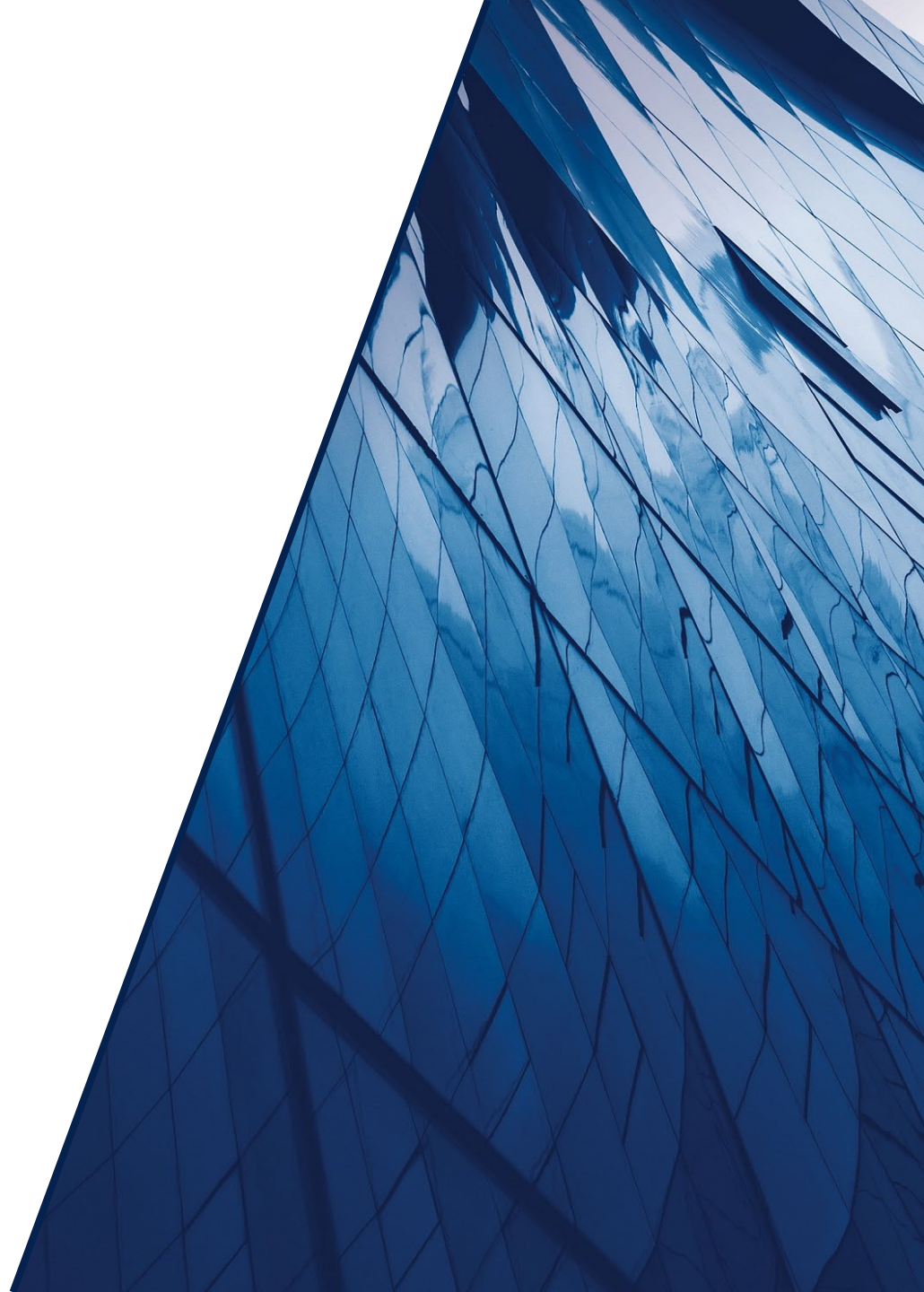
### Portfolio stocks receiving takeover bids





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## Portfolio themes



# Portfolio themes – Summary



We are invested in four key themes that offer compelling, asymmetric risk-reward



## U.S. Sports Betting

- Near-term concerns over U.K. gaming regulations review and U.S. competitive intensity.
- Huge structural growth forecast for the U.S. sports betting and iGaming market.



## Energy

- Positive on 'old energy' given historic under-investment and supportive demand environment.
- No longer positive on 'new energy' given several shares now trading at or above valuation.



## Re-opening trade

- Vaccine success only partially reflected in some share prices.
- Expect accelerating operating trends to drive EPS upgrades and a P/E re-rating.



## Corporate value unlock

- High quality businesses / assets within a group structure.
- Large undervaluation provides a degree of capital protection.
- Clear intent to deliver value to shareholders via restructure / asset sales / capital management.



# Theme 1 – U.S. sports betting

One of the most exciting, high growth industries globally

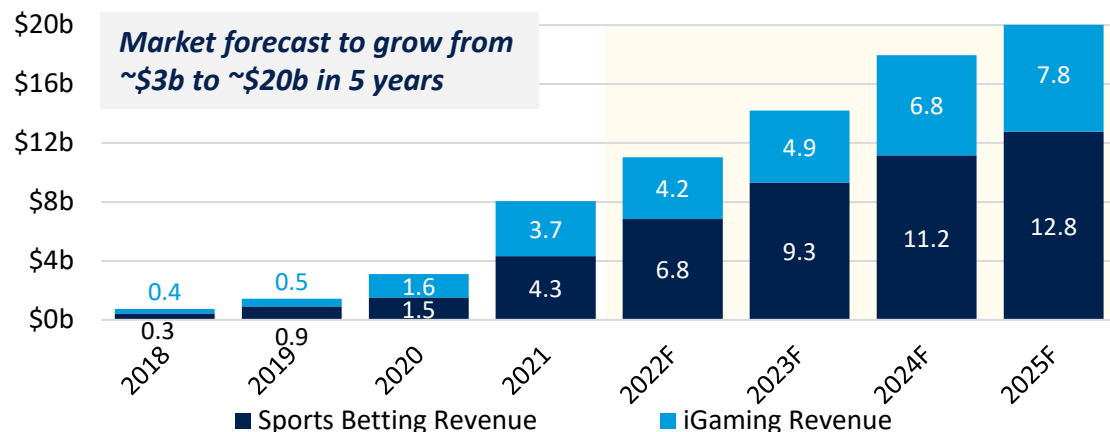
## Flutter (FLTR – UK)

- #1 player in U.S. online sports betting and iGaming industry.
- High growth, capital light, high ROE industry.
- Strong execution (FanDuel ~40% market share in U.S. sports betting and ~20% in U.S. iGaming).
- Shares have fallen due to fears over U.K. regulations and some one-off earnings headwinds.
- FY23 P/E ~16x, with 25-30% EPS growth p.a. for next 3 years.

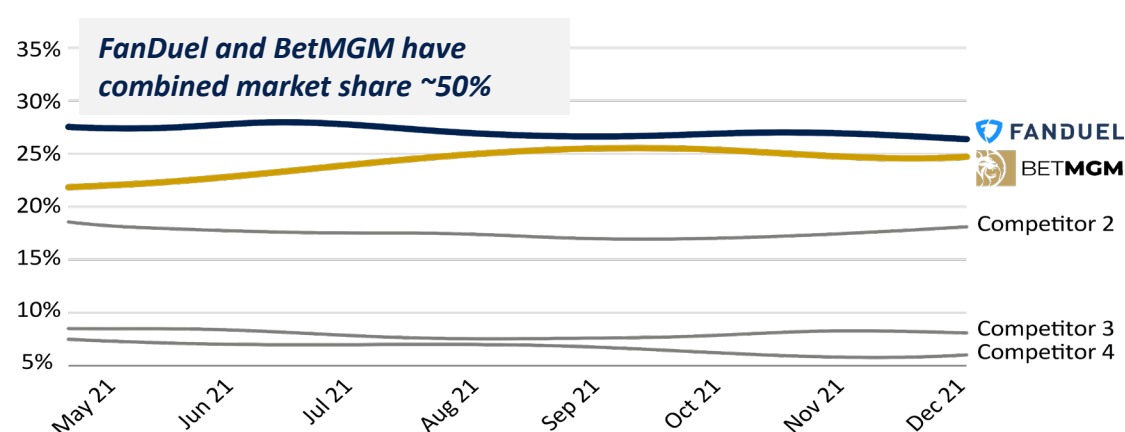
## Entain (ENT – UK)

- Entain JV with MGM Resorts (BetMGM) is the #2 player in U.S. sports betting and iGaming.
- Growth drivers from core business, new verticals and U.S. expansion.
- Received two takeover offers – MGM (Jan 21), DraftKings (Sep 21).
- ~11.5x FY23 P/E with 20-25% EPS growth p.a. for next 3 years.

### U.S. Sports Betting and iGaming revenue forecasts (US\$)



### U.S. Sports Betting and iGaming combined market share estimate





# Theme 2 – Energy

Structural under-investment in ‘old’ energy likely to exacerbate market tightness

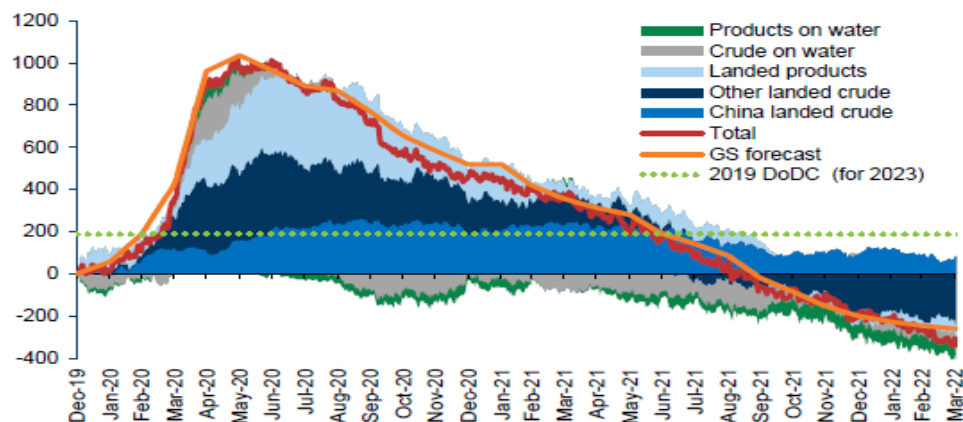
## Cenovus Energy (CVE – USA)

- Generating 20-25% free cash flow yield at spot oil price.
- Cash flow break-even at ~\$40/bbl (less than half current prices).
- Additional value realisation catalysts through potential capital management and asset sales.
- Shareholder friendly board and management team.

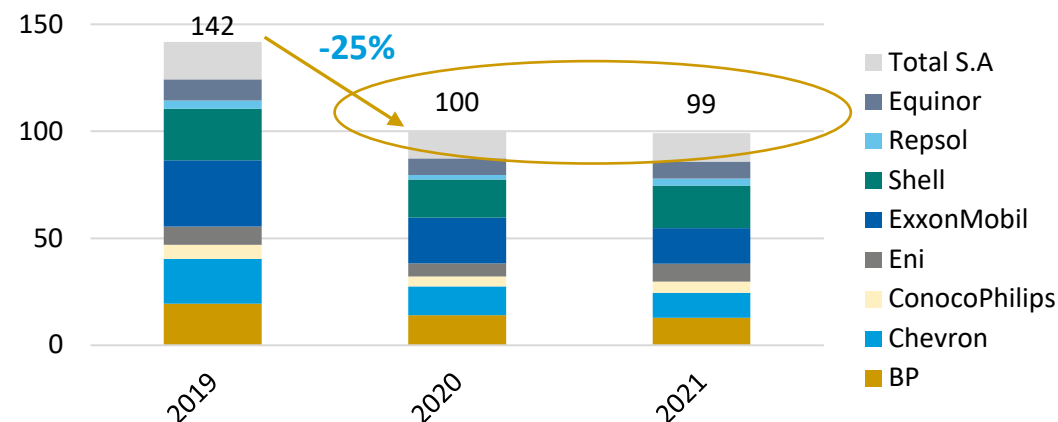
## Santos (STO)

- Completed merger with Oil Search in late 2021.
- Combined business led by highly regarded Santos management.
- Multiple upside catalysts:
  - Strong organic cashflow generation from high oil and gas prices.
  - Potential to deliver merger synergies above guidance.
  - Partial asset sales in both PNG and Alaska.

## Declining oil inventories (mb)



## Collapse in capex from oil majors (US\$b)



# Theme 3 – Re-opening trade

'COVID losers' likely to enjoy accelerating operating metrics as economies re-open



## Qantas (QAN)

- Strong customer demand, improved fares and \$1b cost out program.
- Management reiterated FY24 targets equal ~\$1 EPS = ~5.5x P/E (fair value is 12-15x P/E).
- Over 100% share price upside if management achieve targets.
- Loyalty division is dramatically undervalued and will soon account for 20-25% of earnings.

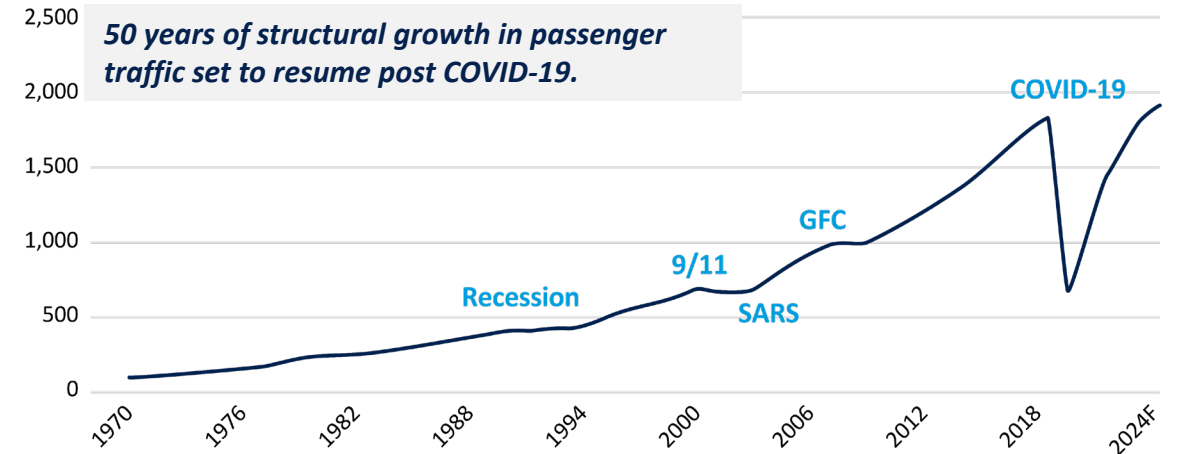
## Safran (SAF – FR)

- World's highest quality aerospace company – global leader in manufacturing and parts for narrow-body jet engines.
- Enormous installed base of young engines requiring maintenance for decades to come.
- Earnings set to recover strongly as global air travel recovers.
- Cost out program supports 200bps margin expansion.
- 60% upside if shares just recover to pre-COVID levels.

### Qantas FY24 targets

<b>Qantas Domestic</b> Relative margin disadvantage	<b>Jetstar Domestic</b> Relative margin disadvantage	<b>Qantas International</b> Relative competitive disadvantage	<b>Jetstar International</b> Low cost position	<b>Qantas Loyalty</b> Stable earnings growth
Targeting EBIT margin -18%	Targeting EBIT margin -22%	Targeting ROIC >10%	Targeting EBIT ROIC >15%	Targeting \$500-600, EBIT

### Global passenger traffic (Revenue passenger kilometers)



# Theme 4 – Corporate value unlock

Hidden value opportunities within a group structure



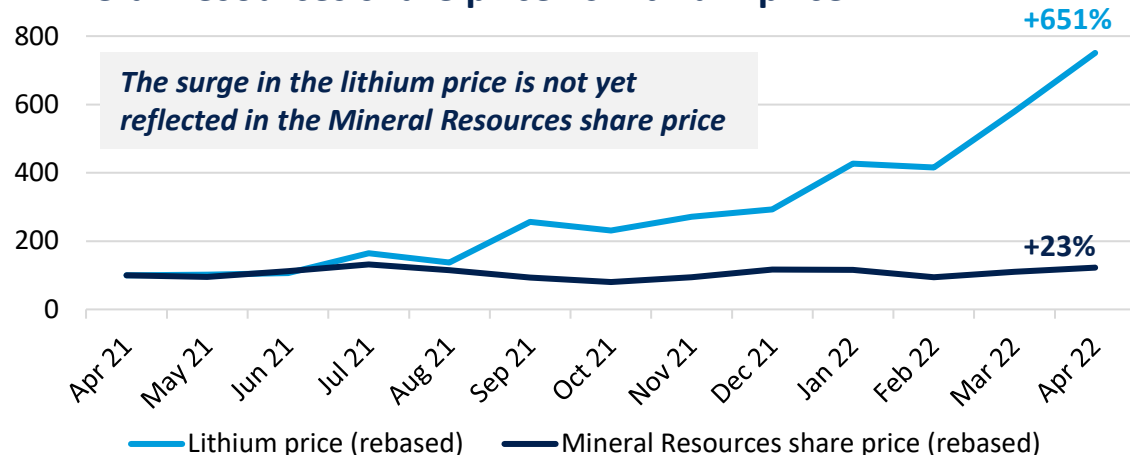
## Mineral Resources (MIN)

- Diversified mining company with attractive valuation and outstanding management.
- Exposure to several exciting lithium projects (Wodgina, Kemerton and Mt Marion).
- Expected to increase iron ore production from 20mtpa to 80mtpa in the coming years.
- Potential catalysts from de-risking funding sources, additional lithium processing capacity and possible lithium demerger.

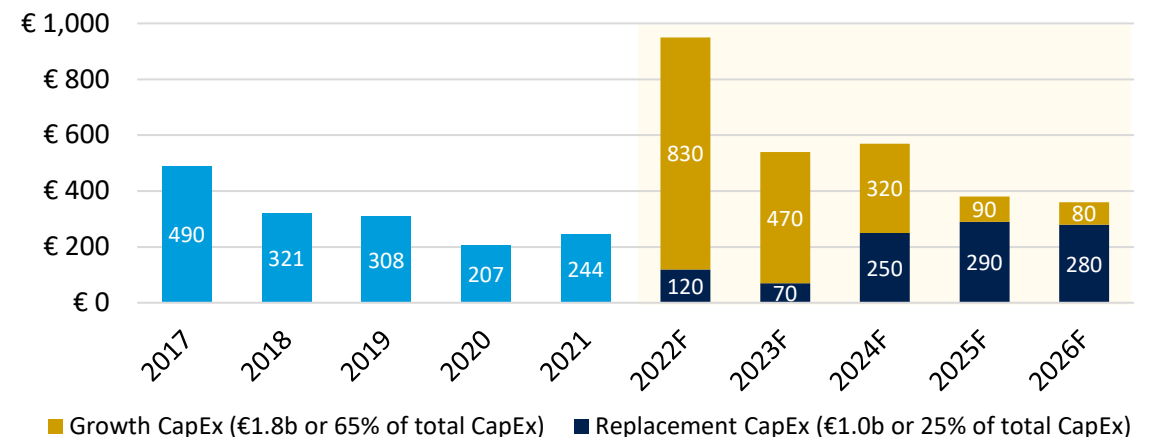
## SES (SESG – FR)

- Global satellite operator providing data and video services to the pay TV, aviation, maritime, Government and telco industries.
- Capacity for significant share buybacks and higher dividends given:
  - C-band spectrum payments of \$2.4b (net of tax) to be received in early 2024.
  - Core business set to deliver a 15% FCF yield from 2025.
  - Stable operating outlook.

### Mineral Resources share price vs. lithium price

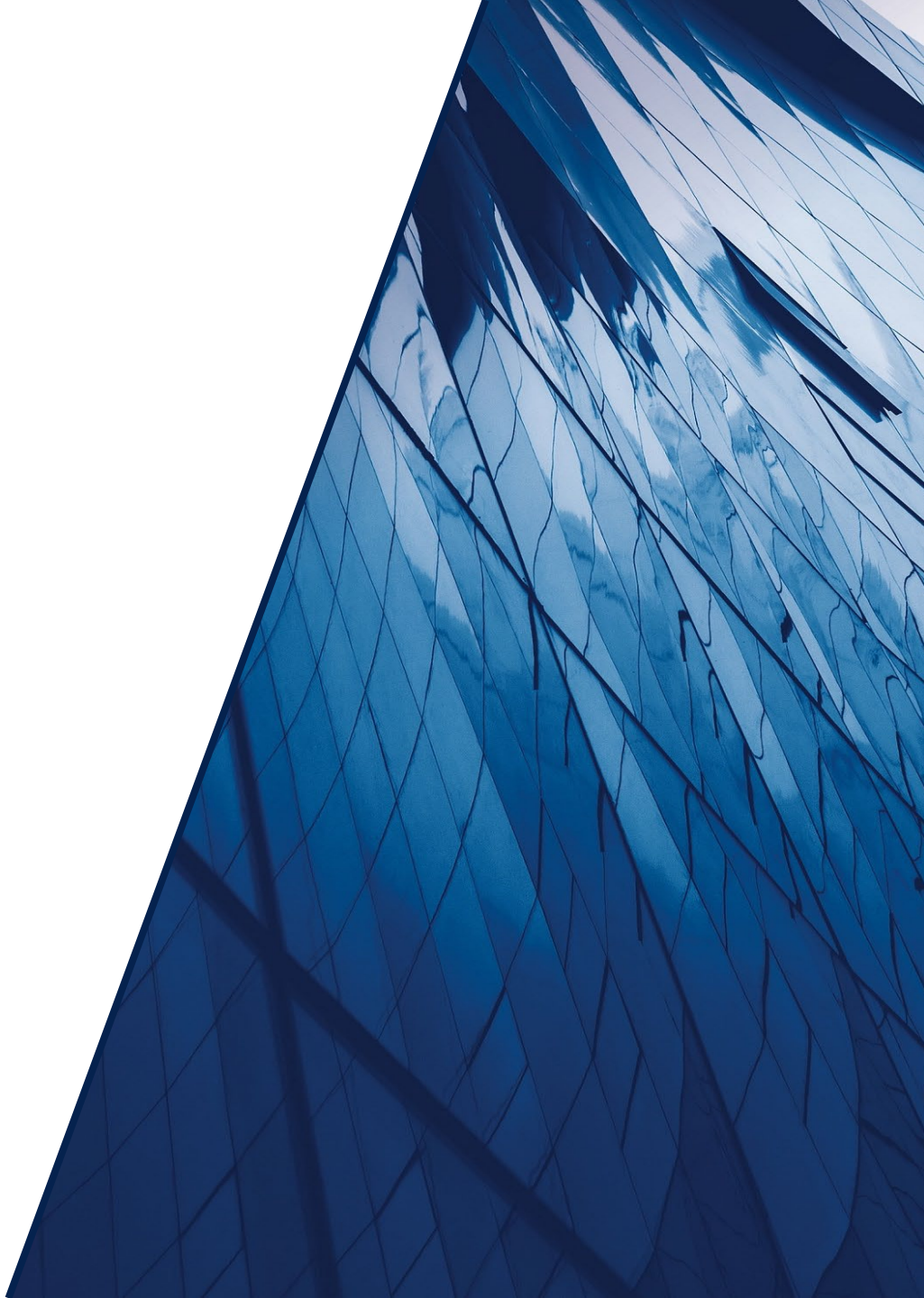


### SES Capital Expenditure (€b)





# Corporate update



# Corporate update



LSF's discount to NTA has reduced significantly, due to a number of positive factors

Over the past 24 months, the discount to post-tax NTA has narrowed from 36% to 3%<sup>1</sup> supported by:

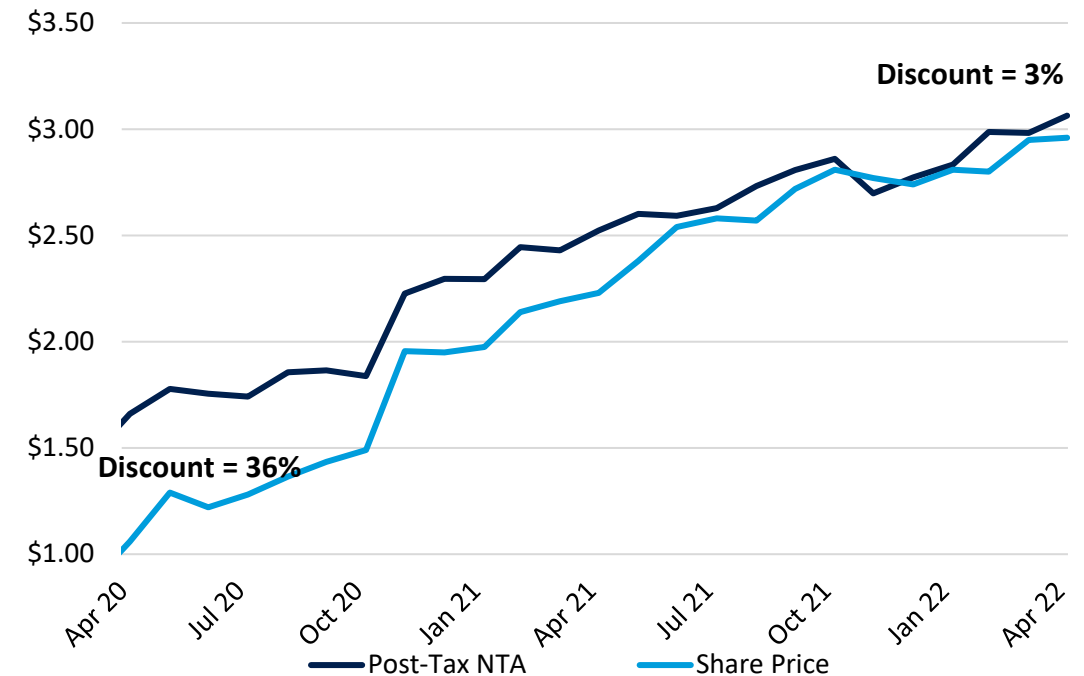
- **Very strong portfolio returns**
- **On-market share buyback**
  - Company buying: 3.2m shares (~\$7.8 million) (last 12 months).
  - Director buying: Substantial additional investment made by senior L1 staff and performance fee reinvestment.
- **Consistent and growing fully franked dividends:**

1.5 cents p/s  
Feb 2021

3.0 cents p/s  
Aug 2021

4.0 cents p/s  
Feb 2022

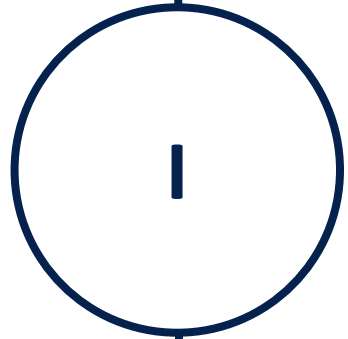
LSF post tax NTA vs. LSF share price



**The Company remains well-positioned to continue to deliver a sustainable and growing dividend profile.**

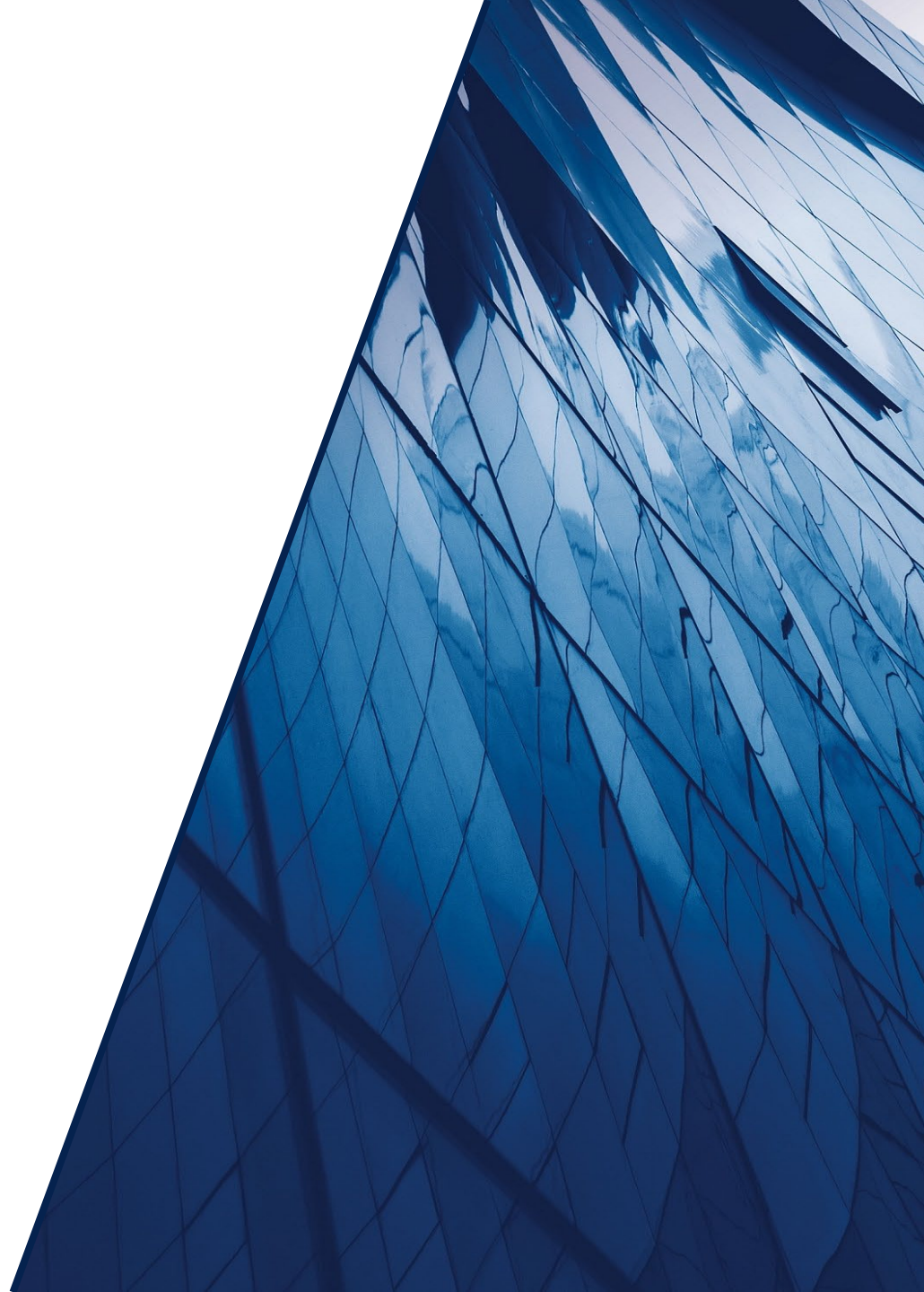


- 1 The portfolio has performed very strongly in both relative and absolute terms.
- 2 After a period of stronger than normal equity returns over the past two years, our expectation is for market performance to be more subdued.
- 3 To achieve attractive real returns, equity investors will now need to find sources of alpha (excess returns), rather than just relying on beta (market returns).
- 4 LSF has an enduring structural advantage due to its ability to exploit all investment and market insights through adjusting market exposure, using shorting and investing internationally.
- 5 We see four themes that offer compelling, asymmetric risk-reward at present: U.S. sports betting, energy, re-opening trade and corporate value unlock.
- 6 While heightened market volatility can be unnerving, we believe it provides us with the opportunity to generate long-term alpha for our shareholders.



# **Appendix**

## **Overview of L1 Capital**



## Specialist investment manager founded by Mark Landau & Rafi Lamm in 2007

- ‘L’ – Derived from the surnames of the founders (Lamm & Landau).
- ‘1’ – Genuine firm-wide aspiration to be the “best”, not just “good”.
- Reputation for investment excellence and best of breed investment funds.
- All L1 Capital funds have delivered outstanding returns since inception.
- Diverse client base – large superannuation funds, pension funds, asset consultants, financial planning groups, family offices, high net worth investors and retail investors.

### People



Proven, high calibre and stable team

### Integrity



Ethical and professional in all respects

### Ownership



100% owned by senior L1 staff

### Alignment



L1 staff invested alongside clients

# Global Investment Manager

Well resourced and experienced team across investments, operations, compliance and investor relations

## Business Overview

- Founded in 2007
- A\$5b FUM
- Investment professionals in 5 locations globally



# L1 Capital Funds



Investment Excellence – Outstanding performance since inception across all strategies

## Long Short Fund

**23.8% p.a.** net return S.I.  
(ASX200AI 8.0% p.a.)<sup>1</sup>

**Best performing long short fund in Australia since inception<sup>2</sup>**

**>25% p.a. net return in 6 out of 7 calendar years**

### AUS. ALTERNATIVE INV. AWARDS

Best Alternative Manager of the Year 2021  
Best Alts. Investment Product (LIC) 2021

### EUREKAHEDGE

Ranked Top 5 for returns in 2021 for large APAC-based HFs

**ZENITH RATING**  
'Recommended'

**LONSEC RATING**  
'Recommended'

Melbourne

Sep 2014

## Global Opportunities

**34.6% p.a.** net return p.a. S.I.

**One of the best performing hedge funds globally since inception**

### HSBC SURVEY

'Top 20 Hedge Fund Globally' in 2017, 2018, 2020 and 2021<sup>3</sup>

Miami

Jun 2015

## International Equities

**11.5% p.a.** net return S.I.  
(MSCI World 11.3% p.a.)

**Strong performance since inception**

**ZENITH RATING**  
'Recommended'

**LONSEC RATING**  
'Recommended'

Sydney

Mar 2019

## Catalyst

**21.4%** net outperformance of ASX200AI S.I.

**High conviction activist strategy  
Strong early performance**

**ZENITH RATING**  
'Recommended'

**LONSEC RATING**  
'Recommended'

Melbourne

Jul 2021

## U.K. Residential Property

**7.2% p.a.** net distribution yield on U.K. Fund I<sup>4</sup>

**Achieving target yield and strong capital growth despite Brexit and pandemic headwinds**

London

Sep 2017

# Competitive Edge



A highly aligned and proven team that drives performance through differentiated research

## Track Record

Best performing long short fund in Australia since inception in 2014<sup>1</sup>.

## Quality Research

Differentiated company, industry and macro research (e.g. vaccine).

## Independent Thinking

Low correlation with other fund managers and typically not in crowded positions.

## Sound Judgement

Unemotional investment approach and track record of taking advantage of market volatility and dislocations.

## Alignment

Investment team has the majority of personal wealth invested alongside investors.

# L1 Long Short Fund Limited



Monthly performance, strategy returns (Net, %)

Period	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)*	(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
2022	2.79	6.87	1.34	3.44									15.16

**Best performing long short fund in Australia over 1,3,5,7 years and since inception<sup>1</sup>.**

**Outperformed ASX200AI by ~16% p.a.\* (net) since inception despite a major factor/style headwind.**

All performance numbers are quoted after fees to 30 Apr 2022. \* Full performance history (net of fees) 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). Past performance should not be taken as an indicator of future performance. 1. According to FE Fund Info.

# Important information

## L1 Long Short Fund Limited



**L1 CAPITAL**

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, pension funds, financial planning groups, asset consultants, family offices, high net worth individuals and retail investors.

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