

- The L1 Long Short Fund (LSF) portfolio returned 5.2%¹ in October (ASX200AI 6.0%).
- Over the past 3 years, the portfolio has returned 19.5%¹ p.a. (ASX200AI 4.8% p.a.).
- Global equity markets rebounded in October on speculation that central banks were nearing the peak of policy tightening.

Global equity markets rallied in October with investors expecting the Fed to begin to scale back the pace of its tightening program in the months ahead. We found this move to be surprising for two reasons. Firstly, the Fed has been very clear that it is not close to enacting a policy pivot with inflation still tracking at over 8%. On November 2, Powell stated:

"It is very premature, in my view, to think about or be talking about pausing our rate hikes. We have a ways to go."

Secondly, numerous high quality 'bellwether' companies in the U.S. downgraded their earnings guidance significantly, suggesting the deteriorating macro was beginning to bite. We used the rally to further reduce our market exposure.

The S&P/ASX 200 Accumulation Index returned 6.0% in October. The strongest sectors were Financials (+12.2%), Property (+9.9%) and Energy (+9.5%), while Consumer Staples (-0.2%), Materials (-0.1%) and Healthcare (+0.6%) were the weakest sectors.

Portfolio performance was driven by several positive stock-specific updates along with the broader recovery in global markets.

Key contributors to portfolio performance in October included:

Flutter (Long +17%) shares rose with continued strong momentum from its U.S. business through the start of the key NFL season. The U.S. business moved to positive EBITDA in Q2 2022, well ahead of its peers, and its sports betting market share accelerated to 51% from ~40% six months ago, driven by its superior product, efficient customer acquisition strategies and strong operational execution. The U.S. division is now the largest by revenue for the company, with a clear path to profitability in 2023. This shift to profitability, together with the exponential growth of the U.S. sports betting market, underpins the ability for Flutter to significantly accelerate its earnings growth over the next few years. We believe Flutter remains significantly undervalued given its exceptional growth outlook and dominant industry position.

Returns (Net) ¹ (%)	L1 Long Short Portfolio	S&P ASX 200 AI	Out-performance
1 month	5.2	6.0	(0.8)
3 months	2.5	0.7	+1.8
CYTD	(1.3)	(4.1)	+2.8
1 year	(5.2)	(2.0)	(3.2)
2 years p.a.	33.0	12.0	+21.0
3 years p.a.	19.5	4.8	+14.7
4 years p.a.	17.6	8.3	+9.3
LSF Since Inception p.a.	9.9	7.5	+2.4
Strategy Since Inception² p.a.	19.7	6.8	+12.9

Mineral Resources (Long +11%) shares performed strongly over the quarter as lithium markets remain tight, supported by demand for electric vehicle batteries. The company is expected to finalise its joint venture agreement with Albemarle (over their jointly owned upstream and downstream lithium assets). This agreement will give clarity to Mineral Resources' lithium portfolio and support full downstream integration for >100kt of lithium hydroxide production. This will also provide the foundation for any possible separate listing of the lithium business in the future. We continue to believe that all key areas of Mineral Resources' business (iron ore, lithium and mining services) have favourable medium-term tailwinds with significant optionality that is not fully reflected in the current share price.

Cenovus Energy (Long +31%) shares rallied due to a ~10% increase in the oil price over the month. Given the long-life nature of its oil sands assets and its low cost of production, we estimate Cenovus is free cash flow break-even at an oil price of ~US\$40/bbl. Oil prices remain more than double this break-even point, implying considerable free cash flow generation potential for the company at current levels, with Cenovus currently trading on a consensus FY22 free cash flow yield of around 15%. Furthermore, we expect the company to reach its target net debt level of US\$4b by early CY23 at which point we expect it will allocate all available free cash flow to shareholder returns.

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). NOTE: Fund returns and Australian indices are shown in A\$. Returns of U.S. indices are shown in US\$. Returns are on a total return basis unless otherwise specified.

Qantas (Long +16%) shares climbed after providing a very strong trading update, including first half profit before tax guidance of \$1.2b – \$1.3b. The earnings guidance was more than 150% above market expectations, driven by strong domestic travel demand and exceptional yield management.

The company has also managed to dramatically reduce its net debt to below the bottom end of its target range with significant headroom for further capital management going forward.

We continue to view Qantas as having emerged from the pandemic even stronger than before, given its \$1b cost out program, improved market position and the massive pent-up demand for leisure and business travel, which we expect will persist despite macroeconomic headwinds. If Qantas management can achieve its FY24 targets, there is potential to deliver close to \$1 of earnings per share, with Qantas currently trading on only ~6x P/E on that basis. We believe there is significant share price upside through earnings growth and a P/E re-rating as the company's earnings mix shifts towards more predictable domestic earnings and loyalty business.

A key detractor from portfolio performance in October was:

Alibaba Group (Long -21%) shares fell as investor sentiment weakened from COVID-19 policy uncertainty and fears stemming from political changes at the recent National Congress of the Chinese Communist Party. We believe Alibaba's earnings are likely to have bottomed in Q2 and should see a gradual recovery as retail spending recovers post stringent lockdowns. Alibaba remains a high-quality business with leading positions in both eCommerce and Public Cloud. We believe earnings growth in 2023 will be supported by a broader economic recovery as COVID-related restrictions are finally eased.

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
2022	2.79	6.87	1.34	3.44	0.06	(13.39)	(3.34)	5.37	(7.60)	5.24			(1.33)

Portfolio Positions

Number of total positions	94
Number of long positions	61
Number of short positions	33
Number of international positions	30

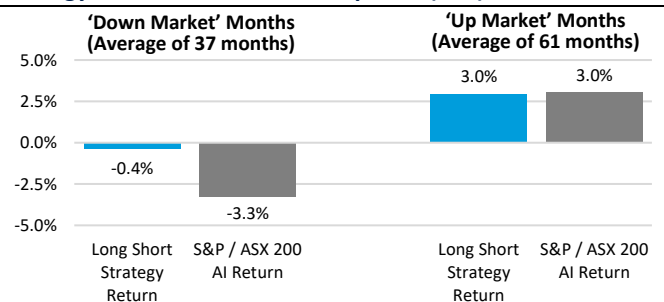
Company information as at 31 October 2022⁴

Share Price	\$2.46
NTA before tax	\$2.6321
NTA after tax	\$2.6924
Shares on issue	613,825,593
Company market cap	\$1.51b

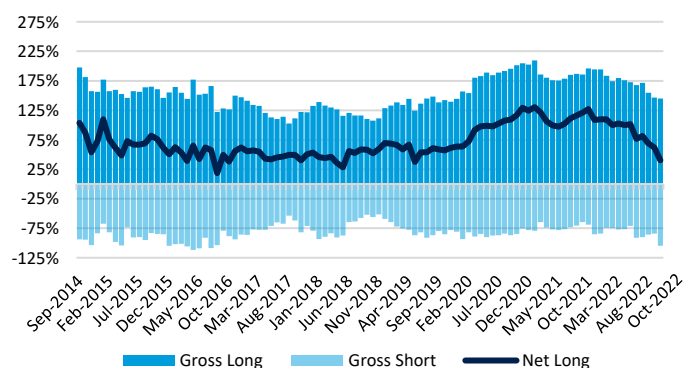
Net & Gross Exposure by Region³ (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia/NZ	92	84	7
North America	35	21	14
Europe	14	0	14
Asia	6	0	6
Total	146	105	41

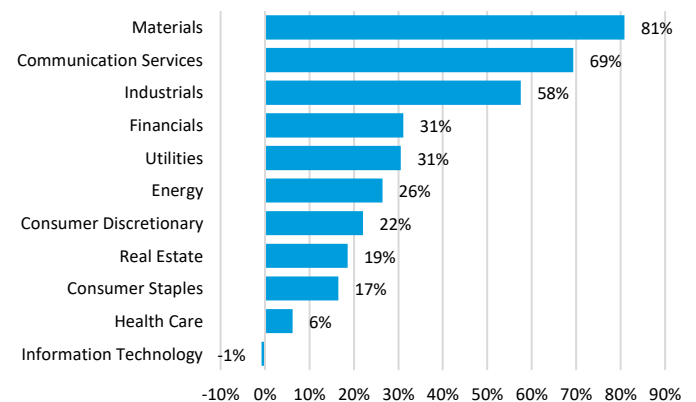
Strategy Performance Since Inception³ (Net)



Historical Strategy Exposures³



Sector Contribution Since Strategy Inception³ (Net)



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 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). 4. The NTA before tax is calculated before the provision for deferred tax on unrealised gains and losses on the investment portfolio. The NTA after tax is calculated after all taxes.

Key personnel

Andrew Larke	Independent Chair
John Macfarlane	Independent Director
Harry Kingsley	Independent Director
Raphael Lamm	Non-Independent Director
Mark Landau	Non-Independent Director
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Company Information – LSF

Name	L1 Long Short Fund Limited
Structure	Australian Listed Investment Company (ASX:LSF)
Inception	24 April 2018
Management Fee	1.44% p.a. inclusive of GST and RITC
Performance Fee	20.0%
High Watermark	Yes

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 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 short Australian 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. 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.

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