

- The L1 Long Short Fund (LSF) portfolio returned -2.0%¹ in February (ASX200AI -2.4%).
- Over the past 3 years, the portfolio has returned 30.2%¹ p.a. (ASX200AI 7.9% p.a.).
- Global equity markets declined in February on expectations the Fed would maintain higher interest rates for longer and as reporting season highlighted cautious earnings outlooks from most corporates.

After rallying in January on easing Fed interest rate expectations, global equity markets retraced in February as inflation continued to remain sticky, the job market remained tight (January U.S. Nonfarm Payrolls rose 517k, well above forecasts of 187k) and reporting season highlighted areas of weakness in corporate earnings, coupled with uncertainty over the near-term operating outlook. This led to a pivot in market forecasts, from a potential for interest rate cuts in the second half of 2023, to an expectation that the Fed would likely maintain higher interest rates for longer in order to fight inflation.

Bond yields rose in both Australia and the U.S. over the month (U.S. 10-year yield +39bps and Australian 10-year yield +30bps). Commodity prices were generally weaker on the back of a stronger U.S. dollar, rising interest rates and softening investor sentiment (Gold -5.3%, Copper -3.0% and Oil -2.3%).

The S&P/ASX 200 Accumulation Index returned -2.4% in February with mixed performance across sectors. Utilities (+3.4%), Information Technology (+2.7%) and Industrials (+1.5%) were the strongest sectors, while Materials (-6.6%), Financials (-3.1%) and Energy (-0.8%) lagged.

Portfolio performance was relatively in line with the market, with several positive stock-specific updates being more than offset by general weakness across the market.

Despite the recent rebound in equity markets, we remain relatively cautious on the outlook due to the lagged impact of significant interest rate hikes, weakness in leading economic indicators, gradually increasing pressure on corporate earnings and tail-risk from geopolitical tensions.

Given that assessment, we have intentionally set a lower than usual net market exposure. We anticipate ongoing market volatility as investors continually reassess their expectations for the economy, interest rates and corporate profits. From our extensive company research, we are continuing to identify numerous mis-priced stocks that we believe will deliver attractive long-term returns for our investors.

Returns (Net) ¹ (%)	L1 Long Short Portfolio	S&P ASX 200 AI	Out-performance
1 month	(2.0)	(2.4)	+0.4
3 months	6.0	0.3	+5.7
6 months	10.8	6.4	+4.4
1 year	2.3	7.2	(4.8)
2 years p.a.	16.0	8.7	+7.3
3 years p.a.	30.2	7.9	+22.3
4 years p.a.	21.4	8.1	+13.3
LSF Since Inception p.a.	12.2	8.4	+3.8
Strategy Since Inception ² p.a.	20.8	7.3	+13.4

Key contributors to portfolio performance in February included:

QBE (Long +10%) shares rallied after reporting robust FY22 results, with cash NPAT 15-20% ahead of consensus estimates. The result demonstrated the considerable progress the company has made in delivering stronger and more consistent earnings. QBE continues to improve the performance of its North American business which has struggled for many years. The company has also considerably strengthened its reserving which we believe places it in a solid position to deliver consistent earnings growth over the next few years. We have been cautious on QBE for many years, given the clear industry and company-specific issues it was facing. However, after 15 years of headwinds, we now believe the company has finally reached a turning point and is set to deliver stronger margins, dividends and return on equity going forward. The market has yet to fully factor in this inflection point, with QBE trading on only 10x FY23 consensus P/E (versus a 10-year pre-COVID average of ~13x).

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\$. Index returns are on a total return (accumulation) basis unless otherwise specified.



L1 CAPITAL

L1 Long Short Fund Limited

Monthly Report | FEBRUARY 2023

Flutter (Long +8%) shares rose as monthly U.S. sports betting data continued to show strong momentum from FanDuel, its key U.S. gaming brand. FanDuel is now the leading sportsbook by market share in 15 of 18 states that have been legalised for sports betting, with a national market share of 50% of gross gaming revenue. We believe FanDuel's dominance is supported by a superior product, efficient customer acquisition strategies and strong operational execution which are very hard for competitors to replicate given the scale of the business and the significant lead it has developed. Flutter's U.S. division is now the company's largest by revenue, with a clear path to profitability in 2023. This expected shift to profitability, together with the exponential growth of the U.S. sports betting market, positions Flutter to significantly accelerate its earnings growth over the next few years. We believe Flutter remains undervalued given its exceptional growth outlook and dominant industry position.

Key detractors to portfolio performance in February included:

Downer (Long -16%) shares fell after reporting weak first half FY23 earnings which were adversely impacted by challenging weather and labour market conditions, as well as below-market cash flow conversion due to a build-up of working capital. The company also downgraded its full year FY23 earnings guidance for the second time, following an initial downgrade in December last year. While the first half result and revised guidance are clearly disappointing, we continue to see value in Downer over the medium term.

The company continues to transition towards a more selective and higher quality urban services portfolio by exiting lower-margin and higher-risk segments. A number of self-help and simplification initiatives are underway within the core business, including a cost reduction target of \$100m per annum by FY25. There has also been a considerable overhaul of the Board and senior management team with the Chairman, Independent Non-Executive Director, CEO and CFO all recently leaving the business. We believe these changes, along with a renewed leadership team, will help transform Downer into a more resilient, capital-light (and lower risk) services business exposed to growing, annuity-style contracts.

Capstone Copper (Long -8%) shares fell over the month despite reporting Q4 production results in line with expectations and reiterating 2023 guidance. Capstone has an exceptional growth profile with a pipeline of fully-permitted projects that will enable it to more than double copper production from ~185kt currently, to close to 400kt over the next few years. Additionally, the integration of its Mantoverde (MVDP) and Santo Domingo assets remains on track, with the potential to establish Capstone as one of the largest and most cost-effective producers of battery-grade cobalt in the world. Capstone is fully funded to complete the currently approved project pipeline and has a highly capable, focussed and aligned management team.

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	7.52	4.36	10.72
2023	3.65	(2.04)											1.53

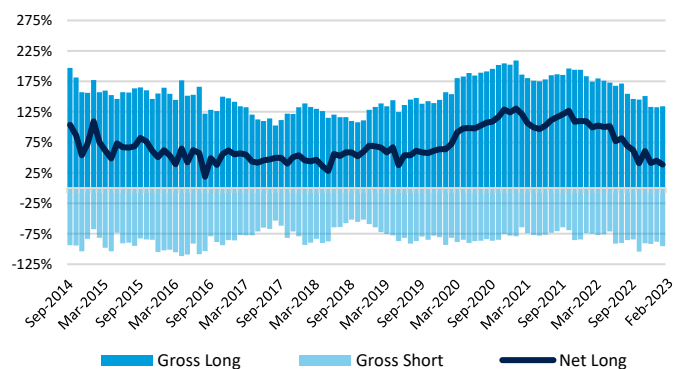
Portfolio Positions

Number of total positions	76
Number of long positions	53
Number of short positions	23
Number of international positions	26

Net & Gross Exposure by Region³ (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia/NZ	85	77	8
North America	34	19	15
Europe	13	-	13
Asia	2	-	2
Total	135	96	39

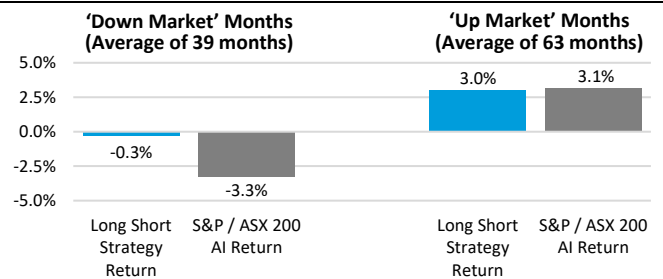
Historical Strategy Exposures³



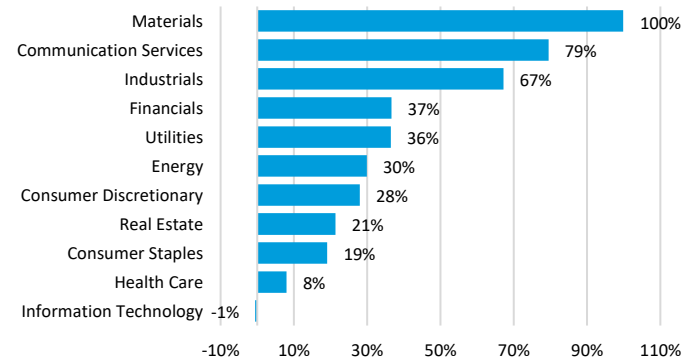
Company information as at 28 February 2023⁴

Share Price	\$2.8100
NTA before tax	\$3.0111
NTA after tax	\$2.9553
Shares on issue	613,825,593
Company market cap	\$1.72b

Strategy Performance Since Inception³ (Net)



Sector Contribution Since Strategy Inception³ (Net)



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Key personnel

Andrew Larke	Independent Chair
John Macfarlane	Independent Director
Harry Kingsley	Independent Director
Raphael Lamm	Non-Independent Director
Mark Landau	Non-Independent Director
Mark Licciardo	Company Secretary
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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.



L1 CAPITAL

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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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