



L1 CAPITAL

L1 Long Short Fund Limited

Monthly Report | SEPTEMBER 2023

- The L1 Long Short Fund (LSF) portfolio returned 0.9%¹ in September (ASX200AI -2.8%).
- Over the past 3 years, the portfolio has returned 26.0%¹ p.a. (ASX200AI 11.0% p.a.).
- Global markets declined in September, primarily driven by a significant step-up in long term bond yields, as investors priced in an expectation that interest rates will likely remain higher for an extended period.
- For further insights, [please join our webinar](#) on Thursday, November 2 at 11am AEDT for an update on the L1 Capital Long Short Portfolio.

Global markets were weak in September with a sharp rise in long-term bond yields weighing on investor sentiment.

Central banks maintained their hawkish tone of higher interest rates being required for longer to combat inflation. This contributed to a 49bps increase in the U.S. 10-year bond yield over the month to 4.57%, a 16-year high. The Australian 10-year bond yield mirrored the move offshore, with a 46bps increase in September to 4.49%, the highest level since October 2011.

Oil was one of the few areas of the market that performed positively, with WTI up 8.6% to ~US\$91/bbl. Oil prices were supported by an extension of supply cuts by OPEC+ for the remainder of the calendar year as well as an expectation of more resilient global demand.

The S&P/ASX 200 Accumulation Index returned -2.8%. Energy (+1.6%), Financials (-1.6%) and Consumer Staples (-1.8%) were the strongest sectors, while Property (-8.6%), Information Technology (-7.9%) and Health Care (-6.2%), lagged.

The portfolio performed positively over the month, with stock-specific gains and tailwinds from our exposure to energy more than offsetting the weaker general market backdrop.

We believe equity markets are facing opposing forces of positivity from moderating inflation and potential policy stimulus in China, offset by headwinds from weak leading economic indicators and increasing pressure on corporate earnings.

We anticipate rising market volatility as investors continue to 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 very attractive long-term returns for our investors.

Returns (Net) ¹ (%)	L1 Long Short Portfolio	S&P/ASX 200 AI	Out-performance
1 month	0.9	(2.8)	+3.8
3 months	1.0	(0.8)	+1.8
6 months	1.1	0.2	+0.9
1 year	21.9	13.5	+8.4
2 years p.a.	6.0	2.3	+3.6
3 years p.a.	26.0	11.0	+15.0
4 years p.a.	19.6	5.3	+14.3
5 years p.a.	16.3	6.7	+9.7
LSF Since Inception p.a.	11.1	7.5	+3.6
Strategy Since Inception ² p.a.	19.6	6.9	+12.7

Figures may not sum exactly due to rounding.

Key contributors to portfolio performance in September were:

Seven Group Holdings (Long +11%) shares continued to rise after reporting strong FY23 results in August and providing a positive outlook for the FY24 period with high-single-digit EBIT growth expected. WesTrac and Coates performed strongly, with earnings well positioned to grow over the medium term as investment in mining, construction and infrastructure continues to increase. Seven also holds a 71.6% shareholding in Boral, one of the largest building and construction materials companies in Australia. Boral's earnings have been impacted by surging input costs and significant wet weather. Under new leadership, and in a normalised trading environment, we believe Boral has the potential to double earnings over the medium term from FY23 levels.

Cenovus (Long +5%) shares rallied as WTI oil prices rose to ~US\$91/bbl over the month, the highest level since November 2022. The company also had tailwinds from higher refinery margins, particularly in North America which remains their key exposure.

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.



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Cenovus continues to generate strong free cash flow at current oil price levels, with the long-life nature of its oil sands assets and its low cost of production providing a break-even oil price at around ~US\$40/bbl. We estimate the company can reach its net debt target in early CY24, enabling a step-up in shareholder returns through on-market share buybacks.

Key detractors from portfolio performance in September included:

Capstone (Long -8%) fell along with the sector as copper prices continued to decline due to concerns around the weak China post-COVID recovery. The company also reported soft second quarter production and modestly reduced guidance for the full year. Capstone has an exceptional growth profile with a pipeline of fully permitted projects that are poised to more than double its current copper production of ~185kt to nearly 400kt over the next few years. Additionally, the company is quickly approaching completion and commissioning of its Mantoverde project which we expect to result in a major inflection in operating metrics across the business. Together with the integration of its Santo Domingo asset, Capstone is also set to become one of the largest and most cost-effective battery-grade cobalt producers in the world. The company is fully funded to complete its currently approved project pipeline and is led by a highly capable, focussed and aligned management team.

Nufarm (Long -8%) shares declined along with global agriculture peers due to the impact of drier weather conditions and a reduction in on-farm purchases by farmers. After a build-up of inventories during COVID-19, farmers shifted to just-in-time purchasing for key crop inputs this year as prices fell sharply and supply chains normalised. This led to a significant contraction in demand for crop protection products, particularly in North America, to bring inventories back to more balanced levels.

Towards the end of the month, Nufarm announced a ~5% downgrade to EBITDA guidance for the FY23 year due to this challenging operating environment. We view this as a relatively strong outcome given industry headwinds are largely transitory and considering Nufarm's listed peers had announced negative earnings impacts of 20% or more. We believe Nufarm is a much higher quality business than it was a few years ago. The company is in the process of augmenting its crop protection business with a series of high-margin, high-growth proprietary formulations. In addition, Nufarm's seeds business has commercialised several exciting traits, including Omega-3 and Carinata, that are gaining traction and should deliver strong earnings growth in the Seeds division for many years to come.

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)	0.54	1.64	(3.19)	1.70	5.25	(4.89)	0.94				3.21

Portfolio positions

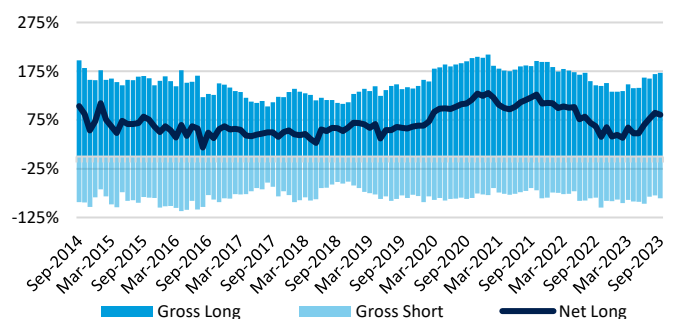
Number of total positions	75
Number of long positions	58
Number of short positions	17
Number of international positions	21

Net & gross exposure by region³ (%)

Geography	Gross long	Gross short	Net exposure
Australia/NZ	101	79	22
North America	53	6	47
Europe	14	-	14
Asia	2	-	2
Total	170	85	85

Figures may not sum exactly due to rounding.

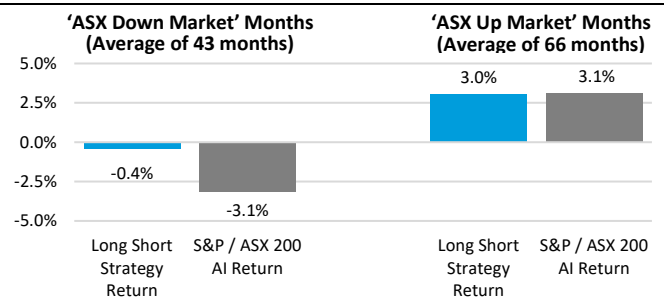
Historical Strategy exposures³



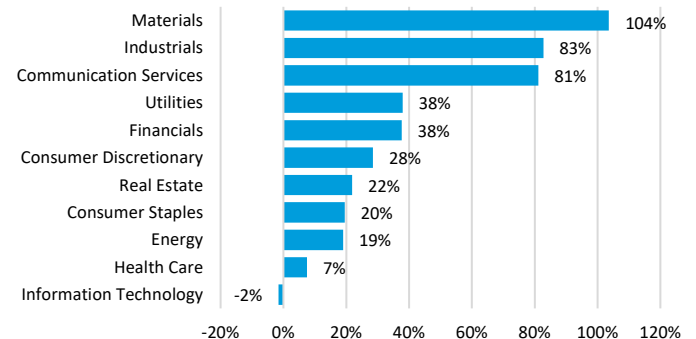
Company information as at 30 Sep 2023⁴

Share Price	\$2.81
NTA before tax	\$2.96
NTA after tax	\$2.90
Shares on issue	616,618,288
Company market cap	\$1.73b

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
Registry	Link Market Services Limited
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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 net of RITC
Performance fee	20.5% p.a. inclusive of GST and net of RITC
High watermark	Yes
Platform availability	BT Panorama, CFS Firstwrap, HUB24, IOOF, Macquarie Wrap, Mason Stevens, Netwealth, Powerwrap, uXchange

Scan the QR code for more information



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, private wealth firms, financial planning groups, family offices, high net worth investors 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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