L1 Long Short Fund Limited
Monthly Report | DECEMBER 2023

- The L1 Long Short Fund (LSF) portfolio returned 3.7%[1] in December (ASX200AI 7.3%).
- Over the past 3 years, the portfolio has returned 15.3%[1] p.a. (ASX200AI 9.2% p.a.).
- Global markets rallied in December as inflationary pressures eased further and bond yields continued to fall.

Global markets were stronger in December, as inflationary pressures continued to ease and the Fed gave its strongest indication yet that interest rates may have peaked while flagging that a series of rate cuts can be expected in 2024.

In response, the Australian 10-year bond yield fell 46bps and the U.S. 10-year bond yield fell 45bps for the month. This move brought 10-year yields in both markets back below 4%, leaving Australian yields lower than where they were at the beginning of 2023, despite having peaked at 4.95% at the start of November.

The Fed's preferred measure of inflation, the core PCE price index, fell to 3.2% in November, marking its tenth consecutive monthly decline, and a total decline of over 170bps since the beginning of the year. At the end of December, markets were pricing in the equivalent of six 25bps interest rate cuts for 2024, compared to the median FOMC Committee Member forecast for three cuts.

The S&P/ASX 200 Accumulation Index returned 7.3% during December. Property (+11.5%), Healthcare (+9.1%) and Materials (+8.8%) were the strongest sectors, while Utilities (+2.5%), Energy (+3.4%) and Consumer Staples (+5.1%) lagged.

The portfolio performed positively during the month. Stock contributors were broad-based, while weaker oil prices (-5.7%) created a headwind for some of the portfolio's Energy exposures.

Global equity markets delivered strong gains in 2023 as a result of narrow market leadership in U.S. Technology stocks and more dovish central bank commentary, which caused a broad based rally into year end. We believe this rally has stretched valuations of larger index constituents (ASX20/'Magnificent Seven') in both Australia and the U.S., along with high multiple (long duration) growth stocks. We see numerous compelling opportunities in low P/E, highly cash generative companies, despite relatively fully priced equity markets. We also expect M&A activity to increase significantly in 2024, which should be skewed to undervalued, undergeared and strategic assets, which the portfolio is very well exposed to.

Returns (Net)[1] (%)	L1 Long Short Portfolio	S&P/ASX 200 AI	Out-performance
1 month	3.7	7.3	(3.6)
3 months	2.9	8.4	(5.5)
6 months	4.0	7.6	(3.6)
1 year	6.2	12.4	(6.2)
2 years p.a.	8.4	5.5	+3.0
3 years p.a.	15.3	9.2	+6.0
4 years p.a.	18.7	7.2	+11.5
5 years p.a.	20.0	10.3	+9.7
LSF Since Inception p.a.	11.2	8.7	+2.5
Strategy Since Inception[2] p.a.	19.4	7.6	+11.8

Figures may not sum exactly due to rounding.

Key contributors to portfolio performance in December were:

Mineral Resources (Long +14%) shares performed strongly during the month as iron ore prices increased 7% in December to reach a 2023 high. This countered ongoing weakness in lithium markets which continue to adjust from a significant supply deficit to a more balanced outlook in the short term. The company's exposure to iron ore is expected to increase due to progress on its Onslow Iron project, which is set to transform Mineral Resources' existing smaller-scale iron ore business into a sizeable, long-life, low-cost operation, with first production expected in June 2024. Within its lithium segment, the company is forecast to more than double production over the coming years to exceed 1,000kt of spodumene concentrate. We continue to believe that all key areas of Mineral Resources' core business (iron ore, lithium, mining services and gas) have favourable medium-term tailwinds and the shares remain undervalued.

BlueScope Steel (Long +13%) continued its strong performance driven by the ongoing strengthening of U.S. steel spreads – U.S. steel prices moved +9% in the month of December and +61% during the December quarter following a resolution to the United Auto Workers strike. The combination of U.S. steel delivery lead times and prices being well above historic averages should provide a strong tailwind for the company's second half earnings. In addition, recent M&A activity in the U.S. market, notably Nippon Steel's agreement to acquire U.S. Steel for ~US$14b, bodes well for the potential future value of BlueScope's U.S. operations. BlueScope continues to focus on growing its U.S. operations through expanding the capacity at the North Star facility in Ohio by 850ktpa, acquiring the U.S.'s second largest metal coating/painting company in Coil Coatings, and establishing BlueScope Recycling following its acquisition of the MetalX recycling business. We continue to believe the market significantly undervalues BlueScope's unique and strategic asset base and the resilience of the largely consolidated U.S. steel sector.

Santos (Long +10%) outperformed despite a weak oil price environment (WTI -5.7% during December) following the announcement of preliminary discussions of a potential merger with Woodside, as well as the announcement that they are reviewing a range of alternative structural options for unlocking value in Santos. We see these recent developments at Santos as reflective of our core investment thesis that the company's asset base has been materially undervalued by the market and that structural options (e.g. demerger, asset sales) should be explored to close the valuation gap. We discussed these options in detail in our **September 2023 quarterly report**.

CRH (Long +10%) shares continued to rally after upgrading its full year guidance in November and as its investment profile continues to build in the U.S. with the completion of its NYSE primary listing in September. The company is a significant beneficiary of the unprecedented growth in U.S. infrastructure spending which will underpin many years of robust demand. The Infrastructure Investment and Jobs Act ('IIJA'), Inflation Reduction Act ('IRA') and the Chips and Science Act will together add roughly US$2 trillion in investment to ageing U.S. infrastructure. These market tailwinds, together with CRH's ability to drive value-accretive M&A, position the company to deliver consistent double-digit earnings growth over the medium term. The company also made a $2.1b offer together with the Barro Group to acquire ASX-listed building materials company Adbri in December.

A key detractor to portfolio performance in December was:

Cenovus (Long -6%) shares declined during December as the WTI oil price dropped to ~US$72/bbl. The lower oil price reflected stronger-than-anticipated non-OPEC production and growth in global inventories during the quarter, as well as market scepticism over whether OPEC could curtail its supply sufficiently in response to these dynamics. 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 CY24, enabling a step-up in shareholder returns through on-market share buybacks.

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	(3.07)	2.39	3.67	**6.20**

Portfolio positions

Number of total positions	83
Number of long positions	65
Number of short positions	18
Number of international positions	26

Company information as at 31 December 2023[4]

Share Price	$2.96
NTA before tax	$3.04
NTA after tax	$2.96
Shares on issue	619,457,738
Company market cap	$1.83b

Net & gross exposure by region[3] (%)

Geography	Gross long	Gross short	Net exposure
Australia/NZ	116	74	41
North America	46	9	37
Europe	14	-	14
Asia	3	-	3
Total	**178**	**83**	**95**

Figures may not sum exactly due to rounding.

Strategy performance in rising & falling markets [3] (Net)

'ASX Down Market' Months (Average of 44 months): Long Short Strategy Return -0.5%, S&P / ASX 200 AI Return -3.1%

'ASX Up Market' Months (Average of 68 months): Long Short Strategy Return 3.0%, S&P / ASX 200 AI Return 3.2%

Historical Strategy exposures[3]

Legend: Gross Long, Gross Short, Net Long
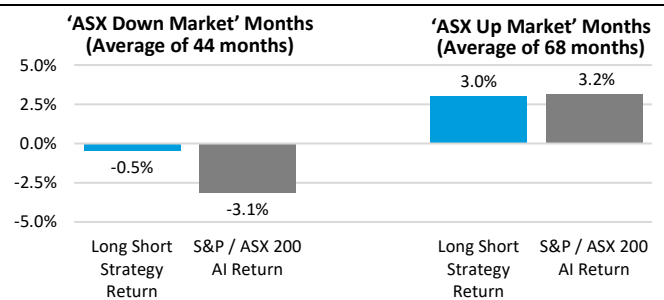
Sector contribution since Strategy inception[3] (Net)

Sector	
Materials	111%
Industrials	87%
Communication Services	84%
Utilities	39%
Financials	38%
Consumer Discretionary	28%
Real Estate	23%
Consumer Staples	20%
Energy	19%
Health Care	7%
Information Technology	-2%
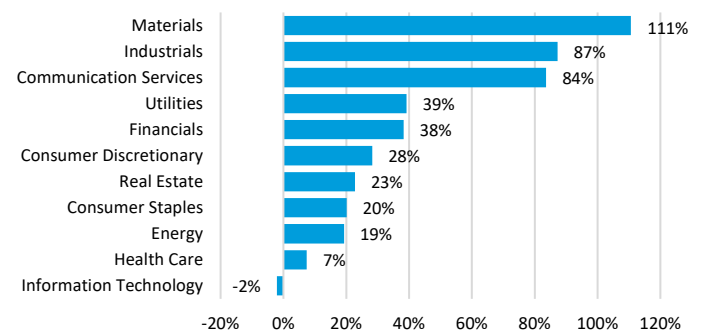
3. All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. Strategy performance and exposure history 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
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 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.

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