L1 Long Short Fund Limited

Monthly Report | MARCH 2024

- **The L1 Long Short Fund (LSF) portfolio returned 8.1%[1] in March (ASX200AI 3.3%).**
- **Over the past 3 years, the portfolio has returned 14.8%[1] p.a. (ASX200AI 9.6% p.a.).**
- **Global markets continued their positive run with U.S. economic data remaining resilient and dovish Fed commentary adding further support to the rally.**

Global markets moved higher in March as improving U.S. GDP growth and strong jobs data supported a broadening of the market rally beyond large U.S. Technology/A.I. stocks. Jerome Powell supported market gains by flagging that interest rates had most likely peaked, combined with projections from the FOMC outlining three 25bps interest rate cuts by the end of 2024. These potential interest rate cuts would be the first since the early days of the COVID-19 pandemic in March 2020.

Commodity prices were mixed over the month, with copper rising on supply disruptions and oil performing strongly as OPEC extended production cuts, while iron ore prices fell on reduced China restocking activity. Gold prices continued to hit record highs, supported by robust demand from Central Banks.

The S&P/ASX 200 Accumulation Index returned 3.3% during March. Property (+9.7%), Energy (+5.3%) and Utilities (+4.8%) were the strongest sectors, while Communications Services (-0.6%), Consumer Discretionary (+1.0%) and Healthcare (+1.7%) lagged.

The portfolio performed very strongly, driven by broad-based stock gains (15 individual positions each contributed more than 0.4% to returns, while only 1 stock detracted more than 0.4%). In addition, the portfolio was well positioned to benefit from the tailwinds we are now starting to see in the copper, energy and gold markets.

We expect global markets to oscillate based on future economic data updates as Central Banks continue to attempt to navigate 'soft landing' outcomes. Ongoing geopolitical tensions, war in the Middle East and potential impacts from events such as the U.S. election, provide an additional layer of uncertainty. With Central Bank commentary fuelling optimism and easing conditions, we continue to see heightened risks from any upside inflation surprises. Against this backdrop, we see equity markets as being relatively fully priced overall, but within that there are numerous compelling opportunities in low P/E, highly cash generative companies, along with select opportunities on the short side, particularly in some expensive growth stocks with overly optimistic market expectations.

Returns (Net)[1] (%)	L1 Long Short Portfolio	S&P/ASX 200 AI	Out-performance
1 month	8.1	3.3	+4.8
3 months	7.4	5.3	+2.0
1 year	11.7	14.4	(2.7)
2 years p.a.	6.5	7.0	(0.5)
3 years p.a.	14.8	9.6	+5.2
4 years p.a.	33.9	16.0	+17.9
5 years p.a.	19.5	9.2	+10.3
LSF Since Inception p.a.	**12.0**	**9.3**	**+2.8**
LSF Strategy Since Inception[2] p.a.	**19.8**	**8.0**	**+11.8**

Figures may not sum exactly due to rounding.

Key contributors to portfolio performance in March were:

Copper equities rallied strongly as mine supply disruptions brought forward the medium-term copper deficit, which we covered in detail in our September 2022 quarterly report. Demand for copper remains robust due to electrification tailwinds, incremental data centres and A.I. related demand, Chinese economic recovery and improving global manufacturing activity. Supply, however, remains constrained given the insufficient number of new major mines planned over the next decade.

We therefore expect the market deficit to continue to widen, with copper prices moving further towards scarcity pricing. We are starting to see these dynamics play out to the benefit of existing copper producers with Capstone and Teck being key beneficiaries.

Capstone (Long +21%) has an exceptional growth profile with a pipeline of fully permitted projects that are poised to more than double its current copper production 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 positive inflection in operating metrics across the business. The company is fully funded to complete its currently approved project pipeline and is led by a highly capable, focussed and aligned management team.

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.

Teck (Long +19%) is in the process of completing the sale of its steelmaking coal business for US$8.6b. The company has already received US$1.3b and allocated $500m of this to a buy-back, with the remainder of the proceeds subject to regulatory approvals. Post transaction completion, we expect the company to have significant capital management flexibility, including the potential for further returns to shareholders. Following the divesture of its coal portfolio, Teck will become a leading copper-zinc producer with a strong pipeline of organic growth projects that can grow production by more than 60% over the next decade. Throughout 2024, Teck's key focus will be to continue ramping up copper production at QB2 (one of the world's largest new copper mines) and to establish a track record of positive operating performance.

Cenovus (Long +15%) shares performed strongly as the WTI oil price increased 6% to ~US$83/bbl, while refining margins in the U.S. Midwest improved dramatically off a low base. During the month, Cenovus's 2024 investor day was well received, where its 5-year outlook for the business included growth in upstream production of around 150m bbl/d above the current 800m bbl/d and a material turnaround of its downstream refining business. Over the next five years, the company expects to generate C$32b of cumulative free cash flow based on a US$75/bbl WTI oil price, a highly attractive prospect given its current market cap of ~C$51b. Furthermore, it has committed to return 100% of excess cash flow back to investors once it reaches its C$4b net debt target (expected in 2024). Cenovus's strong cash flow generation, combined with the long-life nature of its oil sands assets and its low cost of production, make it one of our preferred Energy exposures.

Qantas (Long +6%) shares recovered over the month with domestic demand continuing to remain robust, despite higher airfares. We continue to believe Qantas is extremely well placed to compete strongly given its $1b cost out program, exceptional loyalty program and leading domestic market position.

In April, we expect Qantas will outline its plans to improve its Loyalty offer to enable easier access for Frequent Flyer members to use their points. We believe the new CEO, Vanessa Hudson, is rapidly and methodically addressing customer "pain points", which should improve sentiment from both customers and potential investors. We believe Qantas remains well placed over the next few years, given it will have Australia's best loyalty business (which is expected to double earnings over the next 5-7 years), a raft of brand new, more fuel-efficient aircraft, Project Sunrise, which enables direct flights from Melbourne/Sydney to London & New York and sufficient balance sheet capacity to continue buying back shares and then recommencing fully franked dividends next year.

Qantas trades on a P/E of only 6x, despite a dominant industry position, exposure to the structural tailwinds of Asian inbound tourism to Australia and a high growth, capital-light loyalty division, which remains incredibly underappreciated by the market.

SK Hynix (Long +17%) rallied with surging demand for high bandwidth memory (HBM) which is used to make A.I. computations faster and more power efficient. The company is one of three major computer memory manufacturers globally, together with Samsung and Micron. Throughout 2022 and 2023, a major downturn in the computer memory market caused prices of high-volume, commodity data storage components to collapse, despite production cutbacks, resulting in losses at all three major suppliers during the period. SK Hynix emerged first from the downturn as it made an early move to shift memory production into HBM, which commands much higher prices than commodity memory. The company has therefore benefitted from the significant growth in A.I. related demand, as well as the higher pricing and margins from HBM.

SK Hynix's capacity is already sold out into 2025, with the company being the sole supplier of memory for the current generation of NVIDIA H100 graphics processing chips. We expect the shift to HBM to continue going forward, with SK Hynix remaining the market leader over the medium term.

L1 Long Short Fund Limited

Monthly Report | MARCH 2024

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**
2024	0.30	(0.97)	8.11										**7.38**

Portfolio positions

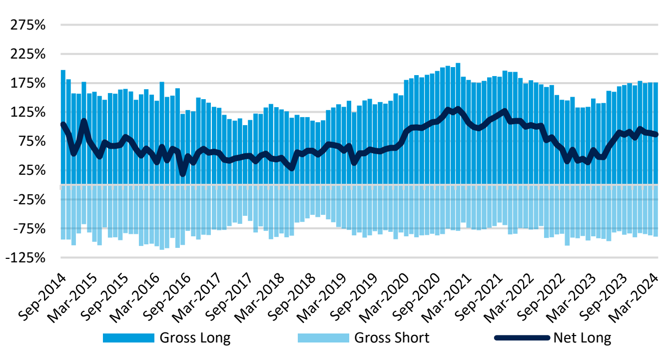
Number of total positions	82
Number of long positions	62
Number of short positions	20
Number of international positions	23

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

Geography	Gross long	Gross short	Net exposure
Australia/NZ	110	82	28
North America	39	7	32
Europe	19	-	19
Asia	7	-	7
Total	**176**	**89**	**87**

Figures may not sum exactly due to rounding.

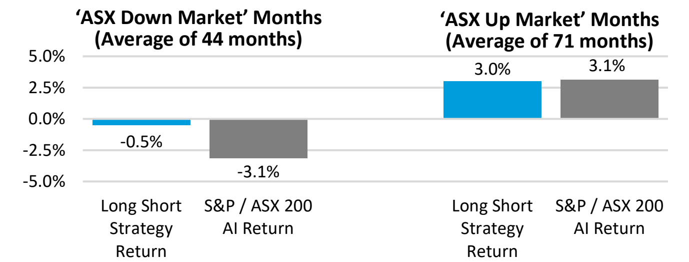
Historical Strategy exposures[3]



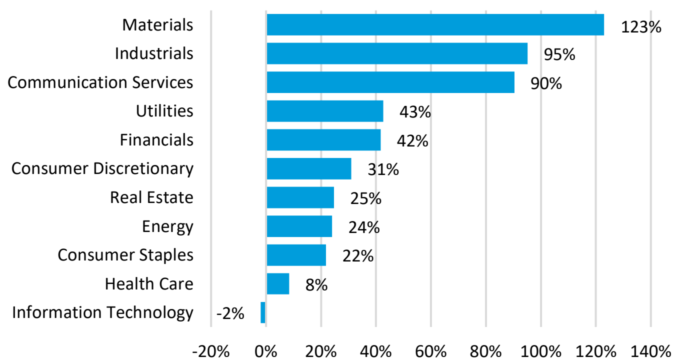
Company information as at 31 March 2024[4]

Share Price	$2.88
NTA before tax	$3.22
NTA after tax	$3.06
Shares on issue	619,457,738
Company market cap	$1.78b

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



Sector contribution since Strategy inception[3] (Net)



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L1 Long Short Fund Limited

Monthly Report | MARCH 2024

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.

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.