



L1 CAPITAL

We invite you to join L1 Capital's Joint Managing Director and Co-Chief Investment Officer, Raphael Lamm and Head of Research, Amar Naik for a L1 Long Short Fund Limited (ASX:LSF) investor webinar on Thursday, May 30 at 11am (AEST). Please [click here](#) to register to join the webinar.



L1 CAPITAL

L1 Long Short Fund Limited (ASX:LSF)

Rafi Lamm, Joint Managing Director & Co-CIO

Amar Naik, Head of Research

30 May 2024



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Performance summary



Performance summary

Strong long-term performance



LSF Pre-tax NTA Net Performance ¹ to 30 Apr 2024 (%)	L1 Long Short Fund Limited portfolio	S&P/ASX 200 Accum. Index (AUD)	Outperformance
3 months	10.6	1.0	+9.6
1 year	13.6	9.1	+4.5
2 years p.a.	6.4	5.9	+0.5
3 years p.a.	14.2	7.3	+6.9
4 years p.a.	28.2	12.7	+15.4
5 years p.a.	19.5	8.0	+11.5
L1 Long Short Fund Limited since inception p.a.	12.4	8.6	+3.9

Strategy performance²

Strategy since inception ² (p.a.)	20.0	7.6	+12.4
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The L1 Capital Long Short Strategy has been the best performing Australian long short strategy since inception in 2014.³

Source: Mainstream Fund Services, Bloomberg and L1 Capital as at 30 Apr 2024. 1. Net returns are calculated based on the movement of the underlying investment portfolio of L1 Long Short Fund Limited (LSF) net of all applicable fees and charges. 2. Strategy Since Inception return (net of fees) is for L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014). Past performance should not be taken as an indicator of future performance. 3. Ranking in FE Analytics Australian Shares universe as at 31 Mar 2024.

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Market observations and LSF positioning

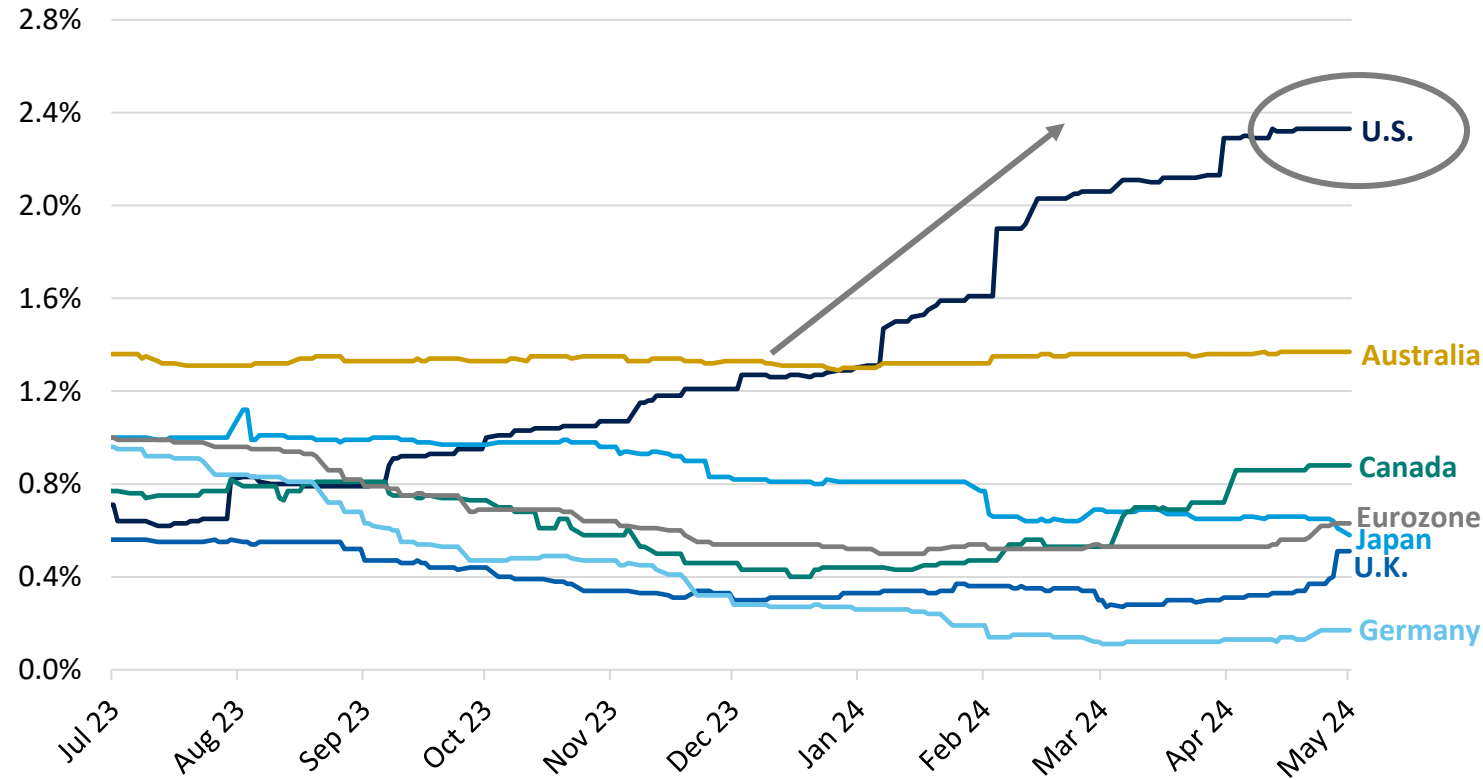


Economic outlook



Economic growth forecasts have remained resilient over the past year

2024 Real GDP growth forecasts (%)



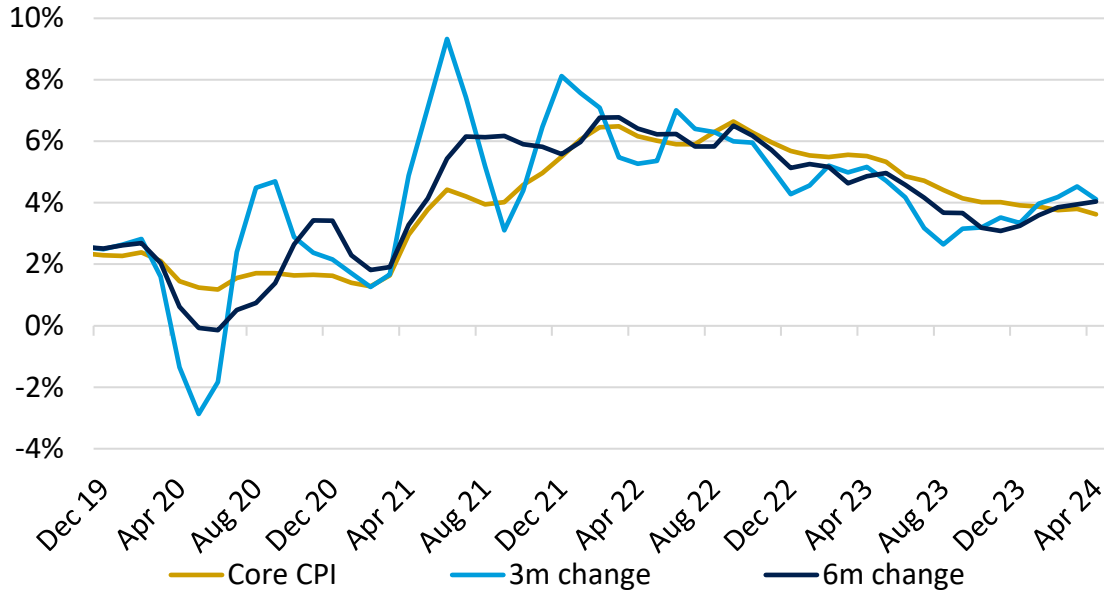
- U.S. Real GDP growth forecasts have been revised up ~100bps YTD
- Australian GDP growth is below long-term trend, but is supported by a resilient labour market
- Eurozone and U.K. are generally lagging behind, but showing recent signs of improvement

Economic outlook



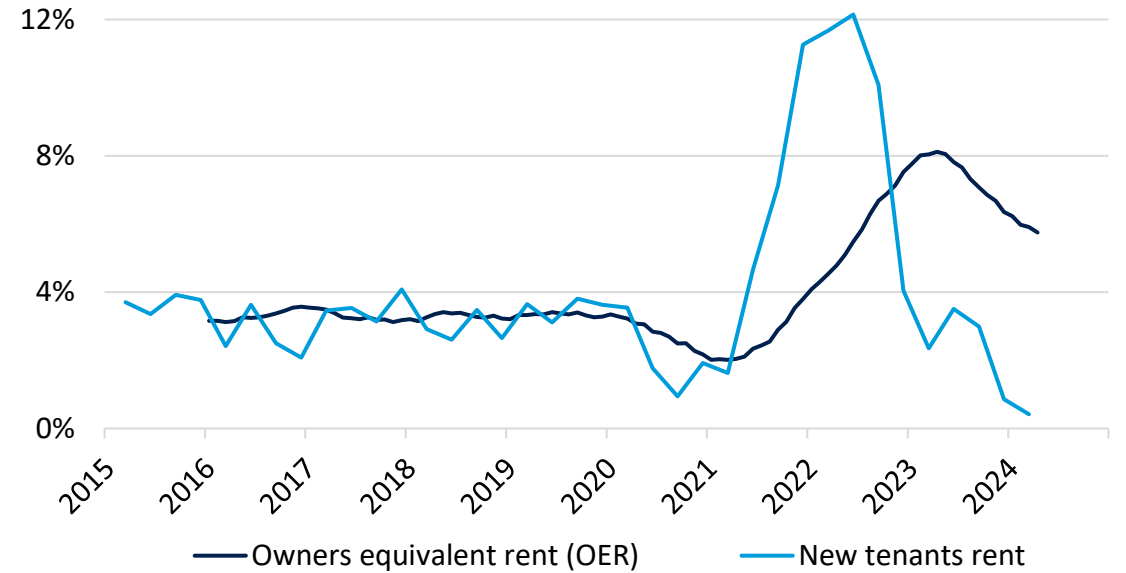
Inflation has remained more persistent than expectations but should trend lower over the coming months

U.S. Core CPI (YoY % change)



- Core CPI readings were higher than market expectations for three straight months from January to March
- Shelter costs, gasoline and insurance were some of the main contributors to the increase

Owners' equivalent rent (OER) vs. new rent inflation (YoY % change)



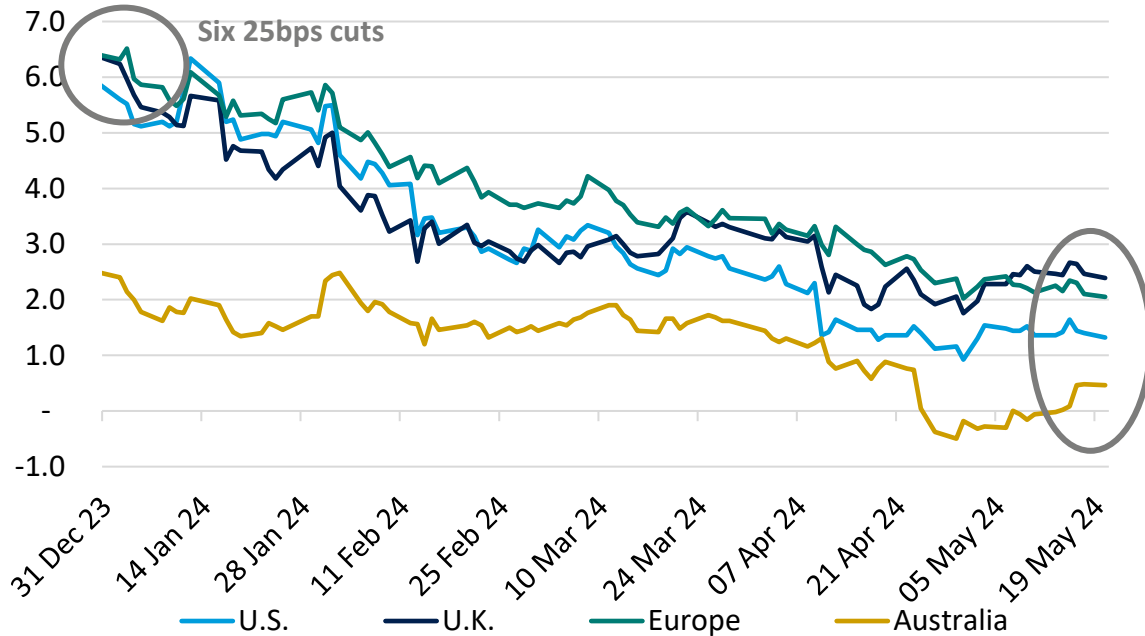
- Shelter (comprising primarily Rents and OER) is the largest single component within Core CPI (>30%)
- While it has been slow to trend down, new tenants rent indicates it should move down further over the coming months

Economic outlook



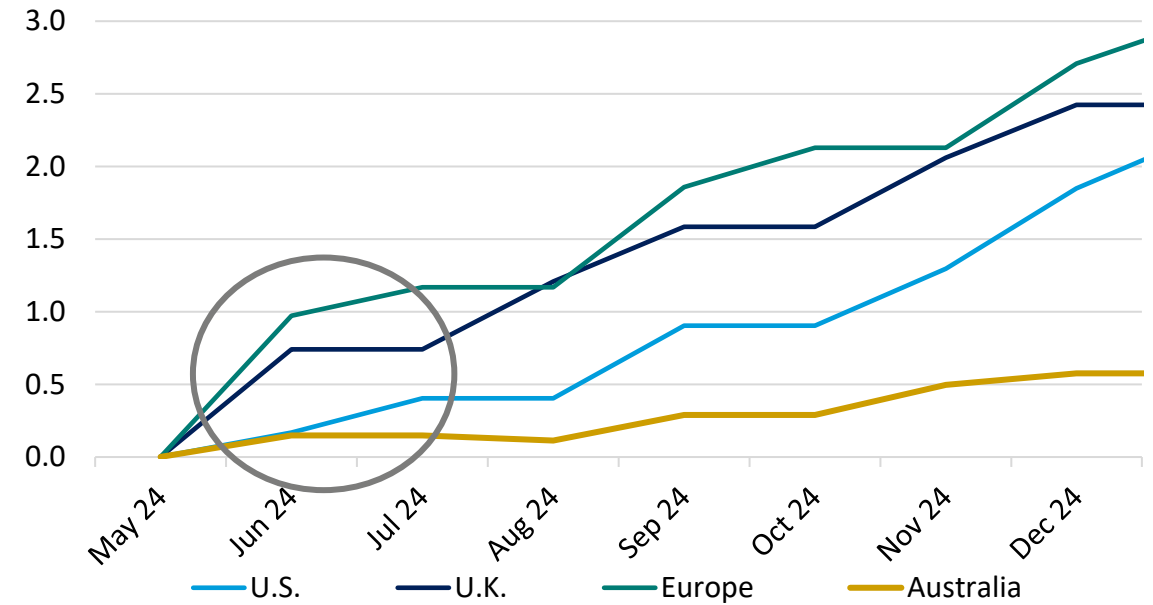
Stronger economic growth coupled with persistent inflation has driven a sharp revision in interest rate expectations

Market pricing for number of interest rate cuts in 2024 (No.)



- U.S. expectations shifted from six 25bps cuts at the start of the year to less than two cuts currently
- Australia shifted from two to three cuts in January to largely neutral

Timing of expected interest rate cuts in 2024 (No.)



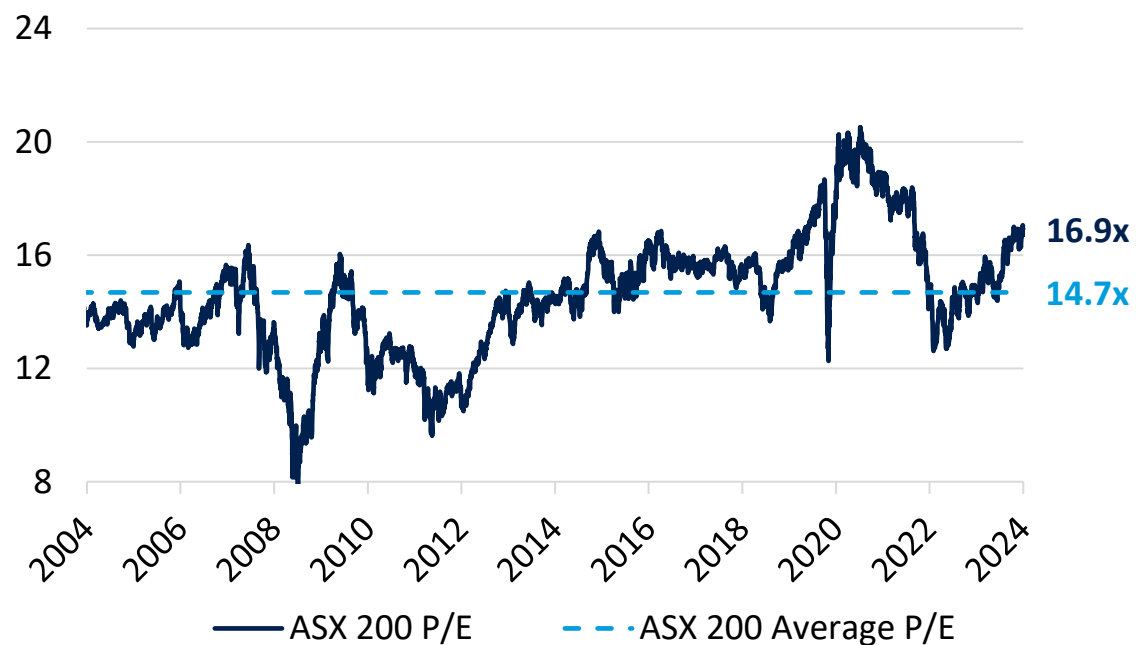
- U.K. and Europe expected to cut rates ahead of the U.S. and at a sharper pace for the rest of this year
- Australia expected to cut less, however with a lower current policy rate relative to the U.K. and U.S.

Market outlook



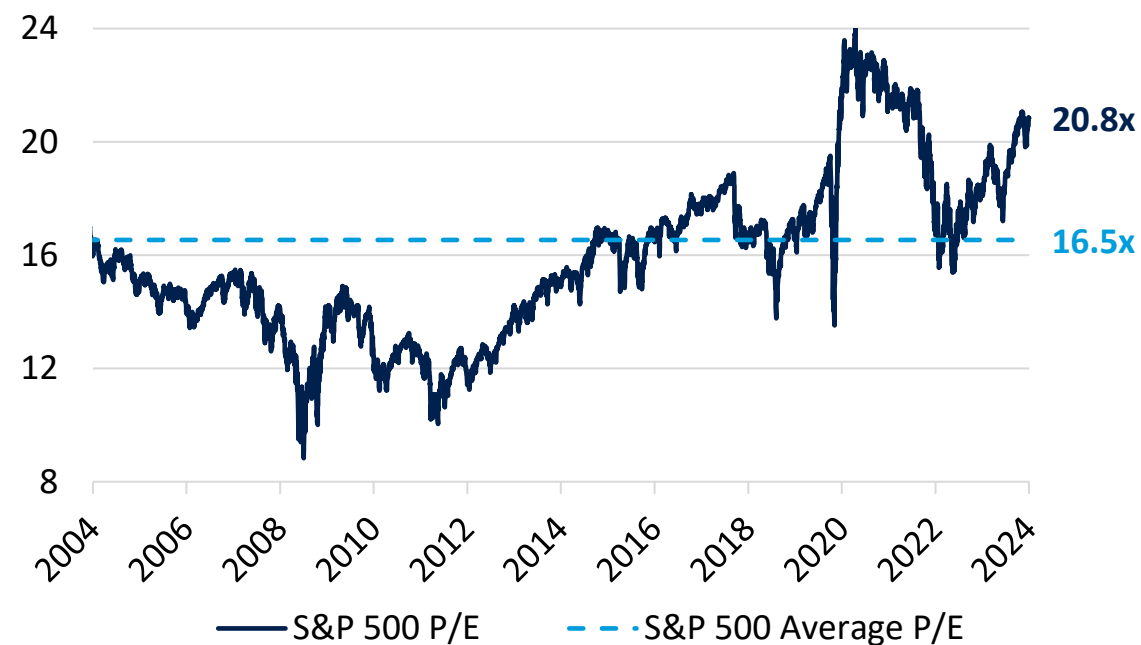
Markets have shrugged off inflation risks and the re-basing of interest rate expectations

ASX200 1-year forward P/E ratio vs. history



- Current P/E of 16.9x
- 15% above the 20-year average

S&P500 1-year forward P/E ratio vs. history



- Current P/E of 20.8x
- 26% above the 20-year average

Equity markets look fully priced at current levels

Equities backdrop



Positive factors

- Central Banks pivoting to an easing bias (albeit delayed vs. initial expectations)
- Surge in migration into Australia
- Solid commodity prices
- China enacting some stimulus and pivoting to resolving housing over-supply
- AI driving demand and earnings growth in selected industries



Negative factors

- Inflation more persistent
- Valuations are full (most of ASX 20 and growth stocks are outright expensive)
- Very risky geopolitical backdrop
- Moderating profit growth (and economic growth)
- Adverse government policy (IR, Energy)
- Weakening consumer sentiment

We believe global equity indices are fully priced at current levels

LSF positioning



The portfolio is skewed to lower P/E stocks that have strong earnings growth and robust cashflow generation

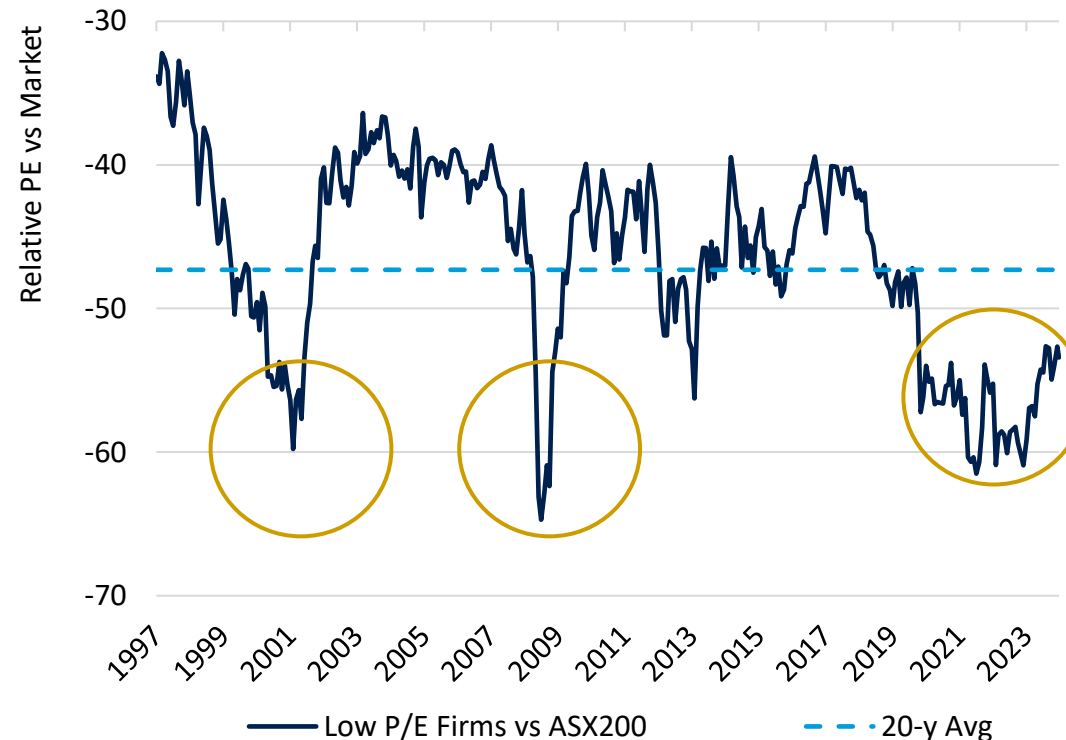
Portfolio positioning

- Median long: ~11x P/E, 14.5% EPS growth, 6.5% FCF yield
- Median short: ~19x P/E, lower earnings growth to longs, 40% less cashflow than longs

Portfolio metrics (median)

FY25 Consensus forecast	Portfolio longs	Portfolio shorts
P/E	11.4x	18.8x
EPS Growth YoY	14.5%	13.0%
Free Cash Flow Yield	6.5%	3.8%

Low P/E firms trade at a 53% discount to the market (6% below the 20-year average)



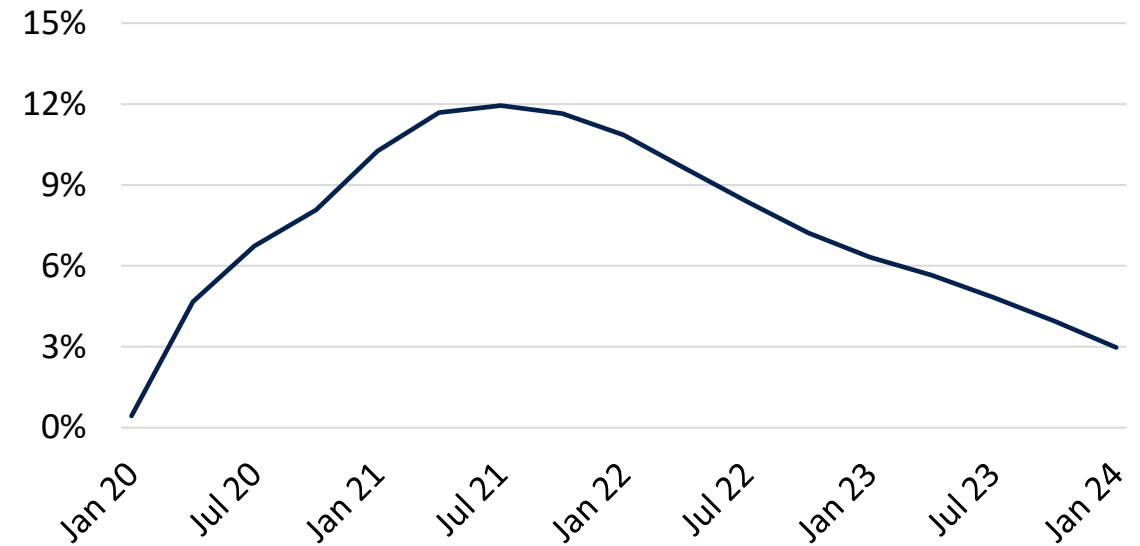
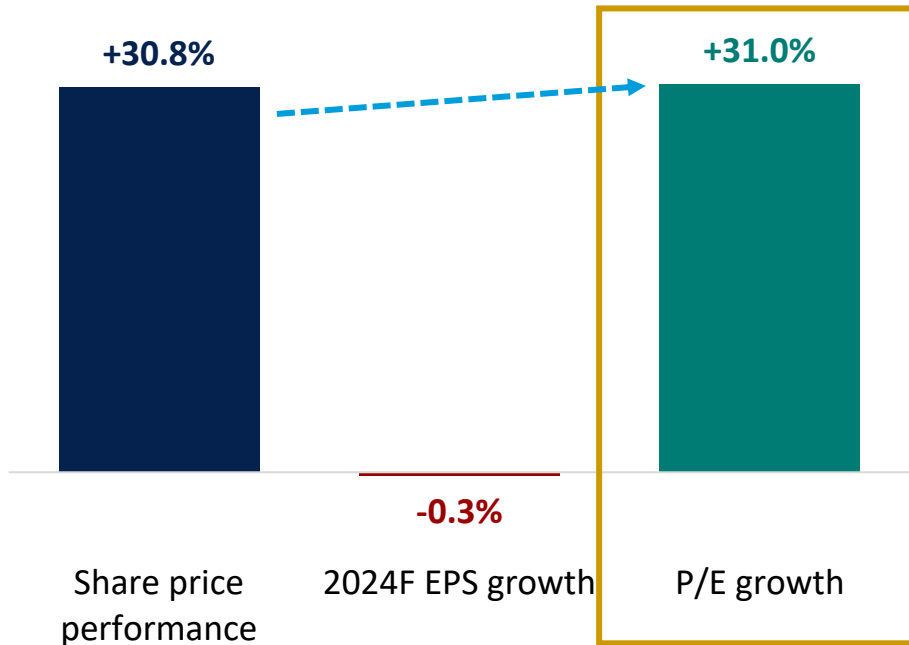
We see two key areas of downside risk in the market



Consumer discretionary spending is weakening with stocks not fully pricing in the slowdown

U.S. consumer discretionary stock performance (Nov 23 – May 24)¹

U.S. cumulative excess household savings (% disposable income)



- Recent rally entirely driven by multiple expansion
- P/E multiples now ~15% above the 5-year pre-Covid average

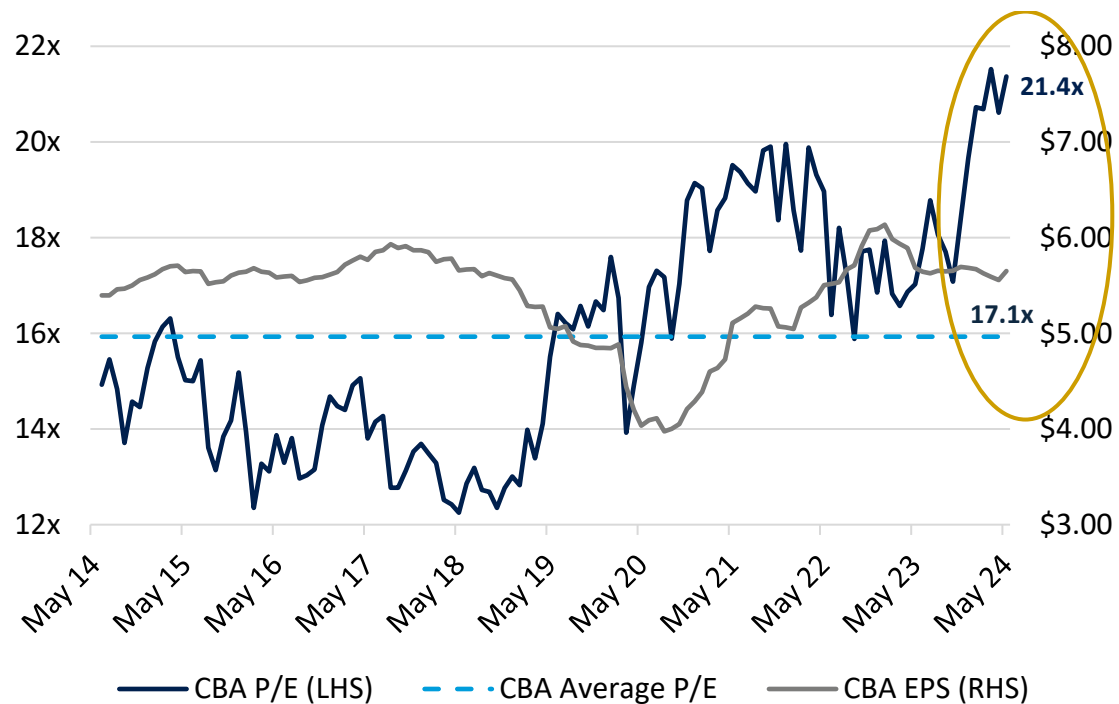
- Excess savings buffers that accumulated through Covid-19 are now almost fully drawn down
- Weakness evident in recent discretionary sales data

We see two key areas of downside risk in the market



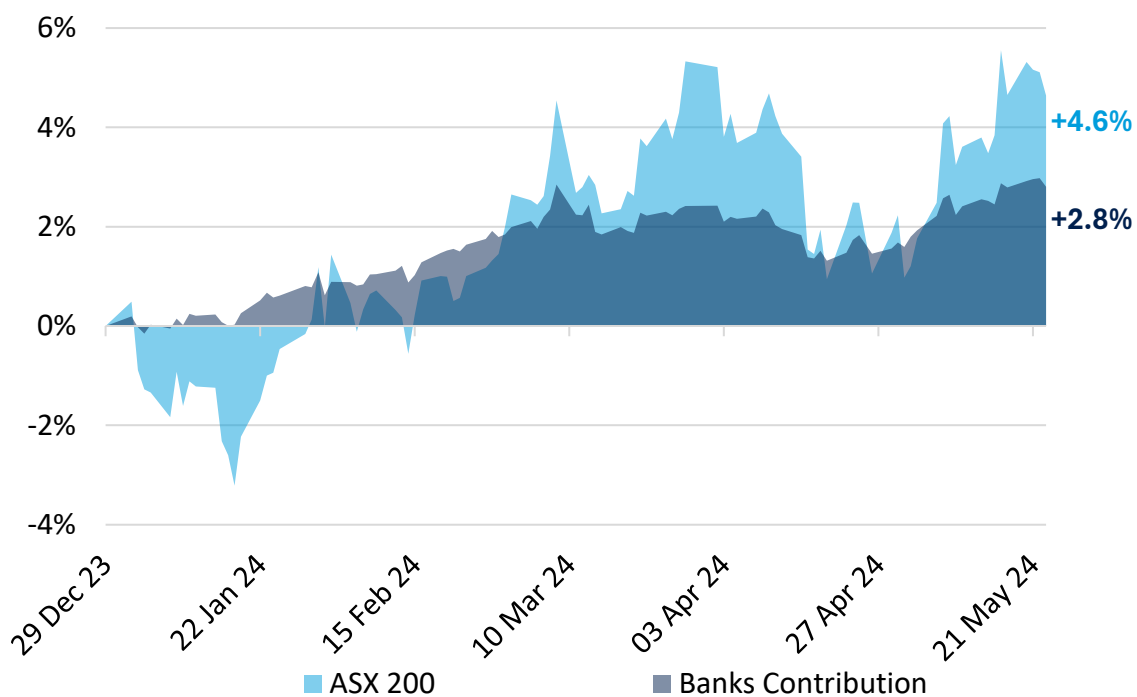
Domestic bank valuations look very stretched versus history

CBA forward P/E and EPS revisions



- CBA trading at near all-time high valuation level despite expectations for no EPS growth over the next 2 years

Banks contribution to ASX200 Returns (%)



- The 'melt-up' in major banks has driven more than half of the ASX200's return for the CYTD

We find it difficult to justify the rally in domestic banks particularly given the economic risks ahead

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Portfolio performance and key themes



Stock contributors and detractors



2024 calendar year-to-date

Company name		Company news
Downer	✓	Increased cost out program by \$75m p.a. to a total of \$175m p.a. to be achieved by FY25
Qantas	✓	Changes to Loyalty Offer had a smaller earnings impact than market expectations
Flutter	✓	Continued momentum in the U.S. business as it maintains its leadership position in U.S. sports betting/iGaming
Teck & Capstone	✓	Strong trends in copper markets with looming copper shortage becoming apparent
NexGen Energy	✓	Significant rise in uranium prices and continued progress on developing their flagship Rook I project
Cenovus	✓	Recovery in refining margins and increase in WTI oil price
Imdex	✓	1H 2024 results materially ahead of consensus expectations, highlighting resilience in a difficult market environment
QBE	✓	Strong FY23 results (earnings doubling versus the prior year period)
CRH	✓	Robust FY23 results and FY24 guidance ahead of consensus expectations
Arcadium Lithium	✗	Fall in spodumene prices and deferral in growth projects
Fraport	✗	Lower 2024 passenger growth expectations due to industrial action and delays in aircraft deliveries

Portfolio themes: Summary

We are invested in five key themes that we believe offer compelling, asymmetric risk-reward

Infrastructure

- Regulated assets with significant barriers to entry
- Strong cash generation over time and long-term demand growth



Global leaders

- Number 1 players in structurally growing industries
- High quality management teams with options to reinvest to accelerate growth



Cash machines

- Low P/E stocks, with enormous cash generation, under-gearred balance sheets and strong industry positions
- Ability to use cash for increased shareholder returns or M&A



Copper & Gold

- Constrained supply for Copper (declining base and insufficient new mines)
- Step-change in demand growth
 - Copper: Grid, EV's data centres, AI
 - Gold: Central Banks, Retail growth



Uranium

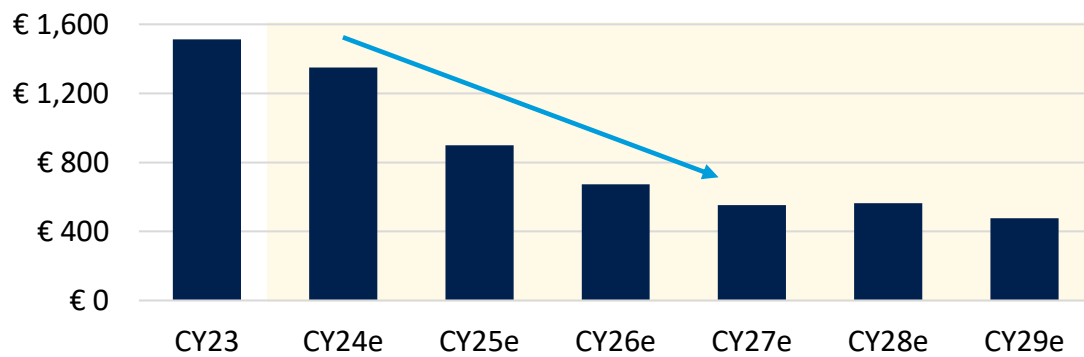
- Demand resurgence driven by the requirement for secure, firm, green energy
- Material new mine supply required





- Owns and operates Frankfurt Airport alongside a portfolio of International airport stakes
- Frankfurt is one of the busiest airports in Europe (~60m pax 2023)
- Approaching the end of a significant investment program, including the €4b+ build of a new third terminal in Frankfurt
- As capex programs wind down, company will become highly cash generative, underpinning a return to dividends

Fraport capex (€m)



- Lowest cost baseload generator in key markets of VIC and NSW
- Electricity demand set to grow substantially medium term – data centres, EVs, AI, etc.
- Strong medium-term FCF can fund high dividends and substantial investment in transition in areas such as batteries with solid returns
- Disciplined management team
- Trading around 4.5x EV/EBITDA well below historical range of ~6x

Electricity futures – Price (\$/MWh)





- Largest building products company in North America (~US\$55b market cap) although not well known to U.S. investors
- Primary listing moved from LSE to NYSE in Sept 2023
- Significant beneficiary of U.S. infra spend – roads & highway funding +50%, water, energy & tech \$200b+ spend, U.S. onshoring
- ~US\$35b in financial capacity over next 5 years (operating cash flow + B/S capacity)
- ~15x P/E (FY24), double-digit EPS growth p.a. (on average)

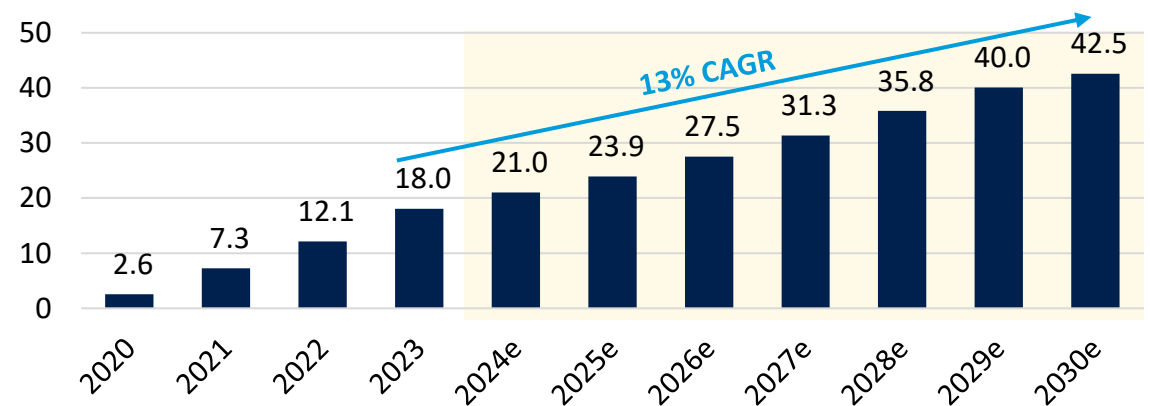
Market positions (North America)

- #1** Aggregates production
- #1** Concrete products
- #1** Utility infrastructure
- #1** Asphalt production
- #1** Outdoor living solutions



- #1 player in U.S. online sports betting/iGaming (53% sports market share and 26% iGaming share)
- Industry set to more than double from ~US\$18b in 2023 to over ~US\$40b in 2030
- Major inflection points upcoming
 - Surge in U.S. profitability and U.S. primary listing (31 May 2024)
- Outstanding management, technology and product set
- 23x P/E (FY25), 30% EPS growth p.a. (avg. FY24-26)

Total North American online sports betting/iGaming market

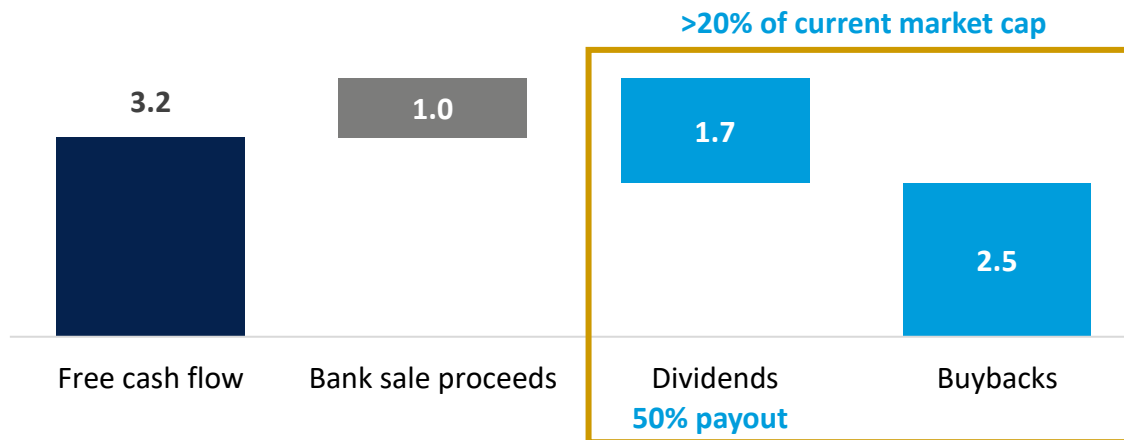


Theme: Cash machines



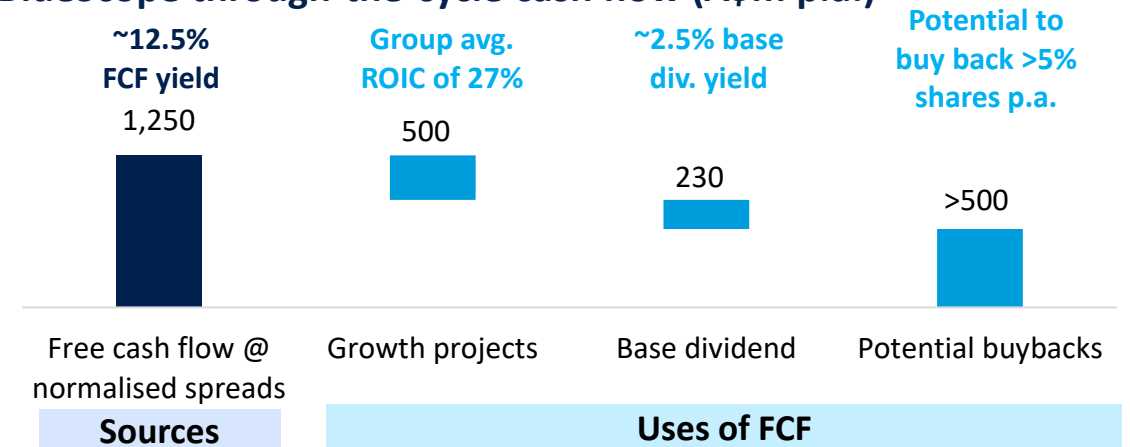
- #1 supermarket in the U.K. with ~27% share
- Improved market structure
- Strong balance sheet, and valuation underpinned by £17b property portfolio (~80% of market cap)
- Disciplined management team with track record of delivery
- Trades on only ~12x P/E with >20% of market cap available for shareholder returns over next 2 years

Cumulative cash flow profile (FY25-26E, £b)



- Steel producer operating in Asia Pacific and North America
- Resilient and diversified business, commoditised earnings streams protected by downstream branded business
- U.S. steel markets structurally attractive
- Track record of strong ROIC investments and shareholder returns
- Undemanding valuation at ~4.5x EBITDA, significant discount to North American steel peers (trading on 6-8x EBITDA)

BlueScope through-the-cycle cash flow (A\$m p.a.)



Theme: Copper

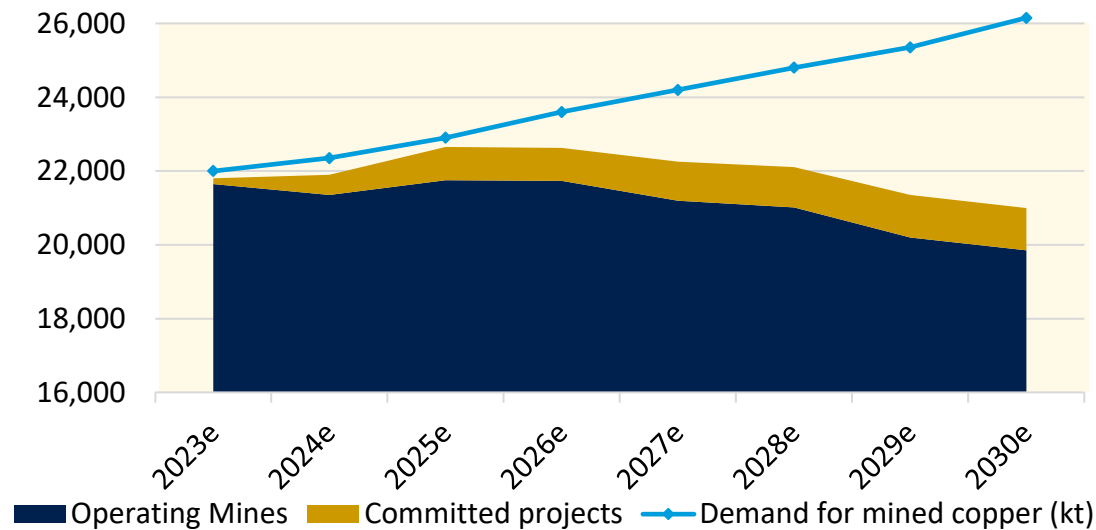


We expect robust demand growth for the rest of this decade

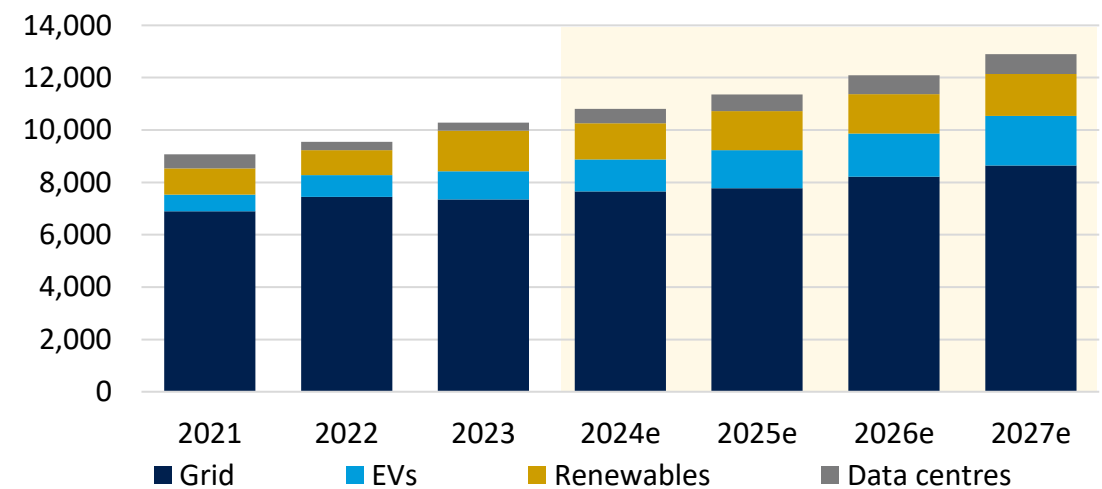
Copper demand:

- Driven by electrification tailwinds, incremental data centre and A.I. related demand, improving global manufacturing activity
- Single most critical metal required to execute on the energy transition, including heavy use in infrastructure and EVs

Copper demand/supply forecast (kt)



Evolving drivers of global copper demand (Kt/pa)

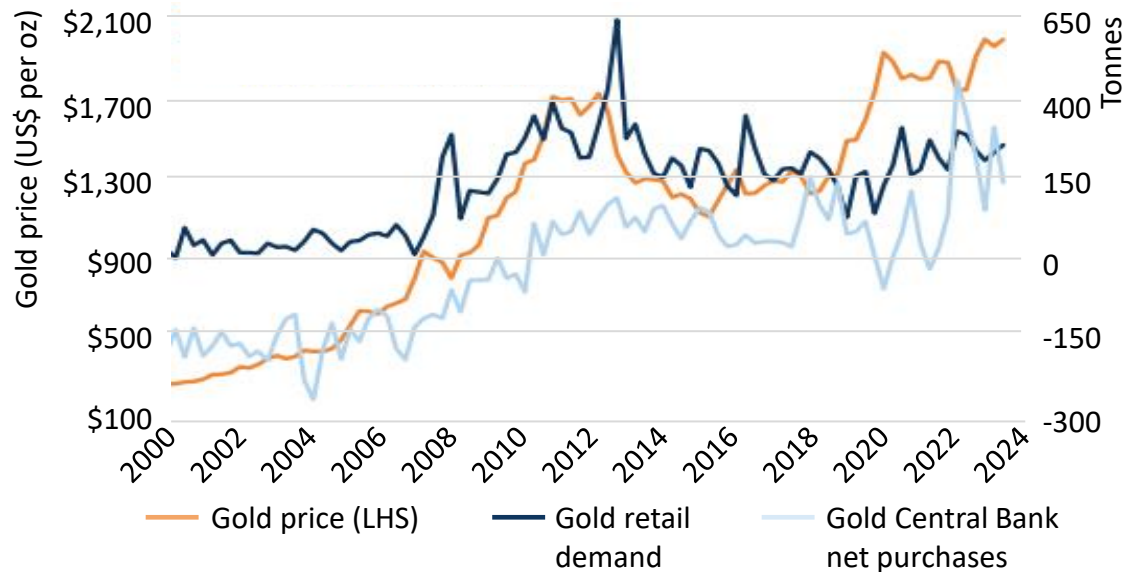


We expect market deficits to widen over time, with copper prices moving closer to scarcity pricing over the next few years

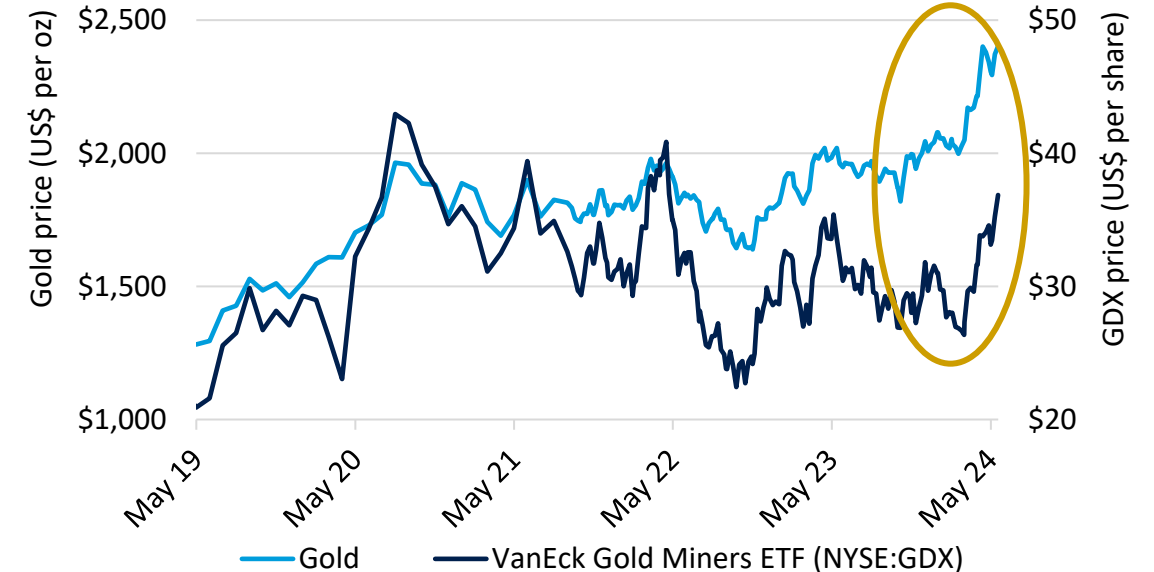


- Rally to date driven by an acceleration in Central Bank buying as well as Asian Retail investing
- U.S. fiscal sustainability remains a key concern (national debt rising by US\$1 trillion every 100 days!)
- Potential macro tailwinds (lower interest rates, weaker USD) add support for price levels going forward

Central Bank buying and retail demand accelerating



Gold equities materially lagging the rally in the gold price



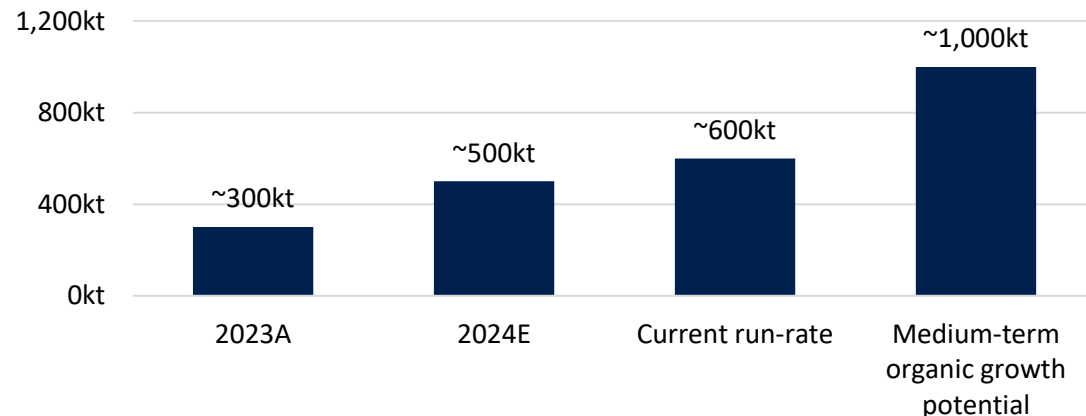
We remain positive on Gold due to elevated geopolitical tensions, the potential for lower rates, and structurally strong Central Bank and consumer demand



Teck

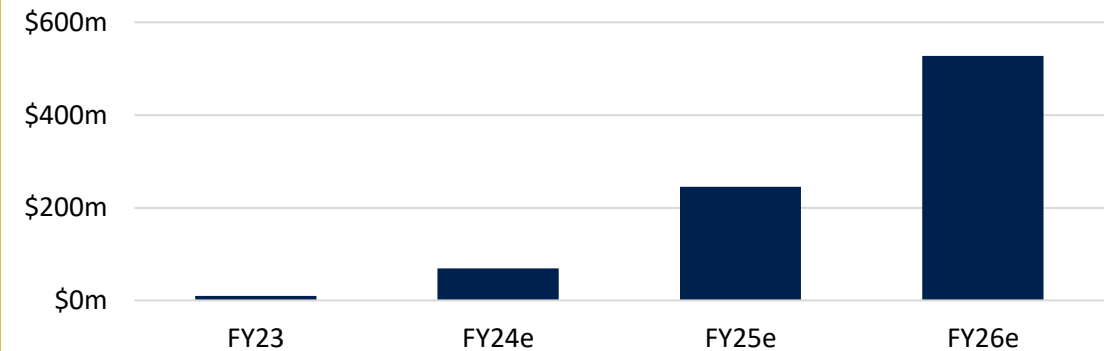
- Leading copper-zinc producer which is in the process of completing the sale of its steelmaking coal business
- Strong pipeline of organic growth projects with potential to grow production >60%
- Sale plus ongoing cash generation provides potential for significant step-up in shareholder returns
- Trades at ~6.0x FY25 EBITDA (ex-coal), below large-cap, pure-play copper peers

Teck organic copper growth opportunities (kt)



- WA gold producer with four mines across three processing hubs
- Significant earnings leverage from the rising A\$ gold price and production growth
- Management delivered an outstanding turnaround over 2023
- Proposed merger with Karora adds scale and portfolio longevity
- At spot gold pricing, company has the potential to deliver over 25% FCF Yield in FY26 (once growth projects ramp-up)

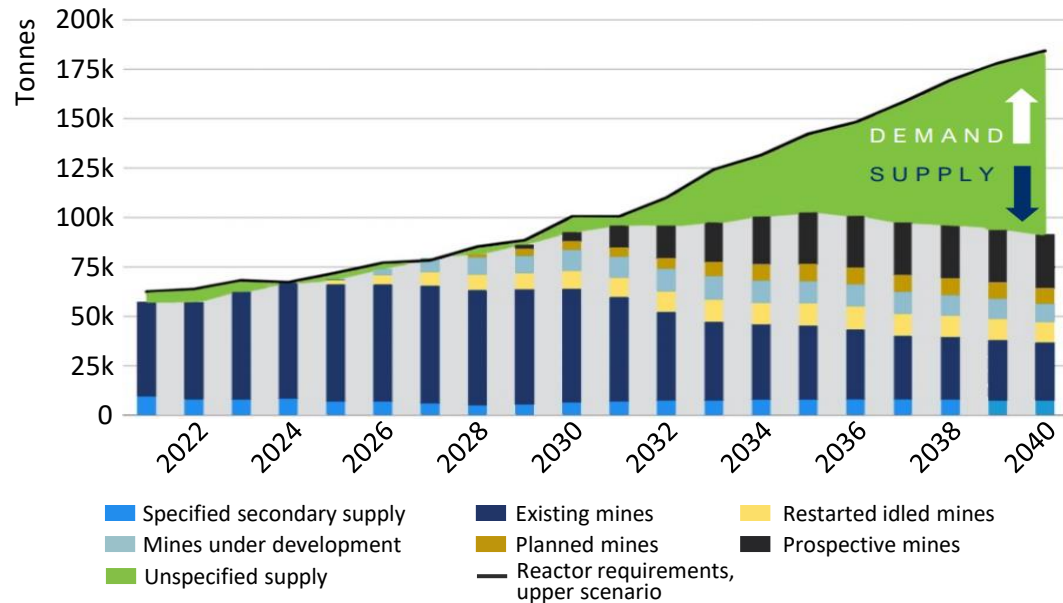
Group free cash flow at spot gold prices (A\$m)



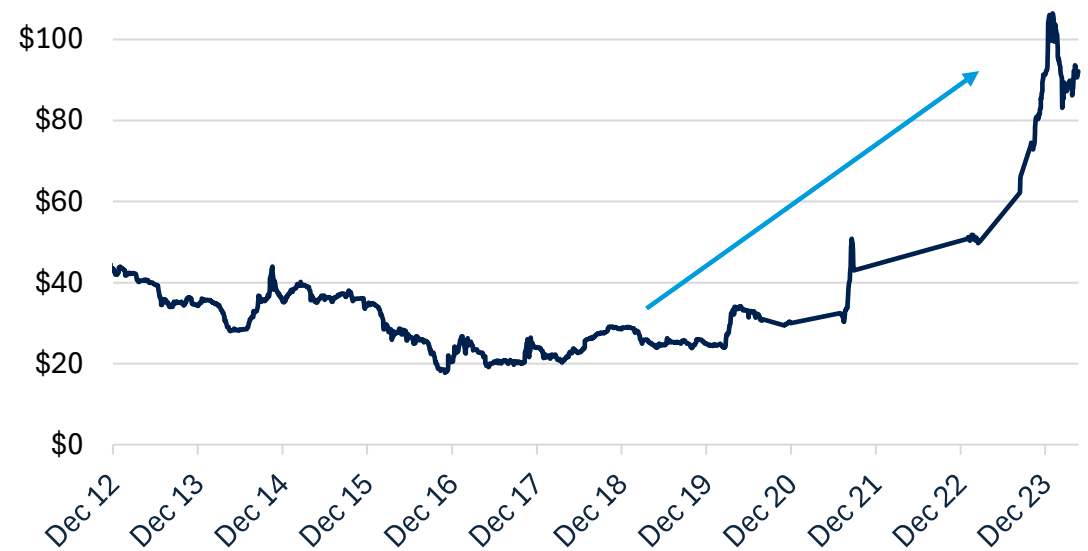


- Commitment from large western nations to triple nuclear energy capacity by 2050, China expected to go even faster
- Uranium contracting activity by utilities has returned to decade highs in 2023, and continues to grow
- Significant new mine supply needed from the middle of decade to meet demand

WNA uranium supply demand (upper scenario) (tonnes)



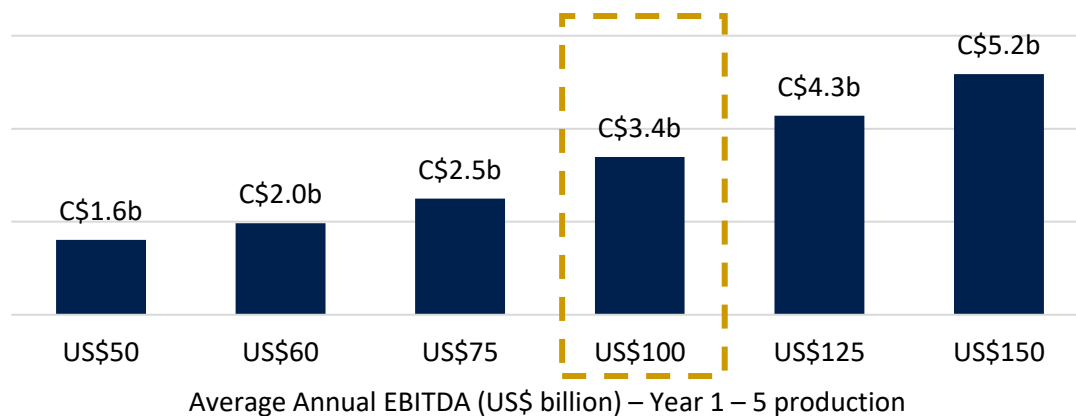
Uranium price history (US\$/lb)





- Largest uranium asset under development globally (Rook I)
- Differentiated project scale and quality
- In final stages of approvals and financing, expected to commence major works within next 6-12 months
- Over ~C\$1b in cash and uranium assets on balance sheet
- At US\$100/lb uranium prices, could produce ~C\$3.4b EBITDA and >C\$2b free cash flow p.a. vs. current market cap of only ~C\$6b

NexGen average Annual EBITDA at different uranium prices (C\$b)



I

About L1 Capital



L1 Capital is a specialist investment manager founded in 2007 by Mark Landau and Rafi Lamm

- ‘L’ – Derived from the surnames of the founders (Lamm & Landau)
- ‘1’ – Genuine firm-wide aspiration to be the “best”, not just “good”
- Reputation for investment excellence and best of breed strategies
- All L1 Capital funds have delivered strong returns since inception
- Diverse client base – super funds, pension funds, asset consultants, financial planning groups, family offices, high net worth and retail

People



Proven, high calibre and stable team

Integrity



Ethical and professional in all respects

Ownership



Owned by senior L1 staff

Alignment



L1 staff invested alongside clients

Global Investment Manager

Well-resourced and experienced team across investments, operations, compliance and investor relations

Business Overview

- Founded in 2007
- Circa A\$7.2b FUM
- Investment professionals in 5 locations globally



L1 Capital Funds

Strong performance culture



Long Short

20.0% p.a.

net return S.I.
(ASX200AI 7.6% p.a.)¹

**Best performing long short fund
in Australia S.I.²**

AUS. ALTERNATIVE INV. AWARDS

Best Alternative Manager of the Year 2021
Best Listed Alts. Inv. Product (ASX:LSF)
2021 & 2022

**ZENITH FUND
AWARD WINNER**
Aus. Equities – Alts
Strategy 2022

ZENITH RATING
'Recommended'

LONSEC RATING
'Recommended'

Melbourne

Sep 2014

Catalyst

13.2% p.a.

net returns S.I.
(ASX200AI 6.0% p.a.)

**High conviction
activist strategy**

MONEY MANAGEMENT FUND OF THE YEAR AWARDS
Innovation Award of the Year 2023

ZENITH RATING
'Highly
Recommended'

LONSEC RATING
'Recommended'

Melbourne

Jul 2021

International Equities

14.4% p.a.

net return S.I.
(MSCI World 12.9% p.a.)

Solid absolute and relative returns

AUSTRALIAN FUND MANAGER AWARDS
Golden Calf Award 2023

ZENITH RATING
'Recommended'

LONSEC RATING
'Recommended'

Sydney

Mar 2019

Global Opportunities

28.5% p.a.

net return S.I.³

No negative months S.I.

Miami

Jun 2015

U.K. Residential Property

6.7% p.a.

total return on U.K. Fund I⁴

**Proven track record in delivering strong
rental growth and capital appreciation
through active asset management**

London

Sep 2017

Important information

L1 Long Short Fund Limited



L1 CAPITAL

Information contained in this publication

Equity Trustees Limited (“Equity Trustees”) (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the L1 Capital Long Short Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).

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The L1 Capital Long Short Fund’s Target Market Determination is available at <https://bit.ly/3a0Kj68>. A Target Market Determination is a document which was required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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Lonsec

The ratings issued for L1 Capital Long Short Fund – Daily Class (Oct 23), L1 Capital Long Short Fund – Monthly Class (Oct 23), L1 Capital Catalyst Fund (Oct 23) and L1 Capital International Fund (Managed Fund) (ETL1954AU and ASX:L1IF) (May 24) are published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec). Ratings are general advice only and have been prepared without taking account of your objectives, financial situation or needs. Consider your personal circumstances, read the product disclosure statement and seek independent financial advice before investing. The rating is not a recommendation to purchase, sell or hold any product. Past performance information is not indicative of future performance. Ratings are subject to change without notice and Lonsec assumes no obligation to update. Lonsec uses objective criteria and receives a fee from the Fund Manager. Visit lonsec.com.au for ratings information and to access the full report. Copyright 2024 Lonsec. All rights reserved.

Zenith

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