

L1 Long Short Fund Limited (ASX:LSF)

July 2024

- The L1 Long Short Fund (LSF) portfolio returned 1.5%¹ in July (ASX200AI 4.2%).
- Over the past 3 years, the portfolio has returned 11.8%¹ p.a. (ASX200AI 7.4% p.a.).
- Global markets edged higher in July as softer inflation and labour statistics led to an improved likelihood of near-term interest rate cuts, lifting investor confidence in cyclical stocks and small caps.

Global markets edged up in July, with a sharp rotation from crowded U.S. mega cap technology names into areas of the market that have lagged, such as small cap stocks. A softer than expected U.S. inflation reading boosted expectations for near-term interest rate cuts which would be a tailwind for smaller companies given their earnings tend to be more economically sensitive.

In the Australian market, however, we did not see the same rotation to small caps. The rally in domestic banks continued to support the broader index, contributing 1.6% of the ASX200AI's 4.2% return over the month (i.e. close to 40% of the total index return). Consumer Discretionary (+9.1%), Property (+6.8%) and Financials (+6.3%) were the strongest sectors, while Utilities (-2.9%), Energy (-0.4%) and Materials (-0.1%) lagged. The Energy and Materials sectors continued to trail on weaker commodity prices and ongoing concerns over China's economic outlook.

The portfolio performed positively overall, with several constructive stock updates. This was partially offset by weakness in the Commodity and Energy sectors along with a short position in Commonwealth Bank (CBA).

We continue to see elevated risk in the domestic banks and in CBA in particular. CBA's valuation is the most expensive in its history at an FY25 P/E of ~23x consensus earnings despite a muted medium-term earnings growth outlook and rising economic risks. This contrasts to NatWest Group, a U.K. listed bank, which was one of the key contributors for the portfolio over the month. NatWest trades on an FY25 P/E of only ~7x, generates a double-digit return on equity and has the potential to deliver high-single digit earnings growth p.a. over the medium-term.

Returns (Net)¹ (%)

	L1 Long Short Portfolio	S&P/ ASX 200 AI	Out-performance
1 month	1.5	4.2	(2.7)
3 months	(1.0)	6.2	(7.2)
Calendar year-to-date	9.8	8.6	+1.2
1 year	8.5	13.5	(5.0)
2 years p.a.	15.8	12.6	+3.2
3 years p.a.	11.8	7.4	+4.4
4 years p.a.	25.8	12.4	+13.4
5 years p.a.	18.9	7.5	+11.4
LSF Since Inception p.a.	11.7	9.3	+2.5
LSF Strategy Since Inception² p.a.	19.3	8.0	+11.3

Figures may not sum exactly due to rounding.

We see equity markets as being relatively fully priced overall with narrow market leadership in both Australia and the U.S. driving gains, along with ongoing risks from weakening consumer sentiment, geopolitical tensions and U.S. elections. We are currently finding numerous attractive opportunities in low P/E, highly cash generative companies where valuations remain compelling, along with select opportunities on the short side, particularly in some expensive growth stocks with overly optimistic market expectations.

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 April 2018. Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 September 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.

Key contributors to portfolio performance in July were:

NatWest Group (Long +18%) shares rallied on strong quarterly results including earnings ~28% ahead of consensus expectations and upgraded guidance driven by higher-than-expected revenues with net interest margin expanding 5bps. NatWest is the U.K.'s second largest retail bank with ~13% mortgage share and the U.K.'s largest commercial lender with ~20% share. In our view, NatWest leads the U.K. banking sector with improving underlying operating trends, superior mortgage margin trajectory and increasing interest rate hedge income. Importantly, management expects ongoing net interest margin expansion despite the impact of BoE rate cuts. We believe the company remains significantly undervalued, trading on an FY25 P/E multiple of only ~7x and a price to tangible book value ratio (P/TBV) of only ~1x. This is despite generating a 14% return on tangible equity and 8% p.a. earnings growth over the next two years based on consensus expectations.

CRH (Long +14%) shares recovered over the month, supported by constructive earnings updates from European peers and the broader market rotation to more cyclically exposed stocks. The June quarter was affected by adverse weather conditions and heavy rains which we expect will have a temporary negative impact on volumes. CRH remains exposed to strong secular growth in the U.S. market from U.S. infrastructure spending which will underpin many years of robust demand. The Infrastructure Investment and Jobs Act ('IIJA'), the Inflation Reduction Act ('IRA') and the Chips and Science Act will together add roughly US\$2 trillion in investment to ageing U.S. infrastructure. We took advantage of the sell-off in June to add to our position, with our view that the company can deliver consistent double-digit earnings growth over the medium term.

Qantas (Long +10%) shares gained during July, extending the strong share price performance in the June quarter from a low base. There was limited news flow other than regional airline REX entering voluntary administration on the last day of the month. We believe Qantas remains very well placed over the medium term, given it has Australia's best loyalty business (which is expected to double earnings over the next 5-7 years) and a raft of brand new, more fuel-efficient aircraft to be delivered along with Project Sunrise, which will enable direct flights from Melbourne/Sydney to London and New York from 2026. It also has sufficient balance sheet capacity to continue buying back shares and/or recommencing fully franked dividends next year. CEO Vanessa Hudson is rapidly and methodically addressing customer 'pain points', which should improve sentiment from both customers and potential investors. Qantas trades on an FY25 P/E of only ~6x, despite a leading industry position, and a high growth, capital-light loyalty division, which remains incredibly underappreciated by the market.

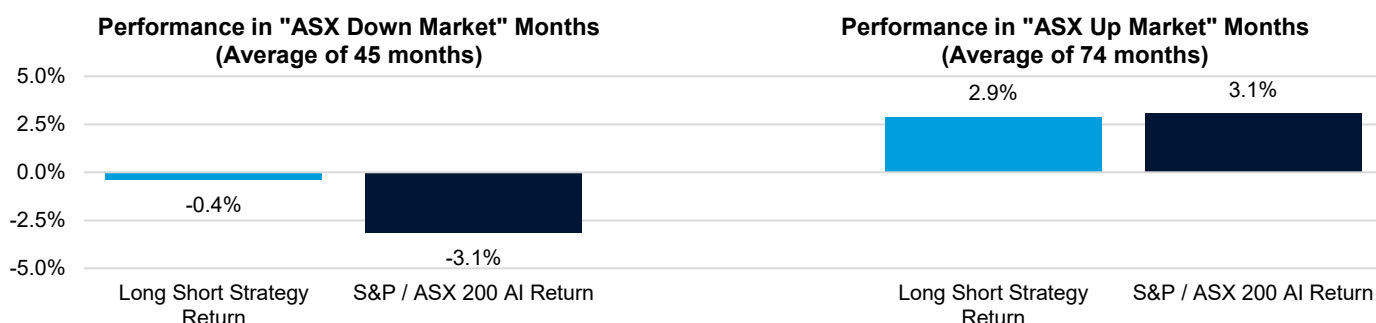
Key detractors to portfolio performance in July were:

Commonwealth Banking Group (Short +8%) shares continued to march higher in the month, again driven predominantly by P/E multiple expansion with earnings estimates relatively unchanged. CBA trades on an FY25 P/E of ~23x consensus earnings (4.1 standard deviations above its 30-year average) and P/TBV of ~3.4x, which is higher than any large cap developed market bank has ever traded. This valuation is hard to justify in the context of limited earnings growth over the medium term and continued tail risk in the event of any economic weakness. While recognising that CBA is outperforming Australian peers operationally and that it enjoys a dominant local market share (one of the strongest of any banks worldwide), we think the company is priced to perfection with insufficient reward against any downside risks. In addition, while many investors own domestic banks for their consistent dividends, CBA currently trades on relatively modest dividend yield of ~3.6%.

SK Hynix (Long -18%) was impacted by the market rotation away from technology/AI levered stocks, despite delivering a strong earnings update. The imminent entry of competitor Samsung into NVIDIA's supply chain also weighed on the company. SK Hynix remains geared to the exponential growth in spend in AI computing hardware. We believe the outlook remains positive for the company with its market leadership position in High Bandwidth Memory (HBM) and its capacity sold out until the end of 2025.

Strategy returns (Net)³ (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	-	-	-	-	-	-	-	-	(2.4)	3.0	2.9	1.6	5.2
2015	0.6	9.1	2.4	1.7	3.7	(0.9)	3.3	2.1	5.5	8.5	8.1	4.6	60.5
2016	5.8	0.6	5.5	2.5	2.8	(0.9)	3.2	3.9	0.5	(0.1)	0.6	2.2	29.6
2017	2.5	1.9	3.2	1.0	4.2	1.7	2.7	1.7	1.9	2.5	0.9	3.6	31.4
2018	0.6	(0.5)	(1.6)	(1.3) ³	(4.0)	(6.0)	1.0	(5.3)	(2.1)	(3.9)	(2.6)	(6.0)	(27.7)
2019	4.3	5.1	0.2	3.0	(2.7)	3.9	0.6	0.4	2.5	3.4	0.4	2.0	25.5
2020	(7.8)	(6.9)	(22.9)	23.2	10.9	(2.1)	(1.7)	10.0	0.6	(2.4)	31.9	4.3	29.5
2021	(0.2)	9.0	(0.1)	5.1	4.1	(0.5)	1.8	5.1	4.9	2.3	(7.4)	3.7	30.3
2022	2.8	6.9	1.3	3.4	0.1	(13.4)	(3.3)	5.4	(7.6)	5.2	7.5	4.4	10.7
2023	3.7	(2.0)	0.5	1.6	(3.2)	1.7	5.2	(4.9)	0.9	(3.0)	2.4	3.7	6.2
2024	0.3	(1.0)	8.1	3.3	2.6	(5.0)	1.5						9.8

Strategy performance in rising and falling markets³ (Net)

Portfolio positions

Number of total positions	81
Number of long positions	59
Number of short positions	22
Number of international positions	27

Company information as at 31 July 2024⁴

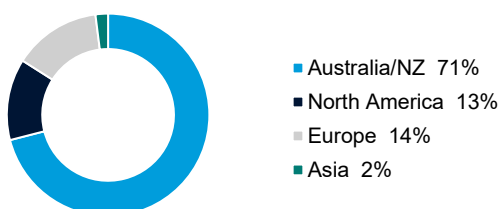
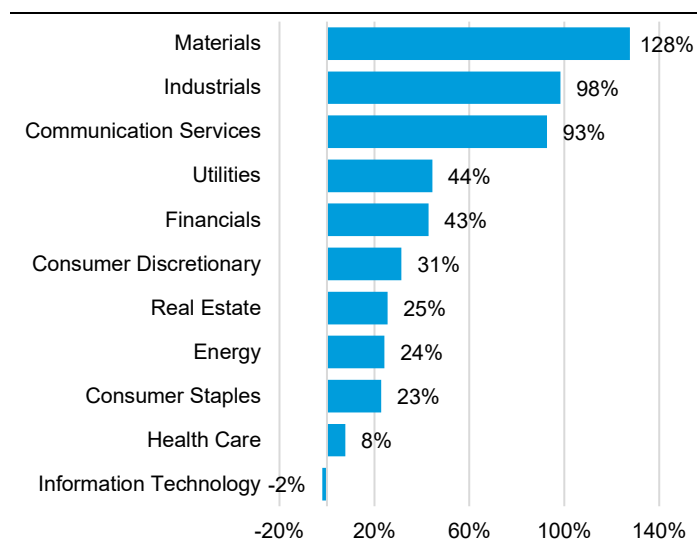
Share Price	\$3.16
NTA before tax	\$3.26
NTA after tax	\$3.12
Shares on issue	622,412,649
Company market cap	\$1.97b

Net and gross exposure (%)

	Gross long	Gross short	Net exposure
Australia/NZ	105	(79)	26
North America	27	(7)	19
Europe	37	—	37
Asia	5	—	5
Total	174	(87)	88

Figures may not sum exactly due to rounding.

Gross geographic exposure as a % of total exposure

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
Company website	www.L1LongShort.com

Company information – LSF

Name	L1 Long Short Fund Limited
Structure	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

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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