

L1 Long Short Fund Limited (ASX:LSF)

August 2024

- The L1 Long Short Fund (LSF) portfolio returned -3.3%¹ in August (ASX200AI 0.5%).
- The L1 Capital Long Short Strategy has now reached its 10 year mark. We'd like to take this opportunity to sincerely thank our investors for their support.
- The Strategy has been the best performing long short fund in Australia over the past decade², returning 18.7% p.a., outperforming the ASX200AI by 10.7% p.a. and the MSCI World Index by 9.2% p.a.

Global markets suffered a sharp sell-off in early August as weak U.S. jobs data stoked recession fears. This impact was further exacerbated by a surprise interest rate hike from the Bank of Japan ('BOJ') which triggered an unwind of the Yen 'carry trade', where investors borrow in Japanese Yen at near zero interest rates to buy higher yielding assets in other markets, such as the U.S.

Markets recovered after the BOJ signalled it would not hike rates further while markets were unstable, and as the Fed Chair, Jerome Powell, delivered a dovish Jackson Hole address. Powell noted that the Fed's focus would shift towards protecting the labour market now that inflation risks had subsided. Investors interpreted this as a strong signal for a rate cut at the upcoming FOMC meeting in September.

The domestic reporting season was mixed with the number of companies beating earnings broadly equalling the number that missed. Management teams remained largely conservative, citing ongoing macro and cost challenges, with overall analyst revisions leading to a ~2% downgrade to FY25 EPS for the ASX200 Index.

The ASX200AI ended marginally higher, up 0.5%, with technology and domestic banks continuing to lead performance. Information Technology (+7.9%), Industrials (+3.9%), Communication Services (+3.5%) and Financials (+1.9%) were the strongest sectors, while Energy (-6.0%), Materials (-1.9%) and Utilities (-1.1%) lagged.

The portfolio was impacted by broad-based Materials and Energy markets weakness, which more than offset a generally in-line reporting season across many key positions. Energy holdings were affected by a 4% decline in Brent crude oil prices and investor sentiment deteriorating as focus shifted from geopolitical supply disruption risk towards demand concerns in both China and developed countries. Similarly, Materials positions were pressured by a weakening Chinese economy leading to ongoing declines in commodity prices. While near-term uncertainty remains, we believe constrained supply, along with commodity prices that are approaching marginal cost of production for many producers should support prices looking forward.

Returns (Net)¹ (%)

	L1 Long Short Portfolio	S&P/ ASX 200 AI	Out-performance
1 month	(3.3)	0.5	(3.8)
3 months	(6.7)	5.7	(12.4)
1 year	10.3	14.9	(4.6)
2 years p.a.	10.9	12.2	(1.3)
3 years p.a.	8.8	6.7	+2.0
4 years p.a.	21.8	11.7	+10.1
5 years p.a.	18.0	8.1	+9.9
LSF Since Inception p.a.	11.0	9.2	+1.8
LSF Strategy Since Inception³ p.a.	18.7	8.0	+10.7

Figures may not sum exactly due to rounding.

We believe domestic and global equity markets are generally fully priced, with major distortions now appearing across many stocks and sectors. In Australia, we see extreme crowding and overvaluation in Australian banks and several other ASX20 stocks that offer stability and liquidity but are trading far above fair value and now offer little in the way of earnings growth or yield. At the same time, many cyclical stocks are now trading at both depressed P/E multiples and depressed earnings bases, which provides the opportunity for large medium-term upside for patient investors. We are using this period of volatility and price distortion to add to oversold positions and rotate out of those stocks that have been beneficiaries of this recent move. While short term performance may be negatively impacted by these erratic price moves, we are extremely excited about the opportunities being presented and believe that we are sowing the seeds of strong performance over the next few years as conditions normalise and investment fundamentals reassert themselves.

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. Ranking amongst funds in Zenith Australian Shares – Long Short sector using FE Analytics data as at 31 August 2024. 3. 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 August were:

Chorus (Long +11%) shares rose in August following the release of the company's full year result, where management presented an updated corporate strategy and capital management framework. Earnings for FY24 were at the top end of the company guidance range, which was broadly in line with market expectations. FY25 guidance implies continued growth, despite the company having the benefit of its price rise for only nine months of the financial year. Chorus's revised corporate strategy centred on increasing fibre penetration and exiting copper by 2030 providing clear aspirational targets for the business going forward. While these updates were positive, the primary catalyst was the company's updated capital management framework, with a commitment to pay dividends in the range of 70-90% of adjusted free cash flow, up from a prior range of 60-80%. Coupled with a solid earnings outlook and reducing sustaining capex, Chorus guided to a dividend level in FY25 of 57.5 cents per share, well ahead of consensus expectations for 50 cents per share, and 21% above the FY24 level of 47.5 cents per share.

This change in dividend policy is significant as it correlates to the current inflection in Chorus's business as it concludes the 10-year, capital-intensive build phase of its fibre rollout and shifts to becoming a highly cash generative network operator. We believe this inflection point remains under-appreciated by the market, as does the unique investment proposition Chorus offers as a scarce, regulated, essential digital infrastructure asset.

Downer (Long +12%) shares strengthened over the month as the company announced its FY24 results, reporting an EBITA margin increase to 4.0% in H224 (up 100bps from 3.0% in H223). The narrowing of this gap towards its aspirational 4.5% EBITA margin target was largely driven by a successful turnaround in its utilities division from loss-making levels in FY23. Combined with the ongoing execution of the cost-out program (\$130m achieved out of targeted \$175m), Downer is positioned to deliver further profitability improvements over the next year. While we expect that FY25 will continue be a transition year for the company, it is already well-progressed on its evolution into a more resilient, profitable, less capital-intensive and lower-risk services business that is exposed to a growing pipeline of high-quality, annuity-style contracts.

Key detractors to portfolio performance in August were:

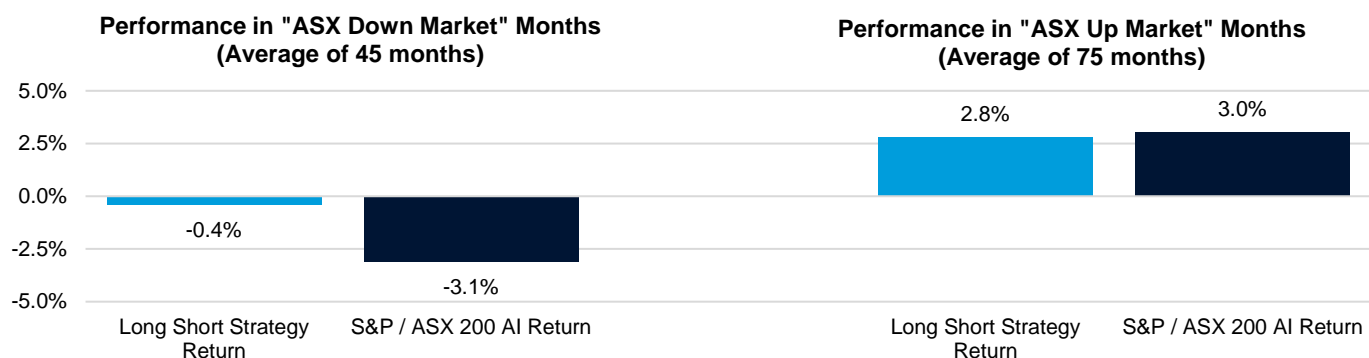
Mineral Resources (Long -26%) shares declined due to softness in its key commodity markets, in particular with the lithium spodumene price being down a further 20%. The company reported its outlook for FY25, which included both lower lithium production volumes due to the difficult lithium market conditions, and ongoing, elevated growth capital spend in its iron ore and mining services segments.

The company is approaching a favourable inflection point with its Onslow Iron Ore project commencing ramp-up towards positive cash flow contribution from mid-FY25 and its mining services volumes materially increasing over the coming 18 months. The mining services volumes alone should support EBITDA generation of ~\$1b and is underpinned by long life contracts, providing strong earnings support for the business. While the lithium market continues to be volatile, Mineral Resources has significant volume optionality to produce over 1,000kt of spodumene concentrate when market conditions improve. We continue to believe that each of the company's core segments should see material improvement from current levels over the medium term.

NexGen (Long -12%) weakened as uranium prices fell ~6% over the month. We continue to see the uranium market as having positive fundamental supply/demand tailwinds over the medium to long term. NexGen is preparing to develop the world's largest undeveloped uranium deposit, Arrow, located in Saskatchewan, Canada. This would be a major, new, strategic Western source to address the anticipated uranium market deficit. We anticipate that NexGen will have completed all regulatory requirements over the course of the next six months, providing a clear pathway to full scale construction of the project. Arrow has the potential to generate more than C\$2b of cash flow annually, once developed (2028) – a highly attractive proposition given NexGen's current market cap of ~C\$4.2b.

Strategy returns (Net)⁴ (%)

	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) ⁴	(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	(3.3)					6.2

Strategy performance in rising and falling markets⁴ (Net)

Portfolio positions

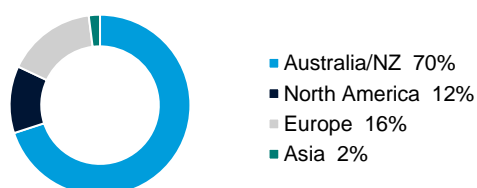
Number of total positions	77
Number of long positions	57
Number of short positions	20
Number of international positions	26

Net and gross exposure (%)

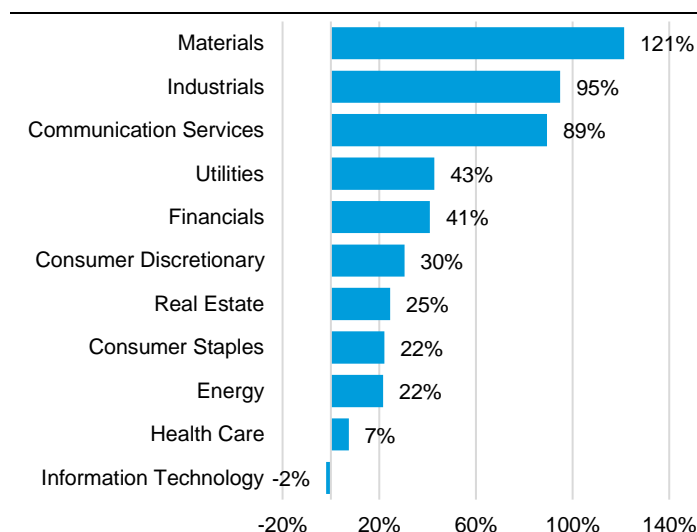
	Gross long	Gross short	Net exposure
Australia/NZ	99	(77)	22
North America	28	(3)	25
Europe	39	—	39
Asia	4	—	4
Total	169	(80)	89

Figures may not sum exactly due to rounding.

Gross geographic exposure as a % of total exposure

Company information as at 31 August 2024⁵

Share Price	\$3.16
NTA before tax	\$3.09
NTA after tax	\$3.04
Shares on issue	622,412,649
Company market cap	\$1.97b

Sector contribution since Strategy inception⁴ (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.
Performance fee**	20.5%
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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* Fees are quoted inclusive of GST and net of RITC. ** The performance fee is equal to the stated percentage of any increase in the NAV over any Performance Period.

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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