

L1 Long Short Fund Limited (ASX:LSF)

September 2024

10 Years
L1 Capital
Long Short
Strategy

- The L1 Long Short Fund (LSF) portfolio returned 2.4%¹ for the September quarter.
- Over the past 5 years, the portfolio has returned 18.4%¹ p.a. (ASX200AI 8.4% p.a.).
- Global markets rallied over the quarter supported by central bank interest rate cuts and the launch of a larger than expected stimulus package by Chinese authorities.
- For further insights, please click [here](#) to join our webinar on Thursday, 31 October at 11am AEDT for a LSF update.

Global markets moved higher this quarter as inflation data in most major markets continued to trend lower and as central banks stepped up interest rate cuts. The Fed announced a 50bps interest rate cut in September, with a further 50bps in cuts expected before the year-end based on the FOMC 'dot plot'. Fed Chair, Jerome Powell, noted the committee's growing confidence that inflation is moving back towards its target, allowing a greater focus on improving the slowing labour market. This eased investor fears of a recession and led to the U.S. 10-year bond rate falling below 4% for the first time since February 2024.

Markets were supported further by China announcing a broad range of fiscal and monetary stimulus measures intended to correct housing oversupply, improve consumer sentiment and achieve a moderate rebound in economic activity. The Chinese Shanghai Shenzhen CSI 300 index rose 25% in the five trading sessions post the stimulus announcement, offsetting losses in July and August and resulting in 16% gains over the quarter.

The Australian market returned 7.8% this quarter. Technology (+16.1%), Property (+14.5%) and Materials (+10.8%) were the strongest performers, while Energy (-6.2%), Utilities (-1.2%) and Healthcare (+0.3%) lagged. The Technology and Property sectors were supported by lower bond yields, as the Fed started its easing cycle. The Materials sector rallied on the back of the China stimulus announcements. Meanwhile, Energy was impacted by concerns over weaker global growth and potential excess supply.

The portfolio generated positive returns for the quarter with strong returns in September offsetting a decline in August. The volatility across the period was predominantly driven by the Materials and Energy sectors, with the remainder of the portfolio benefitting from several constructive stock updates and a generally in-line reporting season. While the Energy sector remains under pressure, we saw a rebound in the Materials sector in September. We believe we are in the early stages of a recovery in some cyclical stocks and a rotation away from more crowded and expensive areas of the market, such as the domestic banks.

Returns (Net)¹ (%)

	L1 Long Short Portfolio	S&P/ ASX 200 AI	Out-performance
3 months	2.4	7.8	(5.4)
1 year	14.0	21.8	(7.8)
2 years p.a.	17.9	17.5	+0.3
3 years p.a.	8.6	8.4	+0.1
4 years p.a.	22.9	13.6	+9.3
5 years p.a.	18.4	8.4	+10.0
LSF Since Inception p.a.	11.6	9.6	+2.0
LSF Strategy Since Inception² p.a.	19.1	8.3	+10.8

Figures may not sum exactly due to rounding.

We believe domestic and global equity markets are generally fully priced, however, we continue to find compelling opportunities with major valuation distortions in select stocks and sectors. In Australia, we see extreme crowding and overvaluation in domestic 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.

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 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.

Reflections on 10 years of the L1 Capital Long Short Fund – Mark Landau and Rafi Lamm

In September, the L1 Capital Long Short Fund passed its 10 year mark since launching. The two of us started L1 together back in 2007 as close friends with a shared passion (more like obsession!) for equity investing, closely aligned investment philosophies and a genuine aspiration for investment excellence. A lot has changed in our business and the world over the last 17 years, but these core elements remain constant.

As we hit our 10-year milestone for the L1 LSF Strategy, we are pleased to share with you our thoughts on the L1 journey so far, as well as our future aspirations.

The evolution of our investment process

The first investment fund we launched back in 2007 was a benchmark-aware, long only Australian Equities Fund. This was our background from our previous respective investment management roles and we had the best chance of attracting investors and establishing a track record with this approach. We believed we could add value ('generate alpha') from three main areas:

First, we made investments based on our fundamental, bottom-up research process with **strict valuation and qualitative considerations** to identify the best opportunities. This approach aimed to avoid overpaying for businesses, as well as not buying 'value traps', where a cheap company ends up being a poor investment because of weak qualitative factors (poor management, industry structure, operating trends or balance sheet).

Second, we set out to **build and leverage a very extensive network of contacts** throughout corporate Australia and overseas to provide a complete and up-to-date perspective on industry trends, inflection points and risks. Today, this means our team conducts several thousand meetings with corporates and industry experts across the globe every year. This remains the core of our research process and represents a competitive edge over a retail investor. We are fortunate to have built strong, long-term relationships with hundreds of senior executives and board members globally, where we can share insights into market dynamics and long-term trends, risks and opportunities.

Third, **we embrace independent thinking**, buying stocks that may be temporarily out of favour (or shorting market darlings where investors may be ignoring looming risks or issues with the business outlook). We have also been prepared to invest counter-cyclically, overcoming behavioural biases and emotional factors that tend to promote momentum investing (and downplay the importance of valuation and mean-reversion).

This investment process has been consistent and successful over many years and has been able to generate alpha for our clients in many different market environments.

Core principles – Alignment and client focus

We founded L1 on the principle of alignment of interests with our clients. We would call it 'extreme alignment'. For everyone in our investment team, and particularly for the two of us, we have had the vast majority (90%+) of our personal investible wealth invested alongside our clients in L1 Funds. We do not permit personal share trading, which means that all investment opportunities go into the Fund, not into our personal portfolios. We pay half of all staff bonuses in the form of investments in L1 Funds that are escrowed for a minimum of three years. We also close our Funds to new investors at levels where we believe we can keep delivering strong risk-adjusted returns, rather than being 'asset gatherers' where the only way to grow business revenues is to continually take on more funds under management (FUM).

All L1 Funds were launched with the end client being the focus – "Is this a fund that we would be prepared to put a large portion of our personal wealth into? Does it offer something differentiated and have a compelling risk-reward compared to other Funds in the market? Can I see why this fund should be able to deliver better returns than an equivalent index or ETF that a client could access?". Ultimately, this is the thought process and hurdle we consider before going ahead with any new L1 Fund and we are pleased to say that all L1 Funds have delivered strong absolute and relative returns since inception.

We sincerely appreciate the faith and trust that you have placed in us and will be working hard to repay that trust over the years to come.

Launching the Long Short Fund in 2014 – a better fund for clients

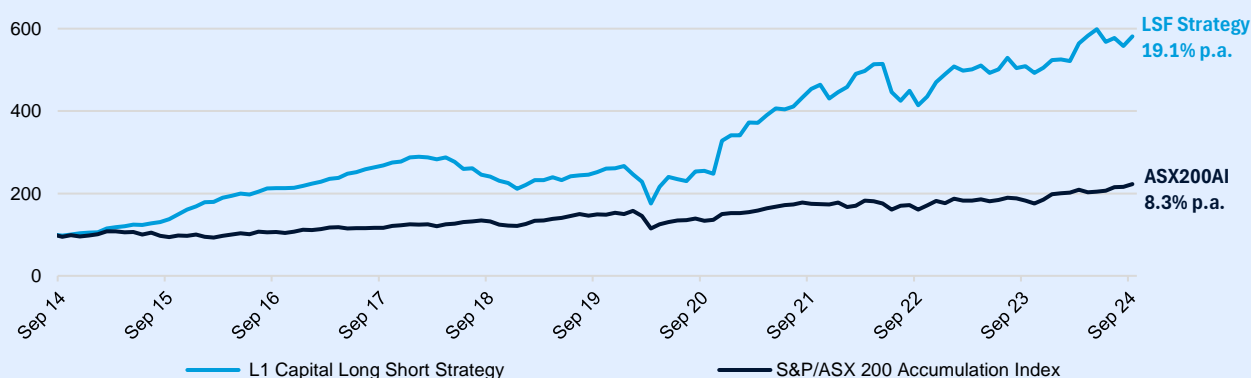
The principle of alignment was part of the genesis of the Long Short Fund. While the Australian Equities Fund was one of Australia's best performing long only funds and the top performing 'value' fund over its life (from 2007 until we closed the Fund in 2022), we both thought there was a better way to generate returns for clients that was aligned with how we would invest our own money. This led to the launch of the L1 Capital Long Short Fund in 2014, which we designed to leverage our existing research processes, whilst also being able to add value in four additional ways:

- **Shorting:** By allowing 'shorting' in the portfolio, we can profit from share prices falling – not only those share prices that rise. Through our research, we frequently come across companies that are overvalued and have a major negative catalyst likely that should result in the share price falling.
- **Adjusting market exposures:** The long-short approach allows us to calibrate how much market exposure we take, seeking to protect capital when we feel risks are high (or valuations stretched) and aiming to enhance returns when equity markets are undervalued more broadly or where sentiment is excessively pessimistic. This provides a significant advantage compared to a traditional long only equity approach that is permanently 100% invested regardless of the riskiness or valuation of the market.
- **International investing:** Incorporating up to 30% international exposure, enables us to leverage our existing research processes to find the best opportunities available across a much larger, global investment universe, not just be limited to ~200 stocks in Australia. Since inception, our offshore stocks have performed even more strongly than our domestic ones, highlighting the appeal of literally having a world of opportunities available to us.
- **Absolute return focus:** Finally, by no longer being benchmark aware and pivoting to an absolute return focus, we avoid the pressure to own stocks purely because they are large parts of the index. This has never been more relevant than today, given we see large cap names being very overvalued in the Australian market.

Performance during the first 10 years

The LSF strategy has quickly become our flagship equity product. Over the last 10 years since inception, it has returned ~19% p.a. for investors (compared to 8.3% p.a. for the ASX200AI index).

Figure 1: L1 Capital Long Short Fund Strategy performance since inception vs. S&P/ASX 200 Accumulation Index

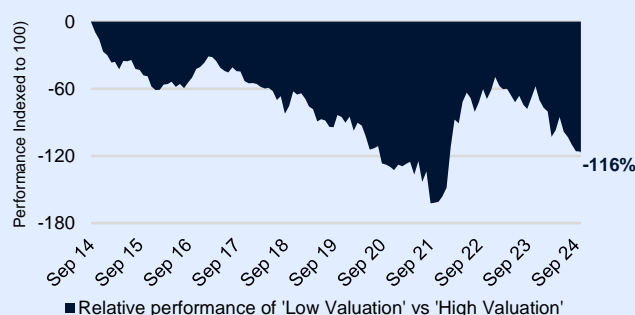


Source: L1 Capital and Bloomberg. All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. LSF Strategy performance is represented by the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014).

This has been achieved despite 'value' stocks facing enormous headwinds. Since 2014, 'low valuation' stocks have underperformed 'high valuation' stocks by 116% (refer Figure 2) and the relative multiple of low P/E stocks when compared to high P/E stocks has almost halved.

Considering this, 2014 was pretty much the worst time in history for launching a 'value' focussed strategy! Despite this enormous style headwind, we have been able to deliver attractive returns due to the quality and rigour of our research process, high calibre investment team, independent thinking and the flexibility of our Fund (outlined above).

Figure 2: Value has significantly underperformed Growth strategies since launch of LSF

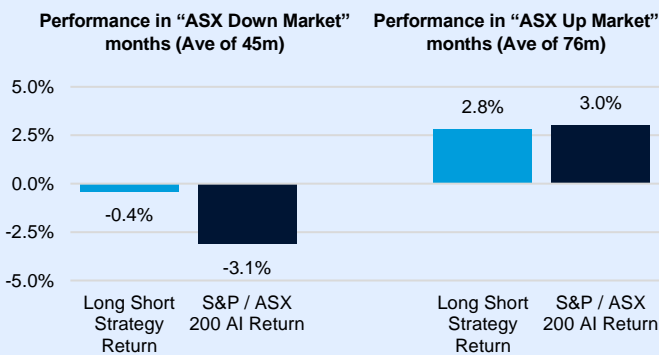


Source: Goldman Sachs Investment Research from 1 Sep 2014 to 4 Oct 2024

Reflecting on our performance, one element that has worked well in the LSF Strategy is its ability to protect capital in falling markets. Since inception, we have been able to protect more than 85% of our investors’ capital in falling markets, which is a major differentiator compared to other Funds and passive/index strategies. In the 121 months since the LSF Strategy’s inception, the ASX200 has fallen in 45 months, with an average decline of 3.1% per month. During those same months, the LSF Strategy declined only 0.4% per month (on average). On the flipside, in the 76 months when equity markets have rallied, we have been able to capture ~90% of the upside (refer Figure 3).

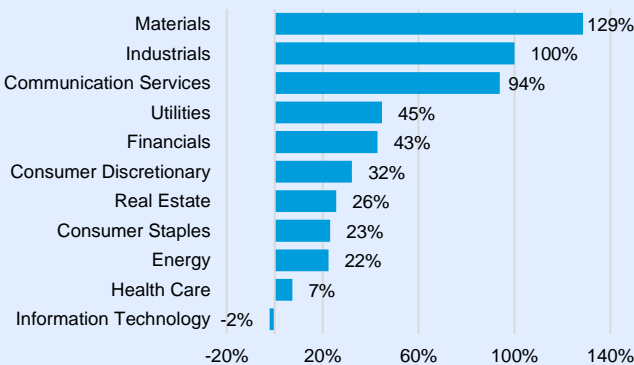
We are also pleased with the diversity in the sources of returns. Since inception, over 125 separate stocks have generated in excess of 1% of gross performance. Significantly, we have delivered positive returns from every sector of the market (excluding I.T. – which is not too surprising given our ‘value’ style – refer Figure 4). Such diversified positive attribution is important, in providing confidence to our investors that our track record is not based on ‘getting lucky’ on one or two stocks or sectors. It also demonstrates that we have a strong team that is conducting high quality research across the board, as each person in the investment team covers a small number of sectors and we have been able to deliver positive returns across a range of market environments and cycles.

Figure 3: LSF Strategy in ‘up’ and ‘down’ markets



Source: L1 Capital as at 30 September 2024

Figure 4: Sector contribution LSF Strategy S.I. (net)



Source: L1 Capital as at 30 September 2024

The Future

We are proud of the Funds we have created and the returns L1 has generated for clients over the journey so far. We believe these have only been possible through cultivating a positive, team-focused culture of continuous learning and striving for excellence, staying humble and open-minded to continue improving our skills and knowledge. We know we can always do better and that is what continues to drive us.

We take inspiration and learnings from leaders in areas of investing, science, sports and the arts whose extraordinary achievements were underpinned by being obsessed with excellence in their field, which enabled them to stand out against hundreds of capable and committed peers. We love the intellectual challenge that investing in equity markets provides us and are incredibly grateful for the support you have shown us.

Thank you and look forward to catching up with you soon.

Mark and Rafi

Equity market observations

We believe equity markets are generally fully valued at an index level; however, we continue to find compelling opportunities with major valuation distortions in select sectors and stocks.

On the positive side, the U.S. economy is holding up relatively well and the data so far supports a moderate growth environment going forward. U.S. annual real GDP growth accelerated to 3.0% in the second quarter, up from 1.6% in the prior quarter. Consumer spending remains resilient, while unemployment levels have risen to 4.1%, they remain relatively low by historical standards.

The U.S. equity market rally broadened over the quarter from large-caps to small-caps and from the ‘Mag 7’ to sectors such as Utilities, REITs, Industrials and Financials, adding further optimism on the durability of the recovery. This is all before the benefits of further interest rate cuts, with current FOMC projections indicating a further 50bps of cuts forecast for 2024 and 100bps for 2025.

Jerome Powell, in his comments at the end of the quarter succinctly outlined the Fed’s views on the economy and the shift in its focus to protect the labour market.

“We are recalibrating policy to maintain the strength in the economy, not because of weakness in the economy.....Overall, the economy is in solid shape; we intend to use our tools to keep it there.”

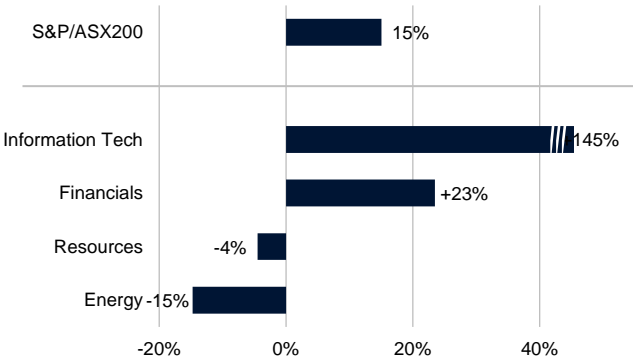
Fed Chair, Jerome Powell (30 Sep 2024)

From a China perspective, the implementation of larger than expected stimulus measures in September was a significant talking point. The stimulus announced so far has largely been targeted at removing the inventory overhang in housing, improving consumer sentiment and achieving a moderate rebound in economic activity. Given that not all the specifics have been announced, it is difficult to be definitive around the impact. On balance, we expect the combined fiscal and monetary stimulus will have some success in achieving these goals which is a positive for the global economy, Chinese equities and materials demand.

In terms of key risks, we continue to see a level of crowding and over-valuation in certain areas of the market. Figure 7 below illustrates the ASX200AI P/E valuation premium for selected different sectors relative to the long-term average P/E. The ASX200AI is trading ~15% above the long-term average P/E. This has been largely driven by the domestic banks within the Financials sector and the Information Technology sector, which are both trading at close to peak P/E multiples versus their history. Conversely, the Resources and Energy sectors remain below long-term average multiples. In general, we see a better opportunity set in these areas of the domestic market that have lagged the broader market rally.

September saw a rotation away from the domestic banks and towards the Resources sector post the announcement of China stimulus measures (refer Figure 8). We believe we are in the early stages of this rotation with the Banking sector continuing to trade on P/E multiples well above historical levels and still having outperformed the Resources sector considerably. With muted earnings growth and little scope for upside surprises, we see the banks as vulnerable to a pullback, either from any economic weakness or improved sentiment to other sectors/geographies (where we would expect selling in Australia’s banks to be a funding source for more compelling opportunities).

Figure 7: Selected sector P/E premium vs. historical average



Source: Refinitiv, Factset, CLSA as at 9 October 2024

Figure 6: Equities markets outlook

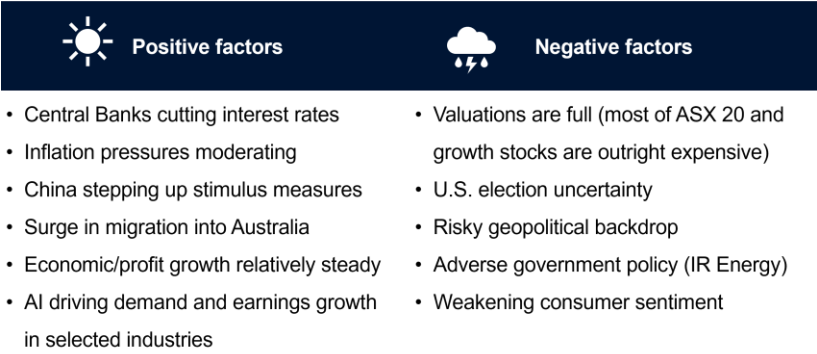
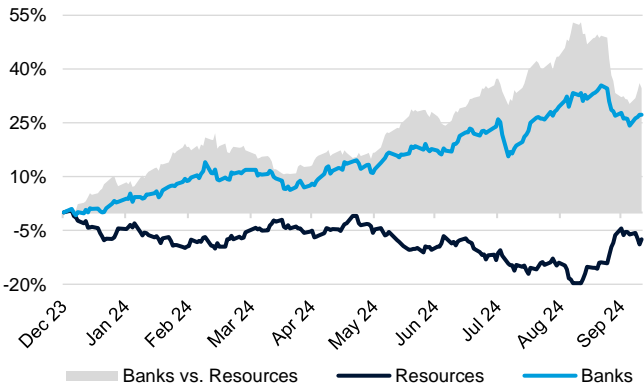


Figure 8: Banks/Resources spread reversed trend in September



Source: Goldman Sachs Investment Research as at 10 October 2024

Portfolio positioning

Positioning of the portfolio has remained broadly consistent with the prior quarter. Despite our view that equities are overvalued at an aggregate or index level, we see significant opportunities outside of the ASX20 and 'Mag 7' mega-caps, in quality companies where valuations are highly attractive. As a result, we have retained a similar net market exposure to the previous quarter.

The portfolio remains heavily skewed on the long side to quality, lower P/E stocks that have strong cash flow generation and solid earnings growth outlooks. Over the quarter, we added moderately to our gold exposure and took advantage of the dislocation in the materials sector in August to add to some of our high conviction positions that sold off, such as Mineral Resources.

The investment team continued to travel extensively and conducted face to face meetings with company management, as well as with our extensive network of industry experts around the world. During the quarter, six members of the team headed offshore, travelling to the U.K., Europe and North America. During this time, we conducted in excess of 140 meetings across several sectors, attended several company investor days and field trips/site tours, and participated in four major industry conferences.

Broadly speaking, sentiment from corporates was one of cautious optimism with the consumer remaining resilient, particularly in North America. Having said that, uncertainty related to the upcoming U.S. Election and U.K. budget, as well as geopolitical tensions, means that corporates are currently holding back some level of investment.

Some of the key feedback from our recent travel is outlined below.

Energy

The team met several energy companies across Toronto and Houston, including, large-scale players like ExxonMobil, U.S. shale focused producers like Occidental Petroleum, and several Canadian oil sands companies like MEG Energy and Cenovus. We also met several service providers to the industry, such as Baker Hughes, Halliburton and Worley.

The overarching message continued to be one of production discipline and a focus on shareholder returns. There has been a spate of consolidation across North America in recent months (ExxonMobil/Pioneer, Chevron/Hess, ConocoPhillips/Marathon Oil, Occidental/CrownRock) as energy companies prioritise efficiency and synergy realisation from consolidating assets. Comments from Trump at the Republican National Convention of "drill, baby, drill" and his drive to increase production levels and drive down prices have made headlines during the quarter. However, our feedback indicates that the regulatory environment has not been the main bottleneck for U.S. production growth and with the industry's focus on consolidation and disciplined growth, we do not expect a major step-up in U.S. oil production in the near-term.

Infrastructure

We carried out several meetings across the European infrastructure sector, including continued engagement with Fraport management and a tour of Frankfurt Airport's T3. The terminal is nearing completion after an extended construction period and at a cost of over €4b. The physical structure is essentially complete, with the focus now moving to internal fit out and the completion of access infrastructure. Fraport remains on track to have this completed by October 2025, with the terminal opening for operations for the European summer of 2026. The trip reinforced our views on the high quality of the asset and the path to increased shareholder returns post the completion of T3.

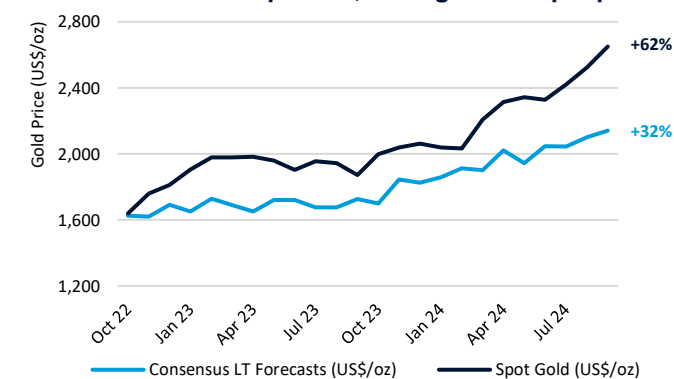
Resources

Within the base metals space, mid-cap companies are generally confident in pursuing organic growth with an improvement in access to funding sources. This includes supportive partners/offtakes (e.g. low-cost Japanese funding), royalty streaming companies and selective capital raisings. The permitting process and a slow regulatory regime continue to be the clear drivers constraining supply. We expect these factors, together with the wide valuation discount of mid-cap Resources stocks vs. large-cap stocks, to drive continued strong M&A activity in the sector. Given the portfolio is currently more exposed to mid-cap companies in the Resources space, this could provide a tailwind to performance going forward.

From a precious metals perspective, two of our team attended the Denver Gold Forum and conducted meetings with numerous mid-cap and large-cap gold companies. Our meetings helped us identify some exciting opportunities, particularly in the offshore mid-cap space. We continue to see the sector as a stand-out opportunity, with our key investments set to benefit from a significant increase in profitability and cash flow generation at spot gold prices.

Gold equities have materially lagged the gold price over the last 12 months and in a similar vein, we note that the long-term gold price used for consensus stock estimates continues to lag spot prices (refer Figure 9).

Figure 9: Gold prices used for consensus stock valuations continue upwards, but lag recent spot prices



Source: Visible Alpha. Consensus forecasts represent 2028 estimate for Newmont.

Travel/Aviation

Our travel/aviation meetings across the U.K., Europe and the U.S. supported a resilient consumer backdrop, albeit with some increased price sensitivity as the market normalises from post-Covid 'revenge travel'. Premium travel demand (extra legroom, premium economy, business class, first class, etc.) remains notably strong. Supply is constrained by aircraft delivery delays, as well as Pratt & Whitney engine issues, which is contributing to stable yields, as is ongoing sector consolidation. Despite some cost pressures remaining, falling energy costs provide an underappreciated near-term tailwind.

Sports Betting/iGaming

We attended the Flutter Investor Day and separately met with six of the top seven players in the U.S. Sports Betting/iGaming market. Our meetings increased our conviction on the long-term growth and attractiveness of the U.S. market, as well as Flutter's ability to maintain its market leading position. At the investor day, Flutter increased its view of the long-term North American TAM (Total Addressable Market) from ~US\$40b two years ago to ~US\$70b today. This amounts to a ~70% increase and is predominantly driven by a ~45% increase in player values. The company now has 7,500 technologists globally and 1,500 employees working on risk/pricing alone. This unrivalled scale and focus gives Flutter a structural advantage that is hard for peers to replicate. It is due to release several innovative new products in the coming months that we believe will further entrench its market leading position.

A number of our team will be travelling again during the December quarter, covering the U.K. (Industrials), Europe (Resources), New Zealand (TMT) and Singapore (Tech). Against the backdrop of a dynamic macroeconomic environment (central bank decisions, China stimulus) and geopolitical uncertainty (U.S. Elections, Middle East tensions) we continue to believe an intensive, global visitation schedule is imperative to further develop and cross check our investment views.

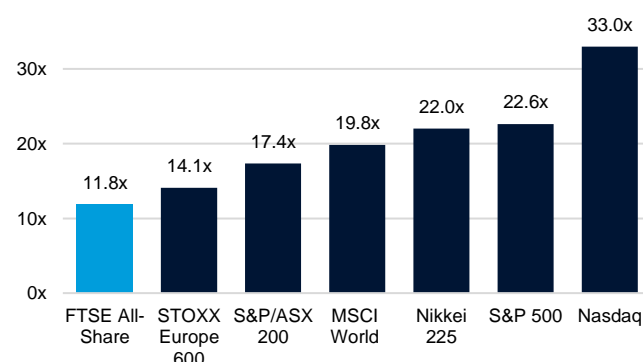
Why we're excited about opportunities in the U.K.

Consistent with our commentary from last quarter, we remain positive with respect to investing in the U.K. where we have been able to identify a number of high-quality opportunities.

While we believe our investments are well placed to perform positively in a range of market conditions, we are also cautiously optimistic on the U.K. macro environment where there has been a recovery in a number of key economic indicators (e.g. business and consumer confidence, PMI and housing activity) from historically low levels over the past 12 months. This is against the backdrop of easing cost of living pressures and the Bank of England commencing its rate-cutting cycle in August. While there is short term uncertainty such as the risk of increased sector-specific taxes leading into Labour's upcoming first budget on 30 October, we note government messaging to date has been quite balanced, and the medium-term economic outlook still looks attractive.

Valuations across the U.K. market remain below the 10-year average, and materially below other major market indices (refer Figure 10). Over the last 9 months we have been able to build positions in high-quality, leading U.K. companies. Figure 11 highlights the attractive valuation and earnings growth outlook of some of these positions when compared to comparable companies in the Australian market. In many cases, we are buying these stocks at roughly half the earnings multiples of comparable Australian peers, with stronger earnings outlooks, operating trends and balance sheets.

Figure 10: U.K. vs major markets 12m forward P/E ratio



Source: Bloomberg as at 30 September 2024

Figure 11: Relative valuation metrics of U.K. and Australian/global competitors**

	Tesco	Woolworths	NatWest	CBA	Rightmove	REA
FY25 P/E	13.4x	23.6x	7.2x	23.8x	21.7x	53.9x
EPS growth (3y from FY24)	10.0%	6.7%	8.3%	2.2%	14.1%	18.9%

Source: Visible Alpha, as at 16 October 2024.

**Other than CBA which we have discussed previously, it should not be assumed we hold short positions in the Australian stocks referenced here, and they are presented purely to show valuation and growth disparities.

- Tesco:** Tesco is the largest grocery retailer in the U.K. with ~28% market share (almost double that of its next largest competitor). Tesco has a strong balance sheet, with very little net debt and ~70% of its current market cap in owned property. Management is executing extremely well and Tesco has been consistently gaining market share over the last 18 months. The business is highly cash generative, which combined with the pending sale of its banking operations, is funding a substantial share buy-back program. Despite expectations for double-digit EPS growth over the next three years, Tesco currently trades at ~13x FY25 P/E, compared with Coles and Woolworths which are currently trading well above 20x.

- **NatWest:** NatWest is the largest commercial lender in the U.K. (20% share) and the second largest U.K. retail bank with ~13% of all mortgages. We see NatWest as best positioned in the U.K. Banking sector to benefit from improving margin trends, with topline growth supported by a rebound in U.K. housing and economic activity. Moreover, with significant buybacks owing to a strong capital position, NatWest should see ~8% EPS growth p.a. over the next three years vs. ~2% expected growth for CBA. Although CBA enjoys a more dominant market position in Australia vs. NatWest in the U.K., it appears overvalued in our view as it trades on ~24x FY25 P/E (historical highs) compared to only ~7x for NatWest.
- **Rightmove:** Rightmove is the dominant real estate portal in the U.K., where its portal generates over 80% of home search traffic and leads. It is well positioned to deliver double digit earnings growth over the long term as it improves both its core offering and its offerings in adjacencies (Rentals, Commercial and Mortgages) and has positive leverage to an improving U.K. housing market. We were able to buy into the stock at under 20x earnings, which we see as a highly compelling entry point for the quality of the business on offer. While REA Group is a stronger business than Rightmove, due to a superior domestic market structure and growth opportunities, it currently trades on more than double the earnings multiple. At the same time other marketplace businesses in Australia and globally often trade at north of 30x. Several months after our investment, REA Group made a takeover bid for Rightmove. While we are disappointed that this bid ultimately failed (as it was unable to obtain support from Rightmove's board), we believe the takeover interest highlights the inherent value and strategic attractiveness of the Rightmove business.

Key stock contributors for the quarter

Qantas (Long +27%) delivered a strong FY24 result that was broadly in line with expectations, underpinned by positive trading across Qantas and Jetstar. Strong cash flow in the half highlighted the robust financial position of Qantas and helped underpin a new \$400m share buyback announcement and guidance to reinstate fully franked dividends from 1H25. Assuming a modest 30% payout ratio, Qantas would be trading on a 4.1% fully franked dividend yield. Domestic demand remains robust, and the recent fall in the jet fuel price provides an additional boost to earnings.

Pleasingly, efforts by Qantas under new CEO Vanessa Hudson to address customer 'pain points' appear to be bearing fruit, with improved on time performance, NPS (Net Promoter Score, which measures customer satisfaction) and growth in frequent flyer participation, all indicating improving brand health for Qantas and Jetstar. 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. Qantas trades on a FY25 P/E of only 7.5x, despite a leading industry position, structural growth in travel demand and a high growth, capital-light loyalty division, which remains incredibly under-appreciated by the market.

CRH (Long +24%) shares rallied over the quarter, supported by a constructive Q2 earnings result and an increase to FY24 EBITDA and EPS guidance. The June quarter was affected by adverse U.S. weather conditions and heavy rains which negatively impacted volumes. CRH was able to offset these impacts and continue to deliver double-digit earnings growth, (unlike several U.S. listed peers who were forced to cut guidance). We believe this illustrates the quality of the company's vertically integrated business model and the strength of its management team in navigating more challenging market conditions. CRH remains exposed to the 'golden age' of infrastructure spending in the U.S., 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 of investment to ageing U.S. infrastructure.

Tesco (Long +17%) shares performed strongly following continued evidence of market share gains in the U.K. grocery market and an improving overall consumer environment in the U.K. These market share gains have been driven by Tesco's consistent positioning as the lowest price full-line grocer in the U.K. (via initiatives such as discounter price matching) and strong execution in areas such as premium private label products. Tesco reported its first half FY25 results in early October, with earnings beating consensus expectations and the company upgrading its full-year profit guidance. Pleasingly, as food inflation in the U.K. eases, Tesco is reporting volume growth and continued market share gains going into the important Christmas trading period.

Chorus (Long +9%) shares rose 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 during the quarter 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 very significant, correlating to the current inflection in Chorus's business as it concludes the 10-year, capital-intensive build phase of its fibre rollout and shifts the company 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.

NatWest (Long +10%) 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, a 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 15% return on tangible equity and ~8% p.a. earnings growth over the next three years based on consensus expectations. We find these metrics and attributes very compelling, especially when compared to Australian banks.

Rightmove (Long +15%) shares were stronger as its Australian peer, REA Group, made several takeover proposals for the company and then ultimately withdrew its interest on the last day of the month as it was unable to secure board support for its approach. We were disappointed that a formal proposal to shareholders could not be reached given the bids made were at a ~40% premium to the pre-offer Rightmove share price and came from a global leader that had the potential to bring increased capability to the group.

Despite the cessation of the takeover process, we remain very positive on Rightmove's prospects. It currently captures over 80% of real estate search traffic and delivers an equivalent proportion of leads, which locks in positive network effects as the U.K.'s leading real estate marketplace. We see the business as well placed to deliver double-digit earnings growth annually over the long term, while also being positioned to benefit near-term from any cyclical improvement in the U.K. housing market. Against this backdrop, we see Rightmove's valuation as highly attractive, with the company trading on a 2025 P/E of less than 22x, representing a significant discount to global peers.

Key stock detractors for the quarter

NexGen Energy (Long -7%) weakened as uranium prices fell 5% over the quarter. 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 looming 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\$5.5b.

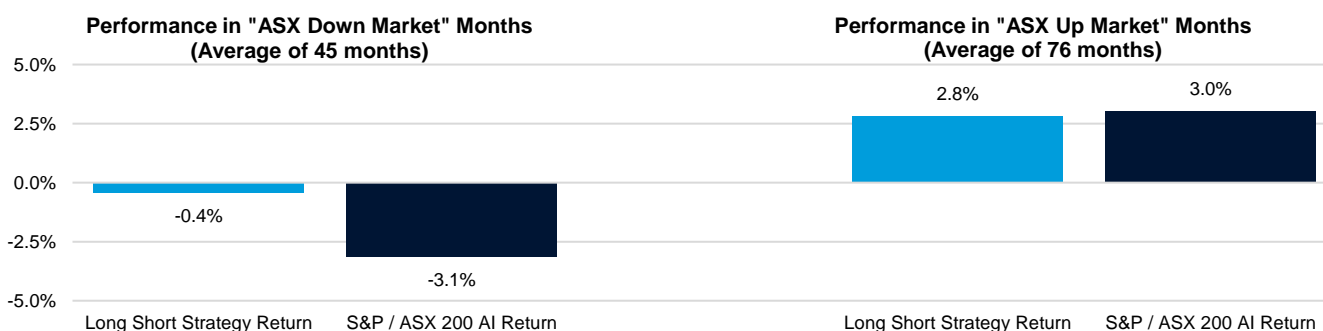
Cenovus (Long -15%) and MEG Energy (Long -13%) shares fell as the WTI oil price decreased 17% to ~US\$69/bbl on the back of increased concerns around a potential increase in OPEC supply along with slower global economic growth. Despite OPEC delaying a previously planned increase in oil output, the oil price continued to weaken due to the weaker demand outlook. During the quarter, we attended the Peters & Co oil and gas conference in Toronto, meeting one on one with management from Cenovus and MEG Energy, along with the entire peer group. We continue to favour Cenovus and MEG in the sector due to their strong cash flow generation, the long-life nature of their oil sands assets, low cost of production and strong balance sheets. Both Cenovus and MEG have now transitioned to returning 100% of free cash flow back to shareholders, having reached their respective net debt targets. As a result, we see both names offering sector leading shareholder returns, combined with some modest, accretive output growth.

Strategy returns (Net)³ (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	-	-	-	-	-	-	-	-	(2.4)	3.0	2.8	1.6	5.1
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	2.6	1.7	1.9	2.5	0.9	3.6	31.4
2018	0.6	(0.5)	(1.6)	(1.3) ³	(4.1)	(6.0)	1.0	(5.3)	(2.1)	(3.9)	(2.6)	(6.0)	(27.7)
2019	4.3	5.1	0.2	3.1	(2.7)	3.9	0.6	0.4	2.5	3.5	0.4	2.1	25.5
2020	(7.8)	(6.8)	(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	(13.5)	(3.3)	5.4	(7.6)	5.2	7.5	4.4	10.7
2023	3.6	(2.0)	0.5	1.6	(3.2)	1.7	5.2	(4.9)	0.9	(3.1)	2.4	3.7	6.2
2024	0.3	(1.0)	8.1	3.3	2.6	(5.0)	1.5	(3.3)	4.3				10.8

Figures may not sum exactly due to rounding.

Strategy performance in rising and falling markets³ (Net)



Portfolio positions

Number of total positions	72
Number of long positions	54
Number of short positions	18
Number of international positions	22

Company information as at 30 September 2024⁴

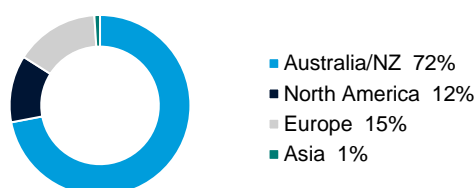
Share Price	\$3.13
NTA before tax	\$3.17
NTA after tax	\$3.07
Shares on issue	622,412,649
Company market cap	\$1.95b

Net and gross exposure (%)

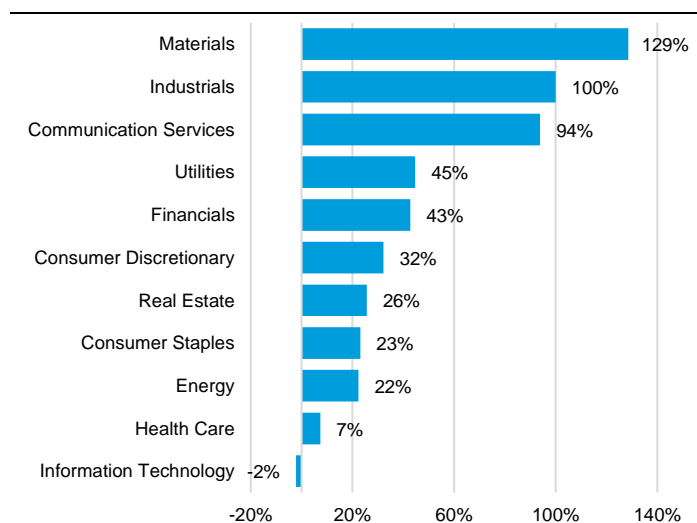
	Gross long	Gross short	Net exposure
Australia/NZ	99	(76)	23
North America	28	(3)	25
Europe	36	—	36
Asia	4	—	4
Total	167	(79)	88

Figures may not sum exactly due to rounding.

Gross geographic exposure as a % of total exposure



Sector contribution since Strategy inception³ (Net)



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

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% p.a.
High watermark	Yes
Platform availability	BT Panorama, CFS Firstwrap, HUB24, IOOF, Macquarie Wrap, Mason Stevens, Netwealth, Powerwrap, uXchange

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	MUFG Corporate Markets (formerly Link Market Services Limited)
Company website	www.L1LongShort.com

L1 Capital 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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