L1 CAPITAL

Monthly report

L1 Long Short Fund Limited (ASX:LSF)

December 2024

- The L1 Long Short Fund (LSF) portfolio returned -3.8%[1] in December (ASX200AI -3.2%).
- Over the past 5 years, the portfolio has returned 15.1%[1] p.a. (ASX200AI 8.1% p.a.).
- Global markets fell in December as hawkish signals from the Fed contributed to a sharp rise in U.S. bond yields and led to reduced interest rate cut expectations.

Markets declined sharply in December driven by a hawkish FOMC meeting which contributed to a 40bps surge in U.S. 10-year bond yields and a reduction in 2025 rate cut expectations from four 25bps cuts to just two.

At the December FOMC, Fed Chair Jerome Powell emphasised the need for greater balance between achieving the dual goals of maximum employment and stable inflation, a shift from prior meetings where he put greater emphasis on protecting the labour market. The key change coming out of the meeting was a higher inflation outlook as the Fed increased its 2025 year-end projections for Core PCE by 0.3% to 2.5%, its biggest quarterly change in more than a year.

Over the past 2 years, the Russell 1000 Growth index has now outperformed the Value index by 63%, which is the biggest 2-year outperformance for Growth stocks since the indices' inception in 1978 (topping even the 61% outperformance during the Tech Bubble!). December was another extremely strong month for Growth stocks, outperforming Value by 7.7%, the largest monthly divergence since May 2023.

Given our value investment style, we have faced an enormous 'factor headwind' over 2023 and 2024, but feel that the elastic band has now stretched a very long way and we look forward to a reversion back towards 'quality value' stocks in the coming years.

The S&P/ASX 200 Accumulation Index declined 3.2% over the month. Consumer Staples (+0.6%), Utilities (+0.4%) and Industrials (+0.3%) were the strongest sectors, while Property (-6.0%) and Materials (-4.5%) lagged.

The portfolio was impacted by the market sell-off, where value and cyclical stocks fell more than momentum and high P/E stocks.

We believe the valuations across the portfolio currently represent outstanding value in absolute terms and even more so when viewed relative to a market with many significant pockets of overvaluation.

Returns (Net)[1] (%)

	L1 Long Short Portfolio	S&P/ASX 200 AI	Out-performance
1 month	(3.8)	(3.2)	(0.7)
3 months	(7.9)	(0.8)	(7.1)
1 year	2.0	11.4	(9.4)
2 years p.a.	4.1	11.9	(7.8)
3 years p.a.	6.3	7.4	(1.2)
4 years p.a.	11.8	9.8	+2.0
5 years p.a.	15.1	8.1	+7.1
LSF Since Inception p.a.	9.8	9.1	+0.7
LSF Strategy Since Inception[2] p.a.	17.6	8.0	+9.7

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 specific stocks and sectors. In Australia, we continue to 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. Many high P/E growth stocks also look incredibly overvalued based on traditional valuation metrics. 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 substantial, 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 recent moves.

1. All performance numbers are quoted net of fees. L1 Long Short Fund Limited (ASX:LSF) returns are calculated based on the movement of the underlying investment portfolio net of all applicable fees and charges since inception on 24 April 2018. Figures may not sum exactly due to rounding**. Past performance should not be taken as an indicator of future performance. 2.** LSF Strategy Since Inception returns are for 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 December were:

Fraport (Long +13%) shares were stronger in December, boosted by Frankfurt Airport reaching an agreement with its airline partners on a new four-year tariff deal (2025-28). The new deal will deliver growth in tariffs totalling 17% over the four years, underpinned by an uplift of 5.7% in 2025. These increases were ahead of consensus expectations and bring greater certainty for investors who had previously needed to rely on 1-year agreements. November traffic growth of 1% was modest, but represented 92% of pre-COVID traffic levels, and was in line with expectations. The combination of tariff and traffic growth is set to drive Aviation earnings in Frankfurt over the medium-term, while the Group is also positioned for ongoing earnings growth from its International concessions.

Fraport continues to draw nearer to a significant inflection in its free cash flow generation with its capex requirements set to fall by over €1b over the next few years due to major investments in Frankfurt, Lima and Turkey reaching completion in 2025. These major upgrades to the Group's infrastructure support further earnings growth and high levels of cash generation for many years to come. As a consequence, we believe Fraport is well-positioned to pay dividends from 2026. We continue to see substantial valuation upside for Fraport over the medium term, which we expect will be reflected in the share price over time as these positive milestones are achieved.

De Grey Mining (Long +16%) shares materially outperformed during the month as the company received a takeover offer from Northern Star at a 37% premium to its last close price. De Grey mining owns 100% of the Hemi Gold project, a new tier one gold discovery in the Pilbara. Hemi is expected to deliver annual gold production of over 500koz for multiple decades, positioning it to become one of Australia's largest gold producers. At the time of the offer, De Grey was in the final stages of permitting and on track to commence construction on the $1.3b project in 2025. Northern Star's offer is consistent with our core De Grey investment thesis, which is that Hemi is a genuine tier one project which has significant upside beyond its initial metrics, the project's full value was not reflected in the De Grey share price and the scarcity of new high quality gold discoveries makes new tier one gold projects attractive consolidation targets for large existing producers. We believe the announced transaction sensibly de-risks project execution going forward for De Grey shareholders while also providing a strong return outcome.

Key detractors to portfolio performance in December were:

NexGen Energy (Long -20%) declined as spot uranium prices fell ~5% during the month. While spot prices have trended lower over the last three months on low volume, uranium 'term' prices (the agreed contracted price representing almost all commercial uranium demand) have continued to hold steady over the last six months and are currently attracting more than a 10% premium to spot prices. In addition, supply risk remains front of mind, with Kazatomprom and Cameco recently announcing the temporary suspension of one of the world's largest uranium operations, their Inkai joint venture in Kazakhstan, due to permit delays.

NexGen is preparing to develop the world's largest undeveloped uranium deposit, Arrow, located in Saskatchewan, Canada. This will be a major, new, strategic Western source to address the looming uranium market deficit. The company is about to enter the final stage of federal approval with a commission hearing expected in H1 25, following which it can commence full scale project construction. Once developed, Arrow has the potential to generate more than C$2b of cash flow annually – a highly attractive proposition given NexGen's current market cap of ~C$6b.

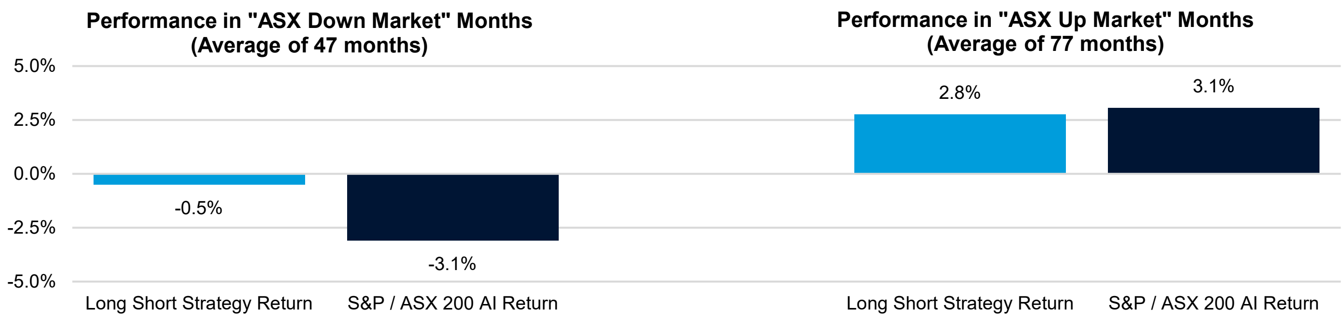
BlueScope Steel (Long -16%) shares underperformed during the month largely due to weak steel markets globally. Asian steel spreads remain depressed as excess Chinese steel production has resulted in elevated exports (>100Mtpa annual run-rate) pressuring prices across the region. U.S. steel markets have also weakened, with end market demand impacted by ongoing uncertainty associated with the upcoming change of U.S. government administration, as well as on the trajectory of inflation and interest rates.

Pleasingly, under these challenging conditions, BlueScope recently announced a target of delivering ~$200m of cost out benefits across the group, recognising the need for productivity enhancements to improve business resiliency. More broadly, the company continues to focus on growing its U.S. business with the ongoing expansion of its North Star steelmaking facility and evaluating additional investment to expand its product offering further downstream. We continue to believe the market significantly undervalues BlueScope's unique and strategic asset base and the longer-term resilience of the largely consolidated U.S. steel sector.

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	(1.4)	(2.9)	(3.8)	**2.0**

Strategy performance in rising and falling markets[4] (Net)



Portfolio positions

Number of total positions	76
Number of long positions	57
Number of short positions	19
Number of international positions	26

Company information as at 31 December 2024[5]

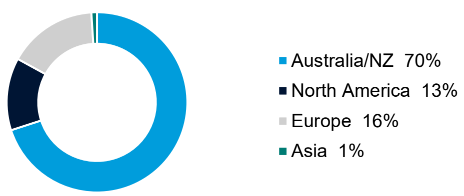
Share Price	$2.91
NTA before tax	$2.94
NTA after tax	$2.90
Shares on issue	625,482,718
Company market cap	$1.82b

Net and gross exposure (%)

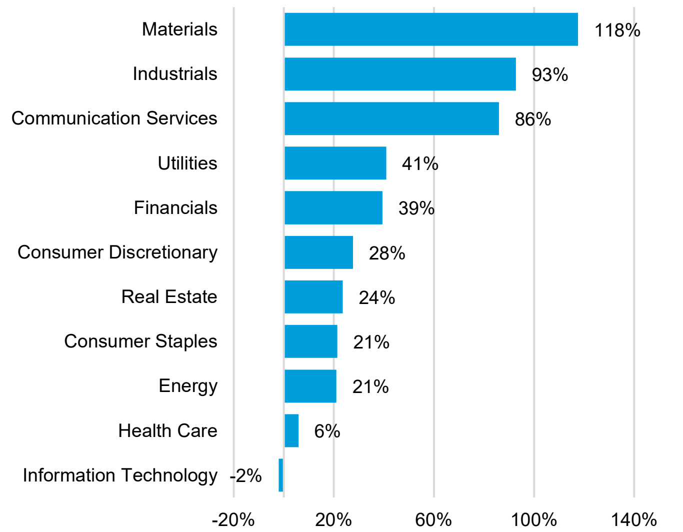
	Gross long	Gross short	Net exposure
Australia/NZ	103	(88)	14
North America	30	(5)	26
Europe	44	-	44
Asia	2	-	2
Total	**179**	**(93)**	**86**

Figures may not sum exactly due to rounding.

Gross geographic exposure as a % of total exposure[4]



Sector contribution since Strategy inception[4] (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% p.a.
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.