L1 CAPITAL

Quarterly report

L1 Long Short Fund Limited (ASX:LSF)

December 2024

- The L1 Long Short Fund (LSF) portfolio returned -7.9%[1] for the December quarter (ASX200AI -0.8%).
- Over the past 5 years, the portfolio has returned 15.1%[1] p.a. (ASX200AI 8.1% p.a.).
- Global markets were mixed over the quarter, with initial optimism following Trump's decisive election win fading amid hawkish Fed signals and rising U.S. 10-year bond yields.

Global equity markets were volatile over the quarter due to U.S. election uncertainty and significant shifts in interest rate expectations and long-term bond yields.

After a weak start to the quarter, markets were buoyed in November by the conclusive victory of Donald Trump in the U.S. elections which provided both political certainty and the prospect he would enact policies that would be supportive for U.S. economic and corporate earnings growth.

However, this was offset in December by renewed inflation concerns and a spike in long-term bond yields, particularly following a hawkish December FOMC meeting. At this meeting, Fed Chair, Jerome Powell, flagged a sharp increase in 2025 year-end inflation projections and a halving in the Fed's expected rate cuts for 2025 (from four 25bps cuts to just two). This contributed to a surge in long-term bond yields, with U.S. 10-year bond yields up 79bps to 4.57% and Australian 10-year bond yields up 39bps to 4.36% over the quarter.

Domestically, a dovish pivot from the RBA in December and supportive inflation data brought forward market expectations for interest rate cuts to potentially as early as February 2025.

The Australian market declined 0.8% this quarter. The best performing sectors were Financials (+5.9%), Industrials (+3.3%) and Communications Services (+2.2%) while Materials (-11.9%), Property (-6.0%) and Energy (-5.4%) lagged.

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

Over the past 2 years, the Russell 1000 Growth index has 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!). The December quarter was another extremely strong period for Growth stocks, outperforming Value by 9.1%.

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.

Returns (Net)[1] (%)

	L1 Long Short Portfolio	S&P/ASX 200 AI	Out-performance
3 months	(7.9)	(0.8)	(7.1)
1 year	2.0	11.4	(9.4)
3 years p.a.	6.3	7.4	(1.2)
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 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.

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. LSF (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.

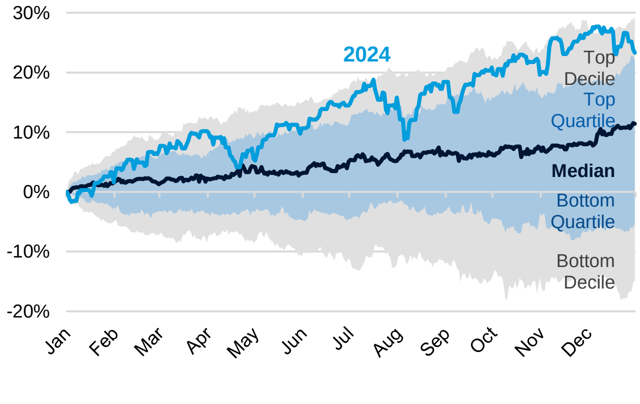
Equity market observations

U.S. market exceptionalism was the defining theme throughout 2024 with the positive backdrop of solid economic activity, robust corporate earnings growth and easing monetary policy by central banks supporting exceptionally strong returns for U.S. markets.

The S&P 500 enjoyed top decile performance relative to its history (refer Figure 1) with performance once again extremely concentrated among the ‘magnificent 7’ mega-cap tech stocks (Nvidia, Tesla, Microsoft, Alphabet, Meta, Apple and Amazon). These seven stocks alone were on average up 61% in 2024 and 112% in 2023, which, given their size, contributed to over half of the S&P 500 total return for 2024 and ~60% of the total return for 2023. These returns plus a stronger U.S. dollar propelled U.S. markets to outperform all other developed markets globally (refer Figure 2).

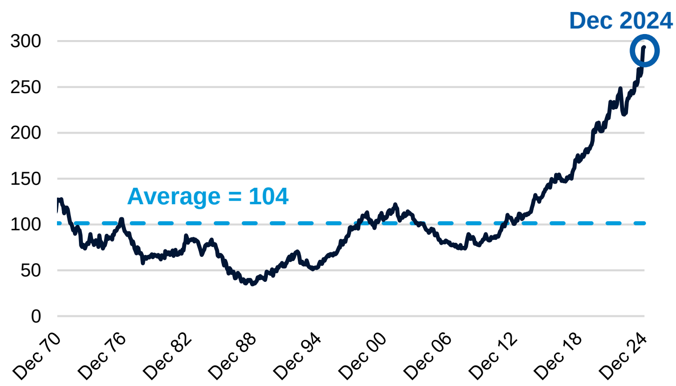
Another stark reminder of how narrow market leadership has been, is the performance of the Russell 3000, which represents approximately 98% of the investible U.S. equity market. Although the index advanced 22% in 2024, a deeper look highlights a markedly different outcome for its constituents. The median stock in the index gained just 3.8%, and nearly half of its constituents ended the year in the red.

Figure 1: S&P 500 calendar year returns since 1928



Source: Bloomberg, Datastream, Global Sachs Investment Research

Figure 2: S&P 500 vs. MSCI World (ex US) (Indexed to 100, USD)

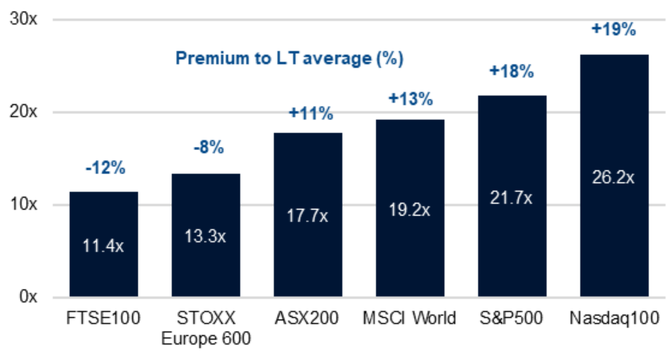


Source: Bloomberg as at 31 December 2024

Macroeconomic data released during the quarter generally reinforced the robust near-term outlook for the U.S. economy. GDP growth of 3.1% in Q3 2024 is ahead of most other major advanced economies and 2025 U.S. GDP Growth is expected to be above 2% based on consensus estimates. The November unemployment rate of 4.2% remains relatively low by historical standards, and November retail sales growth of 3.8% points to a healthy consumer environment. However, given the rally in markets and the narrow level of market leadership, current valuations look generally full at an index level. The S&P500 and Nasdaq are trading 18% and 19% above their long-term averages (refer Figure 3). We believe U.S. markets are pricing in a relatively benign outlook and favourable view of the Trump administration’s potential impact on economic growth.

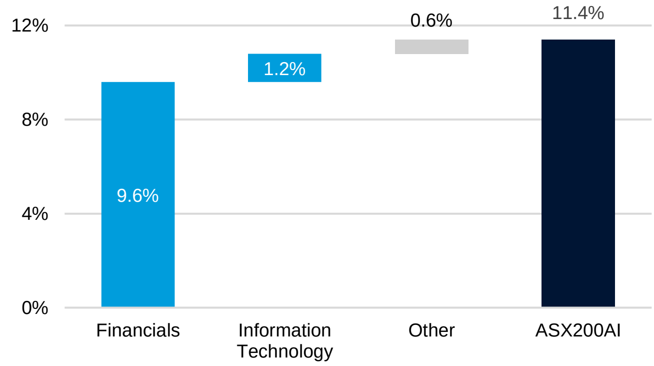
From a domestic perspective, the ASX200 has also re-rated substantially and currently trades at an 11% premium to its long-term average P/E multiple (refer Figure 3). The ASX200 in our view looks particularly vulnerable going forward, with returns concentrated in a few sectors and the majority of the gains for 2024 driven by a re-rate in valuation multiples rather than underlying EPS growth. **The Financials and Information Technology sectors together generated ~95% of index returns for the year, despite relatively small earnings revisions in the current or outer years (refer Figure 4). As we have written about previously, we find valuation multiples for the domestic banks, which comprise most of the Financials sector, increasingly hard to justify and susceptible to a pullback, either from any economic weakness or improved sentiment to other sectors/geographies.** The Technology sector rallied nearly 50% in 2024 supported by growth stocks outperforming value stocks over the period and now trades at a 54x forward P/E multiple.

Figure 3: Current P/E multiples vs. 10-year average



Source: Bloomberg as at 31 December 2024

Figure 4: 2024 ASX200AI performance contribution by sector

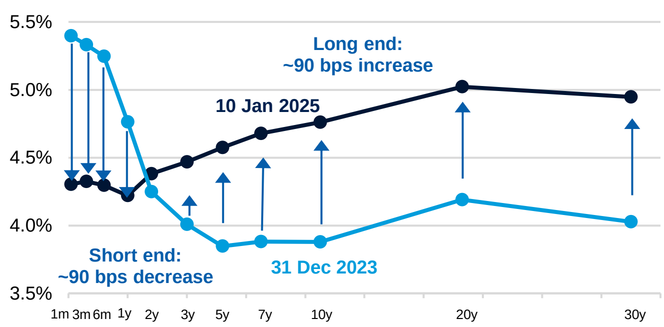


Source: Goldman Sachs Investment Research

Despite a generally positive market narrative, there are several key indicators which we have been following closely that are starting to show signs of weakness.

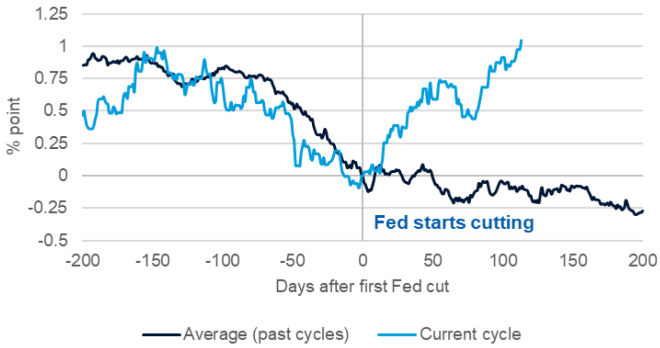
Notwithstanding the Fed cutting interest rates by 100bps since September, we have seen long-term U.S. bond yield rise sharply across all durations. Figure 5 illustrates that while the short end of the yield curve has declined compared with a year ago (reflecting the cumulative Fed rate cuts), the long end has increased by around 90bps. The current movement is highly unusual when comparing the changes in yields to prior interest rate cutting cycles – typically we would expect long-term rates to remain relatively flat or decline as rates fall (refer Figure 6). The bond market appears to be taking a cautious view on rising inflation risks and elevated U.S. budget deficits into an environment where there remains a high degree of uncertainty regarding the ultimate form and impact of President Trump's economic policies. This has started to weigh on equity markets in recent months and could add a further headwind should the U.S. 10-year bond yield head above 5%.

Figure 5: U.S. yield curve shift



Source: Bloomberg as at 10 January 2025

Figure 6: U.S. 10y bond yield before/after first Fed rate cut

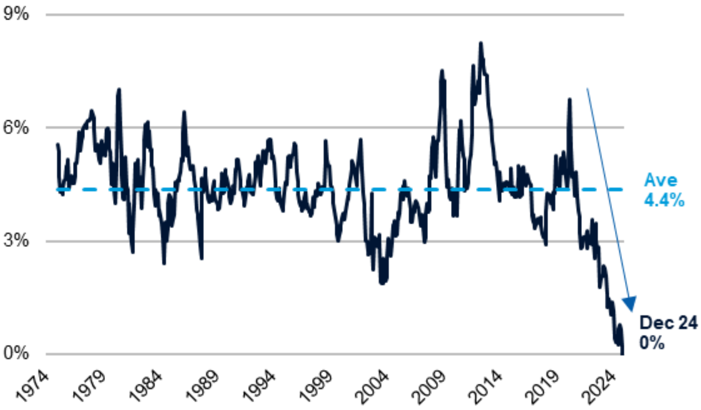


Source: Bloomberg, Apollo Chief Economist

Figure 7 below illustrates the changes in the equity risk premium ('ERP') over time. The ERP can be thought of as the compensation to equity holders for taking on a higher risk by investing in equities over 'risk-free' assets such as government bonds. The S&P500 ERP has declined sharply to near zero, which is well below its long-term average of around ~4.5%. While not definitive, this is another indicator that markets at an index level may be more susceptible to corrections and more subdued returns going forward.

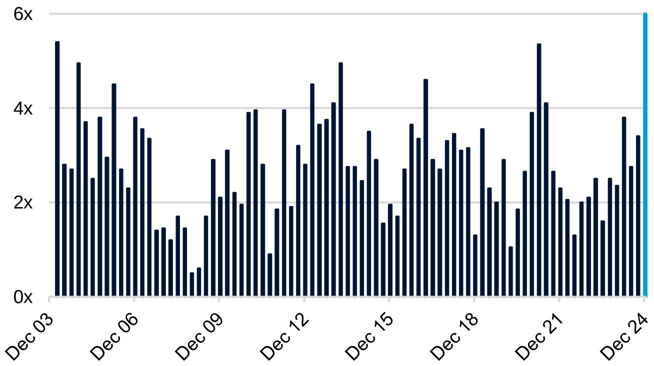
Finally, we are also seeing record levels of insider selling in 2024. As show in Figure 8, the ratio of net insider selling to buying is at a 20-year high. The last time this measure soared close to this level was in 2021, before the 2022 bear market in U.S. equities. This is not always a bearish signal, but it suggests that the balance of risks to company earnings and valuations has shifted more negatively.

Figure 7: S&P 500 Equity Risk Premium



Source: FactSet, Macquarie Research. Average calculated over the 20 years to 31 December 2024.

Figure 8: Ratio of insider sellers to buyers



Source: Financial Times, Verify Data, LSEG via markets.ft.com

Portfolio positioning and performance

From a portfolio positioning perspective, the Fund's net exposure remained broadly consistent with the prior quarter. Despite our view that equities are overvalued at an aggregate or index level, we are finding significant opportunities outside of the ASX20 and 'Mag 7' mega-caps, in quality companies where valuations are highly attractive. The portfolio remains heavily weighted towards quality, lower P/E stocks with strong cash flow generation and solid earnings growth prospects. Over the quarter, we trimmed several stocks that had rallied into the year-end and took advantage of the sell-off in gold equities to moderately add to our exposure. **We continue to see gold equities as a stand-out investment opportunity and have expanded on our views in the section below on page 6.**

When reflecting on our performance and the key drivers over the year it was a story of two distinct halves for the portfolio. The Fund delivered a solid first half, with the portfolio up 8.2% (post-fees) at the end of June 2024. However, the second half was more challenging, particularly the December quarter, leading to overall performance for the calendar year falling short of our expectations.

Some of the key drivers of returns in the first half of 2024 were:

- **Copper (Hudbay, Capstone)** – Copper price rally driven by a heightened recognition of the long-term structural market deficit.
- **Artificial Intelligence (TSMC, SK Hynix)** – Exponential increase in capex spending on data centres and AI related initiatives.
- **Energy (Cenovus, MEG Energy)** – Disciplined capital allocation and a supportive oil price environment.
- **Global Leaders (Flutter, CRH)** – Continued strong execution reinforcing their leadership positions.
- **Domestic Cyclicals (Qantas, Downer)** – Solid earnings growth, cost-out execution, increasing shareholder returns.
- **Insurance (QBE)** – Improved underwriting performance, increased shareholder returns.

These positive contributors outweighed key detractors, which included:

- **Lithium (Arcadium Lithium)** – sharp decline in lithium prices driven by weaker global demand.
- **Infrastructure (Fraport)** – aircraft delivery delays and industrial action negatively impacted passenger volumes.

In the second half of the year, Global Leaders and Domestic Cyclicals continued to deliver strong performance. The portfolio also benefitted from notable strength in several U.K. holdings like Tesco, NatWest and Rightmove, solid returns from our Infrastructure positions such as Chorus and Fraport, and a rally in gold and precious metals.

However, four key factors more than offset these contributors over the second half:

1. **Domestic Banking Sector:** The portfolio has some short positions within the domestic banking sector as well as index short positions in the ASX200. As outlined above, the Financials Sector drove 9.6% of the 11.4% return for the ASX200AI index in 2024. The portfolio was impacted by both the individual rally in the domestic banking stocks as well as the index rally they supported. We continue to see domestic banking valuations as extremely stretched versus history, offering minimal earnings growth and with valuations not reflecting risks around a potential uptick in bad debts.
2. **Growth vs. Value stocks:** The portfolio maintains a value bias in our long book with a focus on quality, lower P/E stocks and has some short positions in speculative, high P/E stocks. As highlighted earlier, 2024 saw a very extreme outperformance of Growth over Value stocks, which accelerated in the last few months of the year. This saw value and cyclical stocks fall more than momentum and high P/E stocks and presented a large 'factor headwind' for the Fund.
3. **Energy sector weakness:** While Energy was a positive contributor in the first half, the second half saw oil prices decline, with brent crude falling from close to US$90/bbl to US$75/bbl by the year's end. The market remains concerned with weakening demand and increasing output potentially leading to an over-supply. We continue to believe our energy positions are attractive and have more than priced in a lower oil price environment going forward.
4. **Mineral Resources:** Mineral Resources shares declined due to governance issues, with the company announcing a leadership transition plan seeking to implement CEO succession over the next 12-18 months. We refer our readers back to the October Monthly Report, for our more detailed perspectives on the matter. We continue to believe that each of Mineral Resources' core segments should see material earnings improvement from current levels over the medium term.

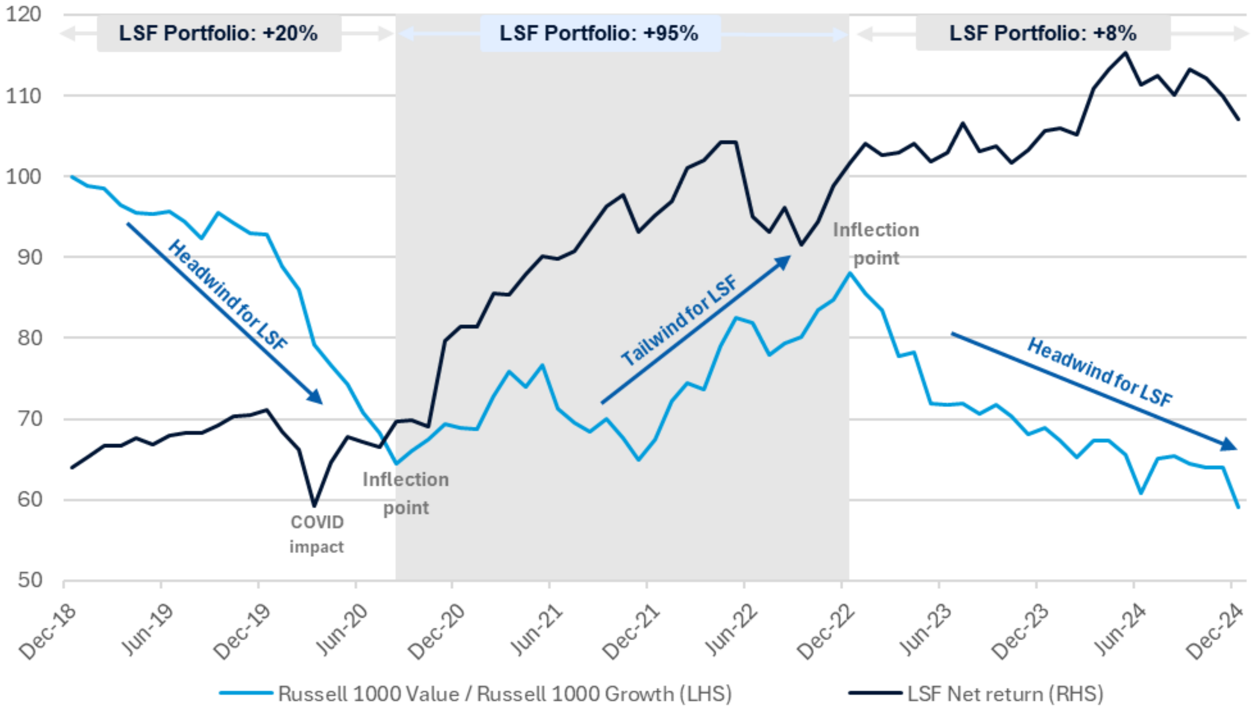
In summary, 2023 and 2024 have been difficult years for our investment style with Growth and Momentum factors dominating performance both domestically and offshore. We believe this has pushed domestic and global equity markets to full valuation levels at an index level, however, it has also provided us with numerous stock picking opportunities given the wide divergence in sector performance and the narrow level of market leadership driving returns.

Figure 9 outlines the performance of the L1 Long Short Fund on the right hand side (dark blue line) relative to the Russell 1000 Value index over the Russell 1000 Growth index on the left hand side (light blue line).

The chart outlines two key takeaways:

1. Over the last 5 years, growth stocks have strongly outperformed value stocks by 87% (an extraordinarily large divergence by historical standards). Despite this major headwind to our investment style, LSF has returned 15.1% p.a. (net) over that time-period, demonstrating the quality of our research process, high calibre investment team, independent thinking and the flexibility of our Fund.
2. The Fund tends to outperform strongly at times of inflection towards value stocks. This was the case from August 2020 to December 2022 where the Fund delivered a cumulative return of 95% as value stocks started to outperform. Over the last two years we have seen the outperformance of Growth over Value stocks reach unprecedented levels. The Russell 1000 Growth index has 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!). Should we see some inflection towards 'quality value' stocks in the coming years this will be a tailwind to fund performance.

Figure 9: LSF vs. Russell 1000 Value versus Growth index performance



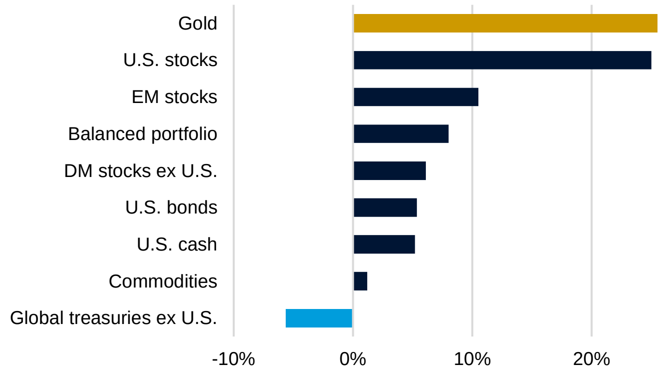
Source: Bloomberg and L1 Capital. LSF Net return is based on returns achieved by the L1 Long Short Fund.

We continue to maintain our disciplined investment approach, which has delivered strong returns for the Fund over the past decade, and we are confident that the valuations across our portfolio present exceptional value—both in absolute terms and, even more so, relative to a broader market characterised by numerous pockets of overvaluation.

Gold: Multiple tailwinds for gold prices supported by undemanding equity valuations

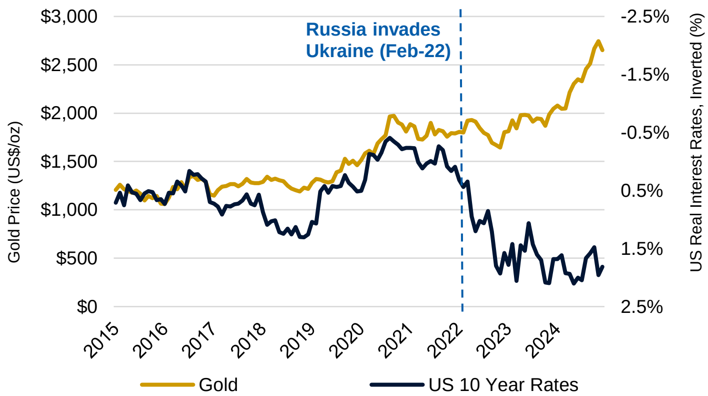
Over the course of 2024, the Fund has maintained a significant long position spread across a number of highly compelling gold equities, which have performed well, particularly given the backdrop of a ~26% increase in the gold price over the year. The gold price reached an all-time high in early November at ~US$2,785/oz and ranked as one of the top performing asset classes for 2024 (see Figure 10). This is despite real interest rates remaining elevated, with rates typically inversely correlated to gold as it is a non-yielding asset, and therefore the opportunity cost to hold is highest when real rates are elevated. However, this trend between real rates and gold prices disconnected sharply over the course of 2022 (see Figure 11).

Figure 10: Gold performance in 2024



Source: Bloomberg, World Gold Council

Figure 11: Last 10-year gold price vs. U.S. rates



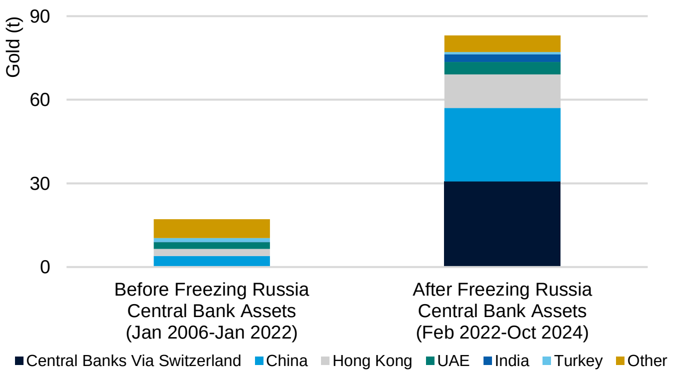
Source: Factset, U.S. Federal Reserve, Goldman Sachs Investment Research

We believe the strong performance in gold has mostly been driven by increased central bank activity, spurred by growing geopolitical tensions, in addition to providing an attractive hedge to growing U.S. sovereign debt and inflation. While gold ETF flows from Western markets have steadily declined since 2020, Asian demand, most notably in China, has accelerated as a result of loosening monetary policy and limited alternative investment opportunities amongst a struggling domestic economy.

Central bank demand has been a major driver of gold prices

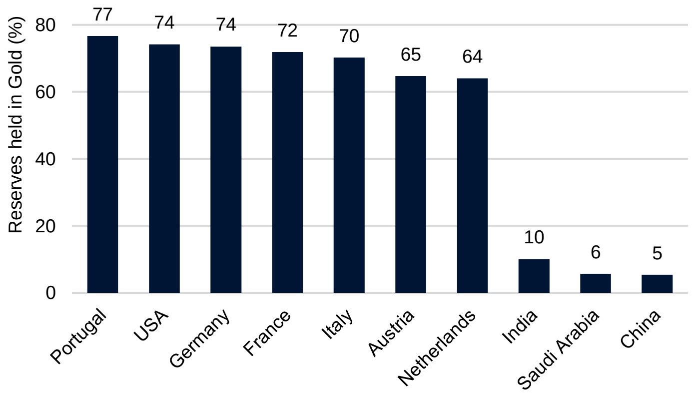
A trend of central bank de-dollarization has strengthened, particularly in emerging markets, leading to the establishment and growth in relevance of new trade frameworks and bloc's such as BRICS. Central bank gold demand inflected >4x since Western nations froze ~$300b in Russian central bank assets (see Figure 12). As a result, non-OECD nations appear to have pivoted to expand gold holdings on similar concerns of future political influence, geopolitical uncertainty and future sanctions, which is in addition to broader concerns around U.S. inflation, the federal deficit and a weaker U.S. dollar. While the U.S. dollar remains the dominant global reserve currency (~58% of global reserves), over the long term its share continues to decline steadily. On the contrary, gold's share is returning to greater prominence.

Figure 12: Central bank gold purchases



Source: Goldman Sachs Investment Research

Figure 13: Central bank gold reserves (% of total)



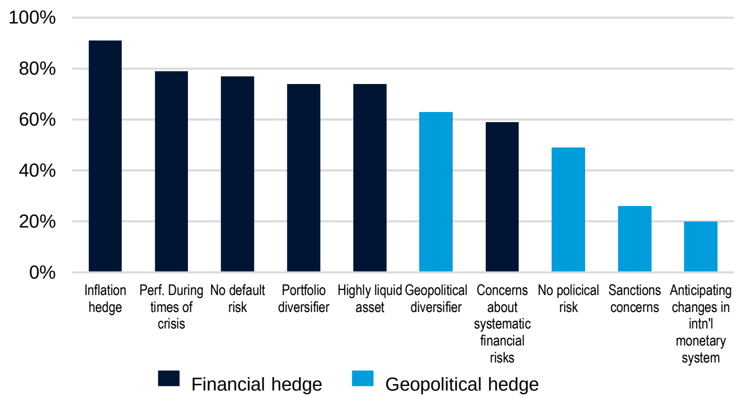
Source: World Gold Council

Relative to established western economies, emerging nations hold relatively small gold balances as a percentage of total central bank reserves (see Figure 13). While the USA, France and Germany hold >70% of their reserves in gold, large buyers such as China and India, representing the world's second and fifth largest economies respectively, hold only ~5-10% of their reserves in gold. As a result, we see significant room for further accumulation and expect central bank buying to be a key driver of prices over the coming years, driven by a range of financial and geopolitical considerations (see Figure 14). Supporting this, the World Gold Council notes 81% of central banks surveyed expect their holdings to rise over the next 12 months (while none anticipated a decline). The most material single gold buyer, the Chinese government, officially announced in November 2024 it had resumed buying gold for its reserves after a six-month break following a material rally in gold prices.

Hedge on fiscal and geopolitical uncertainty

Gold is perceived as an effective hedge against geopolitical and economic shocks, including high inflation, and global economic instability. Indeed, over extended periods of time gold's ability to maintain its purchasing value has been robust. Relative to traditional safe-haven assets (e.g. U.S. Treasuries), gold offers an alternative storage of wealth absent any credit risk and protects against a devaluation of fiat currencies because of excessively loose monetary policy and subsequent inflation.

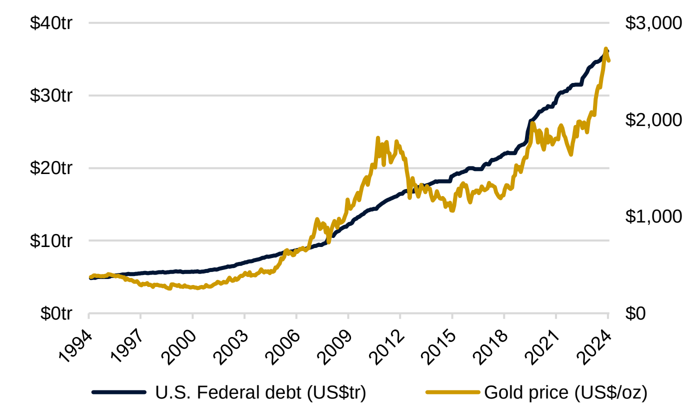
Figure 14: Drivers of emerging market central bank buying



Source: World Gold Council (2023), Goldman Sachs Investment Research

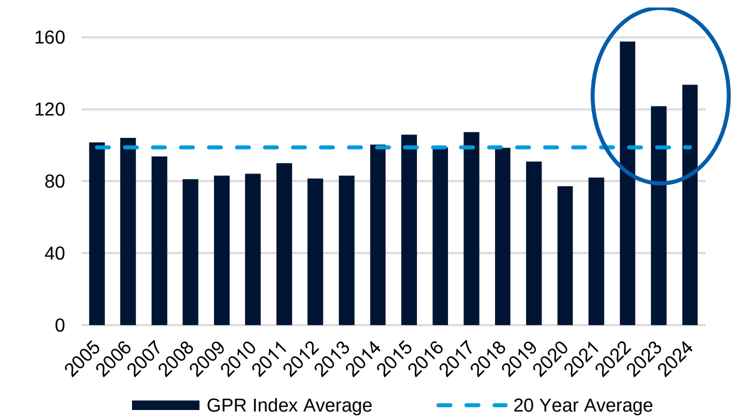
We believe gold markets have been, and should continue to be, supported by growing concerns around developed market fiscal sustainability, and notably the U.S. fiscal position, with the U.S. government now servicing over US$1 trillion in interest expense each year. Typically, gold has had a strong positive correlation to public debt levels (see Figure 15). In addition, incoming President Trump's policies, notably potentially lower corporate tax rates and increase tariffs, maybe be perceived as re-inflationary and contribute to greater medium term economic uncertainty. A combination of both higher U.S. inflation, and accumulating/growing U.S. debt, could contribute to a devaluation of the dollar over the longer term, which would support structurally higher gold prices.

Figure 15: Gold correlation to U.S. debt levels



Source: Factset, BMO

Figure 16: Geopolitical risk index (last 20 years)



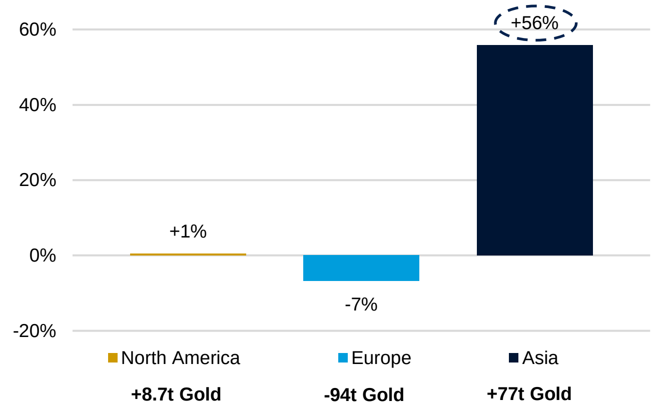
Source: Matteo Iacoviello. GPR constructs a measure of adverse geopolitical events and associated risks based on a tally of newspaper articles covering geopolitical tensions.

Outside of financial markets, the world continues to face the risk of a sharp escalation in geopolitical tensions (see Figure 16), amid ongoing multi-decade thematics around de-globalisation and re-militarisation (evident in Europe, Japan etc.). Ongoing large-scale conflicts in Europe and the Middle East, threaten to engage major world powers in direct conflict. While the tail risk of significant escalations may ultimately be low, gold offers an attractive hedge in a portfolio within this backdrop.

Asian financial and retail gold demand leading Western markets

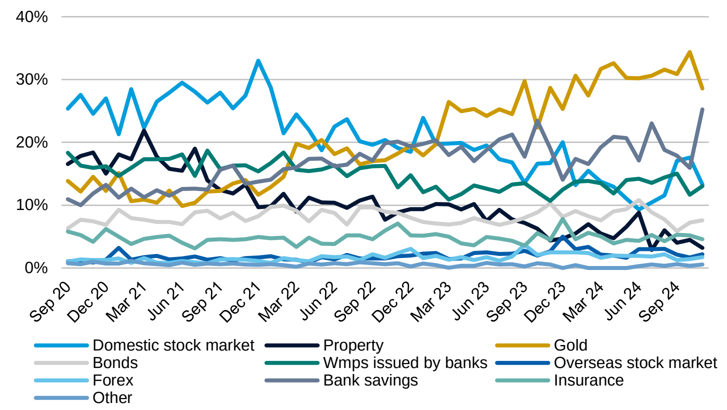
Following a strong build in 2020, western physical gold ETF holdings have decreased significantly and continued to decline over the course of 2024, despite the strong price movement. On the contrary Asian ETF demand grew by 56% in 2024 (see Figure 17), primarily led by demand from China. Recent survey data indicates that gold is currently one of the most favoured investment options in China (see Figure 18) as property and local equity markets have become increasingly challenged over the last few years. Gold may also be favoured by Chinese investors within the context of RMB depreciation.

Figure 17: 2024 physical gold ETF demand by region



Source: World Gold Council

Figure 18: Favoured investment options in China (Survey)



Source: CLSA

Outlook

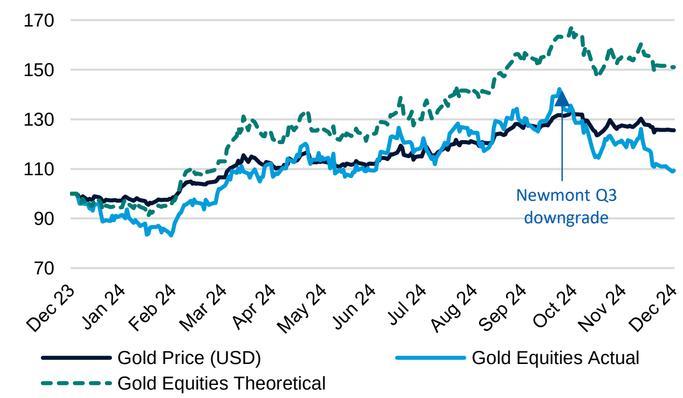
In summary, we expect the key drivers of gold performance in 2024 to continue over the medium term. Elevated central bank demand is likely to be a multi-year thematic, with China recently resuming purchasing despite the significant increase in prices over 2024. Specific policy direction from the Trump administration remains unclear, however the role of gold in a portfolio to hedge uncertainty remains key within this backdrop. Trump's policies may prove to be re-inflationary and further de-couple U.S./China relations, shifting the world further to a 'multi-polar' order. Most significantly, we could see a re-emergence of the traditional relationship between real rates and gold prices in 2025, which could further drive gold demand. With further monetary policy loosening from the Fed, we would expect an increase in physical gold demand from Western investors which had been largely absent during the 2024 rally.

L1 Gold equities positioning

Gold equities throughout the course of 2024 significantly underperformed the underlying gold price move (GDX +9% vs. gold price +25.5%). In theory, mining equities should outperform the underlying commodity given their operating leverage. Evidently during the year a pivot point for sentiment in the sector was Newmont's, the world's largest gold producer, Q3 24 results which missed consensus expectations with regards to operating costs and production outlook. The GDX underperformed the gold price by >18% from this point (see Figure 19). The disappointing result represented what has been a chronic issue in the sector, that rising gold prices coincide with rising operating costs, pro-cyclical M&A and limited free cash flow generation. However, across the sector, we believe cost inflation has seen signs of moderation post an industry wide sharp move higher from 2021 to 2024 with select costs now showing signs of easing (steel, consumables, diesel etc.). As a result, our expectation is that cash flow generation across the sector should improve materially into next year (see Figure 20). Most major gold companies are now unhedged and largely net cash and as a result, any excess cash flow generation should in theory be available to shareholders.

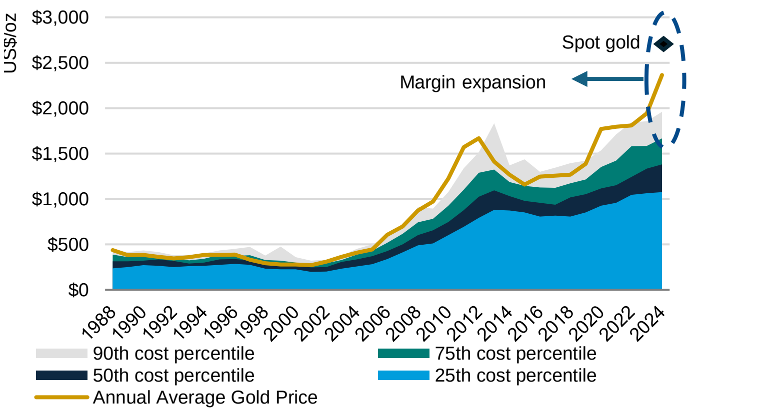
Even so, we believe it is important to remain selective in our exposure given strong management and cost discipline will be essential, and the sector's track record is mixed. We are positioned across a few high conviction gold equities positions which we believe have a clear pathway to strong sustained cash flow generation, and with valuations that are undemanding at lower gold prices yet offering significant upside at current spot levels.

Figure 19: 2024 performance of gold equities



Source: Factset, L1 analysis. Note: theoretical gold equities performance assumes equities trade on fixed earnings multiple, and operating costs increase $30/oz for every $100/oz increase in gold price

Figure 20: Gold mining cost percentiles vs. gold price (US$/oz)



Source: Woodmac, Morgan Stanley. Costs represent a fully encompassing all-in cash cost.

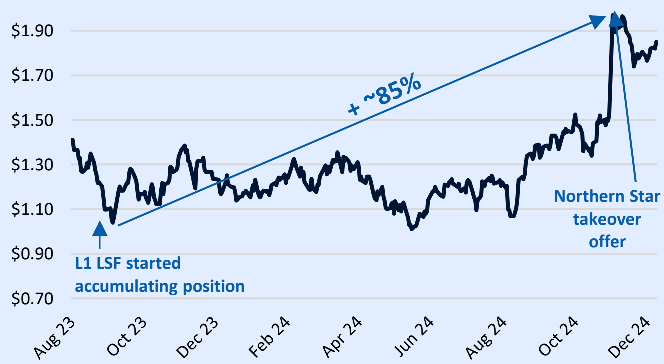
Two L1 investments in the sector that delivered strong returns for the fund during 2024 include De Grey Mining and Westgold Resources, which we detail further below.

De Grey Mining

De Grey Mining is a West Australian based aspiring gold producer, progressing its Hemi gold project, which it discovered in 2019. Hemi, located in the Pilbara region, has grown rapidly to become Australia's largest undeveloped gold project (see Figure 22) with a resource of over 10Moz and capable of producing 500koz+ of gold per annum, which would make De Grey Australia's third largest gold company by production volume once operational. On the 2nd of December 2024, Northern Star announced it had agreed to acquire De Grey in an all-scrip transaction for ~A$5b, which represented a ~37% premium to the last traded price. The transaction is expected to close in H1 25 subject to De Grey shareholder approval.

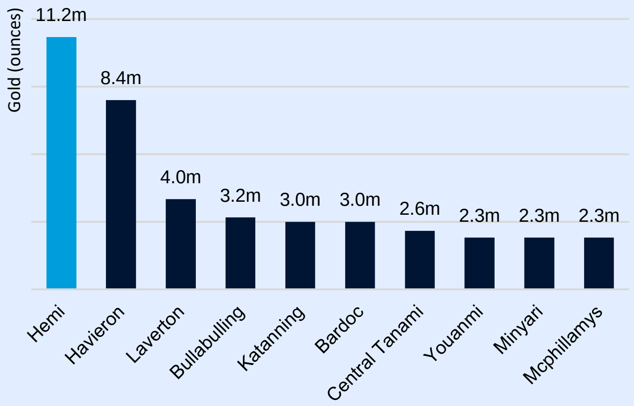
At the time of the offer, De Grey was in the process of finalising permitting for Hemi (expected in H1 25), following which it was set to commence full scale construction with a budgeted A$1.35b build and anticipated first gold produced in 2027. Due to the high grade 'Brolga' starter pit, the project delivered a < 2 year payback period at conservative gold pricing assumptions. Independent from Northern Star's acquisition, De Grey was fully financed with cash on hand of ~$820m and credit approved term sheets for a senior debt facility exceeding A$1b.

Figure 21: De Grey share price over time



Source: Factset

Figure 22: Australian gold projects (Moz)



Source: Company filings

L1 began accumulating its position in De Grey from September 2023, primarily via supporting two equity raisings undertaken by the Company. We see Northern Star's offer as consistent with our core De Grey investment thesis, being:

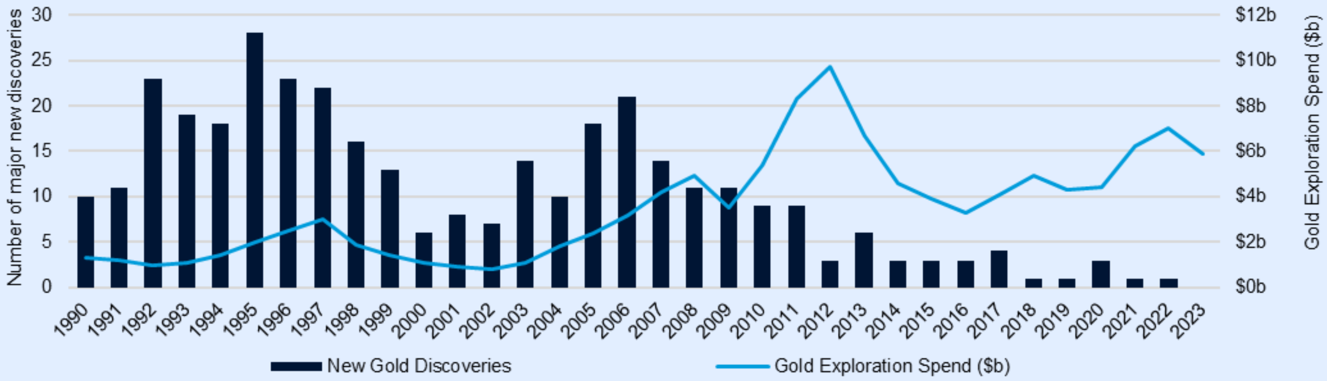
1. **Tier 1 project:** The Hemi gold project is of significant scale (+500koz gold production p.a.), in a tier 1 mining friendly jurisdiction, with access to existing infrastructure, a deeply experienced labour force and expected to produce over a multi-decade life. From a financial perspective, the project sat in the lowest quartile of the cost curve, had a <2-year payback period on initial capital and a 36% project post-tax IRR assuming a gold price ~35% below current spot levels.

2. **Material valuation support:** At current spot gold prices, we believe that De Grey could generate EBITDA in excess of A$1.5b. Prior to the announcement by Northern Star the De Grey market cap was ~A$3.5b (which included cash of ~A$800m). Adjusting for development capex, still resulted in the company trading <3.0x EBITDA. While it is generally appropriate for a developer to trade at a discount due to project risk, we believe this discount to global peers at 6-7x was excessive given the quality of the underlying asset.

3. **Significant upside beyond initial metrics:** While the initial project feasibility study envisaged a ~500koz production profile, we believe there is potential over time to see that increase towards +850koz through a combination of the development of regional deposits already identified, as well as concurrent underground mining operations in addition to the currently envisaged open pit. Beyond this, we see ongoing exploration success on the large 2,500km^2 footprint over time.

4. **Scarcity value:** Over the last 30 years, more capital has been spent on gold exploration for significantly less new major discoveries, which have become increasingly rare (see Figure 23). The scarcity of new high quality gold discoveries makes these new tier one gold projects attractive consolidation targets for large existing producers, who must replace their depleting assets over time. In the absence of a bid by Northern Star, we expect there are numerous global gold players would have been likely candidates to acquire the Hemi deposit.

Figure 23: New major global gold discoveries over time



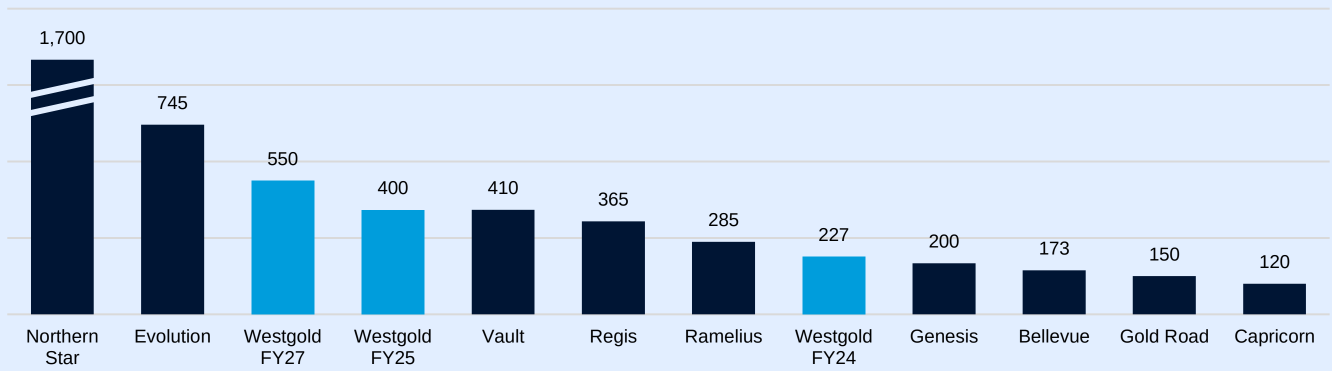
Source: S&P Global

We believe the announced Northern Star transaction sensibly de-risks project execution going forward for De Grey shareholders while also providing a strong return outcome with the option to maintain exposure via Northern Star shares.

Westgold Resources

Westgold is a ~$2.5b 100% West Australian underground gold miner at an inflection point towards building material scale and expanding asset life. The Company's FY24 production of ~230koz is expected to grow towards ~550koz post FY26 (see Figure 24), driven by a combination of organic growth and a recent transformational merger with Karora Resources, which completed in August 2024. Operations are split between the 'Murchison region' (3 mills, 5 underground mines), which relate to the legacy Westgold assets, and the newly acquired 'Southern Goldfields' (2 mills, 1 core underground mine).

Figure 24: Gold production by ASX company – Westgold is emerging as a leader (koz)



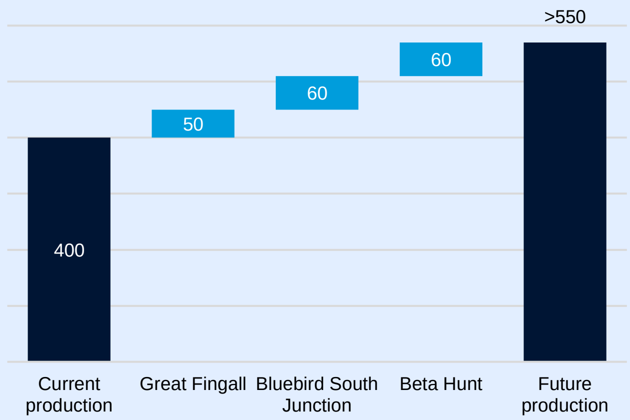
Source: Company filings

Importantly, Westgold is upgrading the quality of its portfolio by narrowing its focus on scalable operations, enabled through investment in exploration, which we expect to result in a more efficient cost structure over time, and ultimately, stronger cash flow generation and a more resilient business. At its core, the Company's strategy is focused on scaling its mines and mills and reducing complexity across its portfolio.

We believe the company can organically grow production to more than 550koz in the near-term (see Figure 25), driven by:

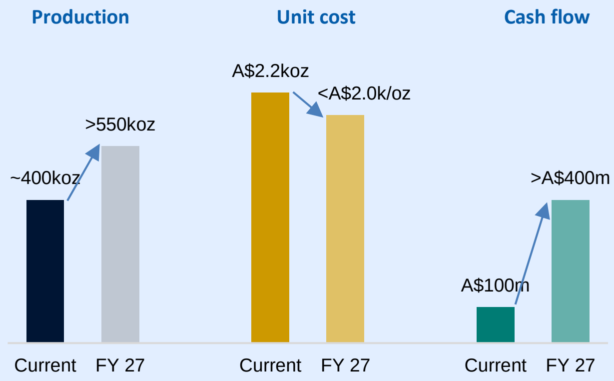
1. **Great Fingall:** Existing development project expected to commence production in Q4 FY25. Delivers an incremental ~50koz production per annum with a mine life of 8 years.
2. **Bluebird:** South Junction mine expansion to increase scale of operation to in-excess of 1.2Mpta from ~450ktpa in FY24, as the company adds an additional underground decline into the South Junction lode (from Q3 25) and over time into the Polar Star lode. In conjunction with this, the Company could upgrade the mill size at Bluebird supporting the larger mining operation (feasibility work ongoing). Together, we expect this could deliver an incremental ~60koz production per annum.
3. **Beta Hunt Expansion:** Expansion to more than 2Mtpa over time, with the potential to pair with an expansion of the Higginsville mill in due course (currently 1.6Mtpa). Expansion of the mine is supported by the newly discovered 'Fletcher Zone' which has an exploration target of 1.5 to 2.1Moz of gold.

Figure 25: Westgold production (koz)



Source: L1 analysis

Figure 26: Westgold at an inflection point



Source: Company Filings

At current gold prices, Westgold is trading on a ~6x P/E multiple (2026 onwards), which compares very favourably to the ASX peer set (~11.5x consensus median), despite the sustainability of its growing production base and strong net cash balance sheet.

Key stock contributors for the quarter

Fraport (Long +17%) 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 one-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.

Qantas (Long +21%) continued its strong share price performance over the quarter, as robust and favourable trading conditions persisted. Qantas shares have now nearly doubled from the lows in October 2023, reflecting continued strong earnings, management and board changes, and the removal of many 'pain points' for customers. At its AGM in late October 2024, Qantas upgraded its expectations for Domestic yields, with strong travel demand, including ongoing improvement in corporate travel. Qantas is also seeing the benefit of lower fuel prices so far this financial year. International segment expectations were largely unchanged and Loyalty remains on track for double digit earnings growth. Strong execution in the business continues to support robust shareholder returns in coming years, including a return to fully franked dividends flagged from H125.

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. Despite the large share price rally, Qantas trades on a FY25 P/E of only 8.6x. We believe this multiple does not fully reflect its leading industry position, structural medium-term growth in travel demand and a high growth, capital-light loyalty division, which remains underappreciated by the market.

De Grey (Long +27%) shares materially outperformed during the quarter 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.

Flutter (Long +18%) shares rallied over the quarter after the company reported strong Q3 results (~26% ahead of consensus expectations) and upgrading full year guidance despite weaker than expected U.S. sports win margins in October. The company continues to bolster its leadership position in the U.S. sports betting/iGaming market and is in the process of launching some exciting new products, including the 'Your Way' betting feature. This product took four years to develop and allows the creation of a customisable, same game parlay bet with an almost infinite set of options. We continue to see a strong earnings growth path ahead for the company through continued strong execution in the U.S. market supplemented by steady growth and bolt-on acquisitions outside the U.S.. Flutter has also recently launched a $5b share buyback program given the strength of the balance sheet and inflection to strong cashflow generation in the U.S.

Key stock detractors for the quarter

Mineral Resources (Long -34%) shares declined primarily due to ongoing governance issues, with the company announcing a leadership transition plan seeking to implement CEO succession over the next 12-18 months. We refer our readers back to the October Monthly Report, for our more detailed perspectives on the matter.

More broadly, we continue to believe that each of Mineral Resources' core segments should see material improvement from current levels over the medium term. Its Onslow Iron Ore project is commencing ramp-up towards positive cash flow contribution from mid-FY25. The mining services business should see a positive step-change in volumes and earnings over the coming 18 months. Finally, the lithium business has significant volume optionality to produce over 1,000kt of spodumene concentrate when market conditions improve.

JD Sports (Long -38%) shares fell during the quarter, which came following a strong share price performance in the September quarter. This underperformance was driven by a weak quarterly result from Nike, the largest brand in both the global sportswear market and JD's own revenue mix, and the release of JD's Q3 FY25 trading update in which Group like-for-like sales declined by 0.3%. After a robust sales performance in August and September, October sales were heavily impacted by the combination of unseasonal weather, political uncertainty and elevated promotional activity in key markets. Pleasingly, gross margins expanded compared with the prior year and the company was able to open a large number of JD Sports stores prior to its key trading period (with total organic sales growth of 5.4% during the quarter). We believe that JD Sports is a high-quality global retailer with leading scale and brand relationships, excellent in-store execution and an attractive store roll-out pipeline ahead, yet trades at only 7x FY26 P/E on consensus earnings. Although softer demand and high inventory levels of key Nike products have impacted JD's recent performance, it is benefiting from the strong consumer demand for other established and emerging brands. Nike's new CEO has made changes to rapidly clear existing inventory, invest in new product development and brand marketing, and re-prioritise key wholesale relationships. While trading conditions are likely to remain challenging for much of 2025, we expect the recent acquisitions of Hibbett and Courir, along with supply chain improvements and Nike's turnaround initiatives should start delivering meaningful benefits from 2026.

Flight Centre (Long -25%) shares fell after the company provided a softer Q1 trading update noting impacts from airfare price deflation and downtrading in some corporate accounts. While there may be near-term volatility driven by moderating travel activity, we believe the business is much more efficient and productive than it was relative to its pre-COVID position. On the Leisure side, more than half of the legacy retail store network has been closed and the remaining footprint optimised to generate better returns. The company has also shifted the mix towards more luxury travel and independent store networks. On the corporate side, the business continues to grow strongly and is now the third largest corporate travel manager globally. The company continues to focus on generating a 2% underlying profit before tax (PBT) margin over the medium-term, which, if achieved, would imply a greater than 50% increase in PBT from 2024 levels. Trading on only ~13x FY25 consensus earnings, with a strong balance sheet position, we believe Flight Centre remains an attractive opportunity and have used the sell-off to add to our position.

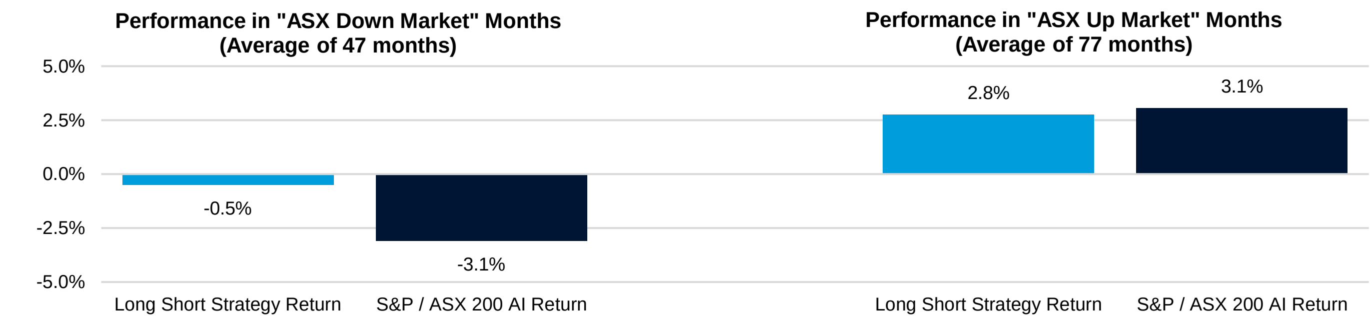
BlueScope Steel (Long -16%) shares underperformed during the quarter largely due to weak steel markets globally. Asian steel spreads remain depressed as excess Chinese steel production has resulted in elevated exports (>100Mtpa annual run-rate) pressuring prices across the region. U.S. steel markets 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]

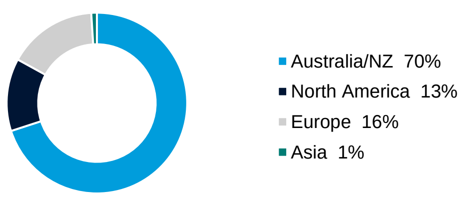
Share Price	$2.91
NTA before tax	$2.94
NTA after tax	$2.90
Shares on issue	625,482,718
Company market cap	$1.82b

Net and gross exposure (%)

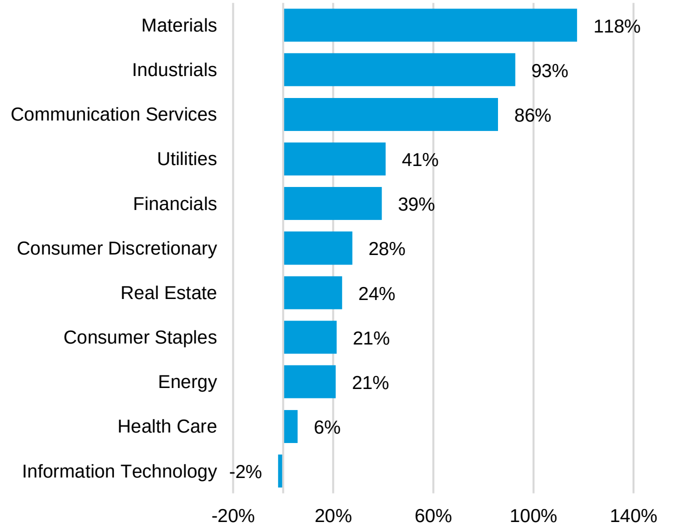
	Gross long	Gross short	Net exposure
Australia/NZ	103	(88)	14
North America	30	(5)	26
Europe	44	-	44
Asia	2	-	2
Total	**179**	**(93)**	**86**

Figures may not sum exactly due to rounding.

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



Sector contribution since Strategy inception[4] (Net)



All performance numbers are quoted net of fees. Figures may not sum exactly due to rounding. **Past performance should not be taken as an indicator of future performance**. **3.** LSF (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. Strategy returns table is for the L1 Long Short Limited (ASX:LSF) since inception on 24 April 2018. Performance prior to this date is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014). **4.** Exposure and contribution are that of the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014). **5.** 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.

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.