L1 Long Short Fund Limited (ASX:LSF)

March 2025

- The L1 Long Short Fund (LSF) portfolio returned 2.0%[1] in March (ASX200AI -3.4%).
- During the February – March global equity market fall, the portfolio has outperformed the ASX200AI by more than 8%[2].
- The L1 Capital Long Short Fund has been the best performing long short fund in Australia since inception, returning 17.3% p.a., outperforming the ASX200AI by almost 10% p.a. (after fees)[3].

Markets fell again in March amid ongoing concerns over U.S. economic growth and inflation, together with uncertainty ahead of the Trump administration's tariff announcement on April 2nd.

Concerns grew over the inflationary outlook during the month, with the Fed's preferred inflation measure of core PCE coming in above expectations for February at 2.8%. With the prospects of higher tariffs looming, the University of Michigan Consumer Survey recorded its highest level for long-term inflation expectations since February 1993, while company updates showed signs that the U.S. consumer was softening after a sustained period of strength.

Federal Reserve Chairman Powell affirmed that the FOMC is in "no hurry" to cut rates, while the Fed lowered its GDP forecast from 2.1% to 1.7% and increased its inflation expectations from 2.5% to 2.8% for 2025.

The Australian market followed the U.S. market lower, with risk-off sentiment once again driving a move into more defensive sectors at the expense of cyclicals. Utilities (+1.5%) was the only positive sector, while Technology (-9.7%), Consumer Discretionary (-6.3%) and Property (-4.9%) were the weakest performers. Overall, the S&P/ASX 200 Accumulation Index returned -3.4% during March.

Returns (Net)[1] (%)

	L1 Long Short Portfolio	S&P/ASX 200 AI	Out-performance
1 month	2.0	(3.4)	+5.4
3 months	1.3	(2.8)	+4.1
1 year	(3.7)	2.8	(6.6)
3 years p.a.	3.0	5.6	(2.7)
5 years p.a.	25.4	13.2	+12.1
LSF Since Inception p.a.	9.6	8.3	+1.3
LSF Strategy Since Inception[3] p.a.	17.3	7.5	+9.8

Figures may not sum exactly due to rounding.

The portfolio performed positively over the month, driven by significant gains in gold stocks, short positions in Australian banks and strength in global infrastructure names. Gold was the strongest equities subsector in March, up 13% as the precious metal rallied ~10% supported by safe-haven demand in the midst of escalating geopolitical risks. The portfolio also benefitted from a further sell-off in Australian bank shares (which we are short).

We believe equity market volatility has moved structurally higher, given Trump's more aggressive and unpredictable policy stance, heightened geopolitical tensions and the lack of an immediate central bank backstop. We expect to see a continued rotation out of previously high momentum, high P/E stocks, where valuations, expectations and positioning have all been extremely stretched. For our investors, periods of elevated volatility have historically been stressful in the short-term, but extremely rewarding over the following 1-2 years. Our clear focus is on exploiting the erratic sell-off to identify stock-specific mispricings and taking advantage of the emotional or non-fundamental selling we observe in the market. We continue to believe that infrastructure, gold and 'quality value' stocks provide some of the best opportunities globally. Our portfolio also has a stronger than usual value skew, with our median long having a P/E of less than 10x, close to 10% FCF yield and double-digit EPS growth, providing a compelling medium term return profile in spite of a tougher macro backdrop.

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.** Net return of the LSF portfolio (+1.1%) and ASX200AI (-7.1%) from 31 January 2025 to 31 March 2025. **3.** LSF Strategy Since Inception returns are for the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014). Ranking amongst funds in Zenith Australian Shares – Long Short sector using FE Analytics data as at 28 February 2025. 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 March were:

Gold stocks

The gold sector rallied during the month as gold prices moved up ~10%, or ~US$280/oz, amidst market and economic instability associated with weaker global economic activity and risks relating to trade policies. We refer our readers to our December quarterly report where we detailed the favourable outlook for gold and the highly compelling opportunity we see to invest in the mid-cap gold equities space. In March, we launched the L1 Capital Gold Fund to provide our investors with an opportunity to get access to undervalued gold equities in a diversified and convenient manner. Please reach out to our team if you qualify as a wholesale investor and are interested in this Fund.

In our December quarterly report, we highlighted our investments in Eldorado and Westgold, which moved higher in March, up 22% and 15%, respectively.

We continue to see a favourable outlook for gold in the medium term supported by central bank buying, and the elevated macro and geopolitical risks. Rising market uncertainty is highlighting the role of gold as an effective diversification tool, which has historically had lower correlation with other asset classes. To date, the valuations of gold producers have continued to lag despite the increase in gold prices. We expect gold equities will begin to rally significantly over the next 1-2 years as their margins expand due to gold prices rising much faster than input costs. **We find it bizarre that in many cases, the share prices of these gold stocks have barely increased, despite a likely increase in their earnings and cashflows of 200-300%.** We believe these stocks offer a positive asymmetric return profile, along with effective diversification in a less predictable world.

Fraport (Long +4%) shares were stronger in the March quarter as the company reported earnings and reiterated its intention to approach free cash flow break-even in the year ahead before delivering strong positive free cash flow in 2026. Traffic growth at Frankfurt airport is expected to be robust this year, with seat schedules indicating growth of 5-6% over the upcoming peak summer season (April to October). This growth is despite ongoing fleet constraints due to delays to Boeing aircraft deliveries for Lufthansa, and industry-wide issues with P&W engines leading to the grounding of a large number of A320 aircraft.

Fraport continues to draw nearer to a significant inflection in its cashflow and dividend profile. Its capex requirements are 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. 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.

National Australia Bank (Short -4%) shares fell as Australian banks sold off again in March, following a weak February reporting season where results suggested that margins for the sector may have peaked. NAB's Q1 2025 result in February missed market expectations with core net interest margins declining and capital slightly below consensus estimates. Importantly, NAB saw an increase in arrears, which is typically a precursor to rising bad debts. This stood in contrast to more stable trends at other banks, potentially exacerbated by NAB's higher exposure to Victoria, which is currently experiencing the weakest economic backdrop in Australia. In March, we saw some unexpected senior management changes where the well-respected CFO, Nathan Goonen, left to go to Westpac and the head of NAB's business bank, Rachel Slade, also departed the business.

Given the share price fell so quickly from a high of ~$41 to ~$33 (~20%) from mid-February to mid-March, we decided to realise our gains and close our NAB short position.

A key detractor to portfolio performance in March was:

James Hardie (Long -24%) shares fell after the company announced the acquisition of Azek, a leading U.S. decking and exterior building products manufacturer. The acquisition terms imply a 37% premium at an US$8.5b enterprise valuation for Azek with the deal 53% scrip funded and 47% cash funded. Azek is a high-quality company with the second largest market share in the U.S. composite decking market and a strong financial track record. The company's residential segment (which comprises the majority of the business) has grown revenue at a 15% CAGR over the last seven years. In our view, this quality was already reflected in Azek's valuation, with the company trading on around 28x forward P/E prior to the deal announcement. James Hardie offered a 37% premium to this valuation and, per the deal terms, has proposed using a large component of its scrip to fund the transaction, with James Hardie trading on only ~18x forward P/E.

While we can see the strategic merits of the deal, the negative share price reaction is a clear message that the market believes James Hardie has significantly overpaid for the acquisition and the transaction is dilutive to shareholder value. We are very disappointed and frustrated that the Board signed off on a transaction of this size at an elevated valuation and at a time where there is uncertainty on the U.S. macroeconomic outlook. However, as we look at the shares today, we see valuation support, with the company trading on ~16x forward P/E assuming only cost synergies (and no revenue synergies) are factored in on a run-rate basis. Azek and James Hardie have a track record of delivering double-digit earnings growth over many years and this should continue and potentially accelerate on a merged basis. The current valuation and growth path compares favourably to James Hardie's average forward P/E of ~21x over the past ten years and Azek's average forward P/E of 34x since it listed in 2020.

Webinar Replay | March 2025

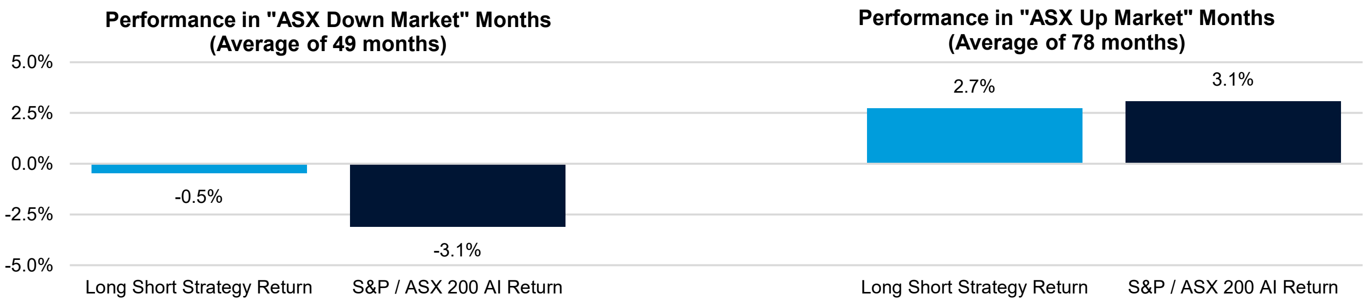
Mark Landau, Joint MD & Co-CIO, discusses our latest perspectives on the macro environment, portfolio positioning and where we are seeing the best investment opportunities.

To watch the replay, please click here.

Strategy returns (Net)[4] (%)

	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)[4]	(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**
2025	0.2	(0.9)	2.0										**1.3**

Strategy performance in rising and falling markets[5] (Net)



Portfolio positions

Number of total positions	83
Number of long positions	62
Number of short positions	21
Number of international positions	30

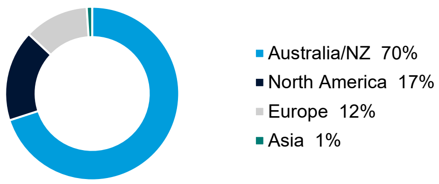
Company information as at 31 March 2025[6]

Share Price	$2.85
NTA before tax	$2.89
NTA after tax	$2.87
Shares on issue	625,482,718
Company market cap	$1.78b

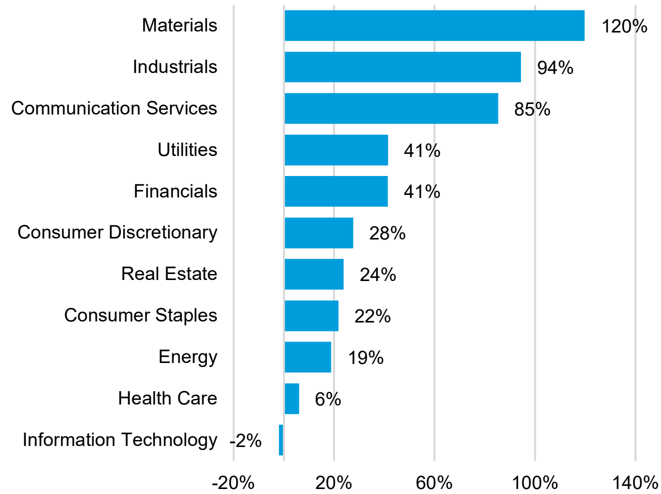
Net and gross exposure by geography (%)

	Gross long	Gross short	Net exposure
Australia/NZ	106	(83)	23
North America	38	(8)	30
Europe	32	-	32
Asia	3	-	3
Total[7]	**180**	**(91)**	**88**

Gross geographic exposure as a % of total exposure[5]



Sector contribution since Strategy inception[5] (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	MUFG Pension & Market Services (formerly 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.