



We invite you to join L1 Capital's Joint Managing Director and Co-Chief Investment Officer, Mark Landau for a L1 Long Short Fund Limited (ASX:LSF) Investor Webinar on Thursday, November 10 at 11am (AEDT).

Please [click here](#) to register to join the webinar.



**L1 CAPITAL**

# **L1 Long Short Fund Limited investor webinar**

**Mark Landau, Joint Managing Director and  
Chief Investment Officer**

**November 10, 2022**



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# **Performance summary**



# Performance summary



The LSF portfolio has delivered strong absolute and relative performance

Pre-tax NTA Net Performance <sup>1</sup> to 31 Oct 2022 (%)	L1 Long Short Fund portfolio	S&P ASX 200 Accum. Index (AUD)	MSCI World Accum. Index (USD)	HFRX Global Hedge Fund Index (USD)
3 months	2.5	0.7	(6.8)	0.1
Calendar Year To Date	(1.3)	(4.1)	(20.1)	(4.5)
1 year	(5.2)	(2.0)	(18.5)	(5.3)
2 years p.a.	33.0	12.0	7.0	2.1
3 years p.a.	19.5	4.8	6.1	2.6
4 years p.a.	17.6	8.3	7.7	2.9
LSF since inception p.a.	9.9	7.5	6.4	1.7
Strategy since inception <sup>2</sup> (p.a.)	19.7	6.8	6.6	1.1

**The L1 Capital Long Short Strategy has been the best performing Australian long short strategy since inception in 2014.<sup>3</sup>**

Source: Mainstream Fund Services, Bloomberg and L1 Capital as at 31 Oct 2022. 1. Net returns are calculated based on the movement of the underlying investment portfolio net of all applicable fees and charges.

2. Strategy Since Inception return (net of fees) is for L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014). Past performance should not be taken as an indicator of future performance.

3. Ranking in FE Analytics Australian Shares universe as at 30 Sep 22. Latest data available for universe.

# Stock contributors and detractors



Calendar year to date

Company name		Company news
Cenovus	✓	Strong operational performance and low all-in cost structure supporting rapid de-gearing at prevailing oil prices.
Chorus	✓	Improved regulatory certainty and good execution leading to strong growth in dividends and cash flows.
Flutter	✓	U.S. business gaining market share and moving to profitability faster than market expectations.
Mineral Resources	✓	Strong lithium prices, potential separate listing of its lithium business and formal sanction of the Onslow iron ore project.
Qantas	✓	H1 profit guidance ~150% above expectations driven by strong domestic and international travel demand and yield management.
Teck Resources	✓	Robust operating performance along with strong coking coal price. Exited in early March and reinvested end June – post sell-off.
Alibaba	✗	Negative investor sentiment regarding China's economic recovery. Expect rebound as COVID related restrictions ease.
BlueScope	✗	Decline in U.S. and Asian steel spreads. Expect improvement in Asian steel spreads as China recovery gains momentum.
Capstone	✗	Decline in copper price on U.S. recession concerns. Remain very positive on medium term production and cash flow growth.
Ramsay	✗	Collapse of KKR takeover offer at \$88 / share. Value unlock opportunities remain (sale of non-core assets, property, etc).
Sandfire Resources	✗	Decline in copper prices on U.S. recession concerns and higher power costs in Spain. Expecting improved cash flow from FY24 as the Motheo mine commences production.

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# Market review



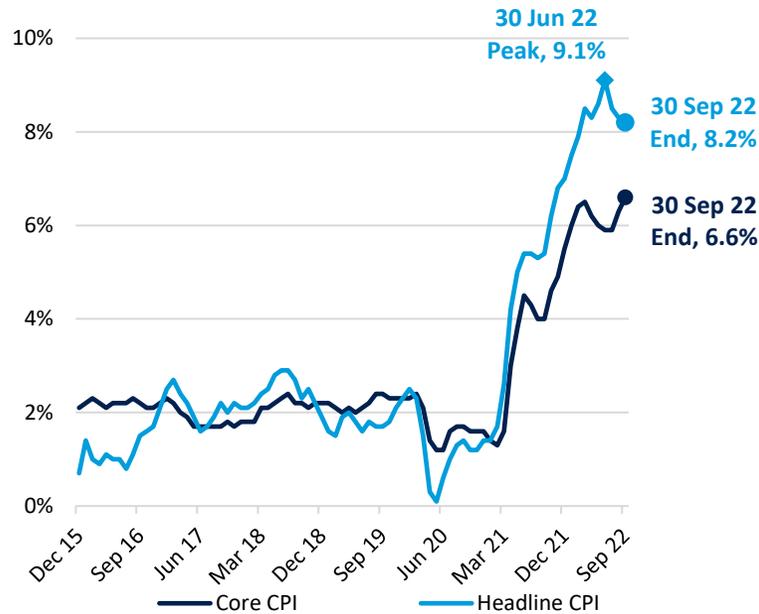
# Market review



A surge in inflation has led to the most aggressive monetary policy response in 40 years

## Inflation has surged...

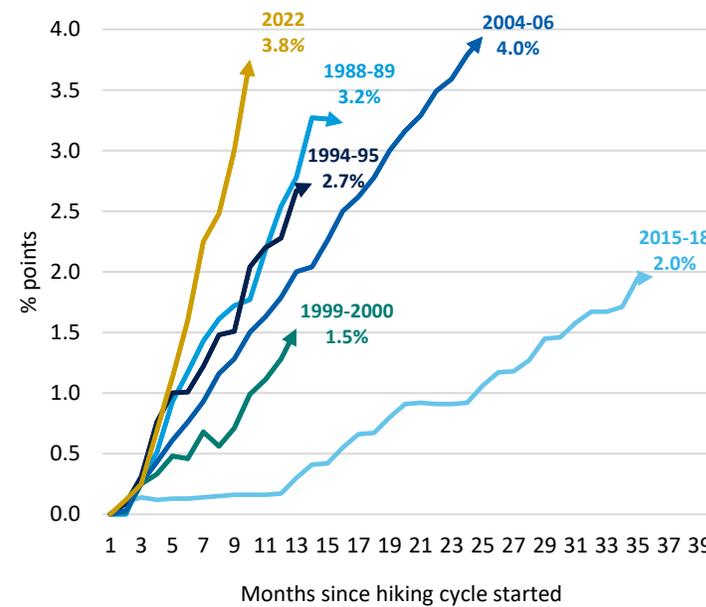
U.S. CPI



- U.S. Core and Headline CPI remains way above Fed targets.

## Leading to aggressive rate rises...

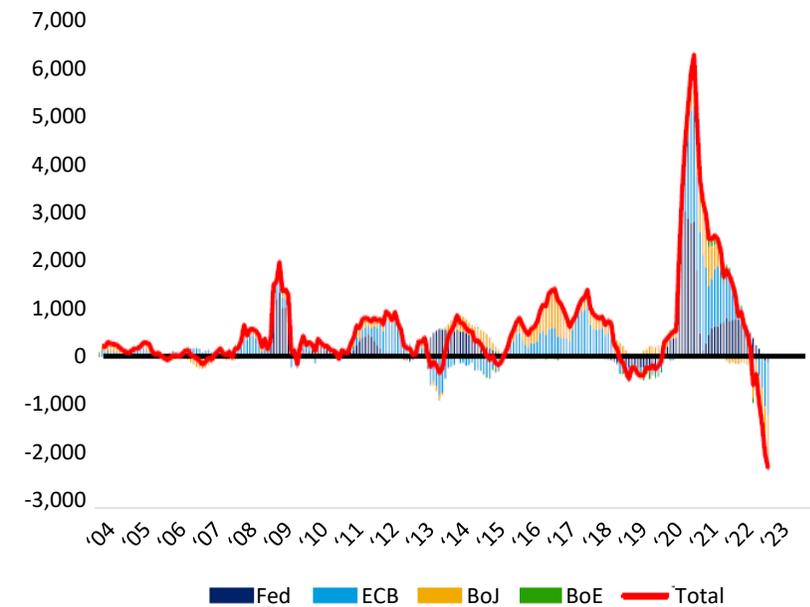
Change in Federal Funds Rate



- The pace of policy tightening shows how concerned the Fed is about the inflation outlook.

## and a withdrawal of liquidity.

6m change in Central Bank balance sheets (\$b)



- Extraordinary reversal of the pandemic-era liquidity injection.

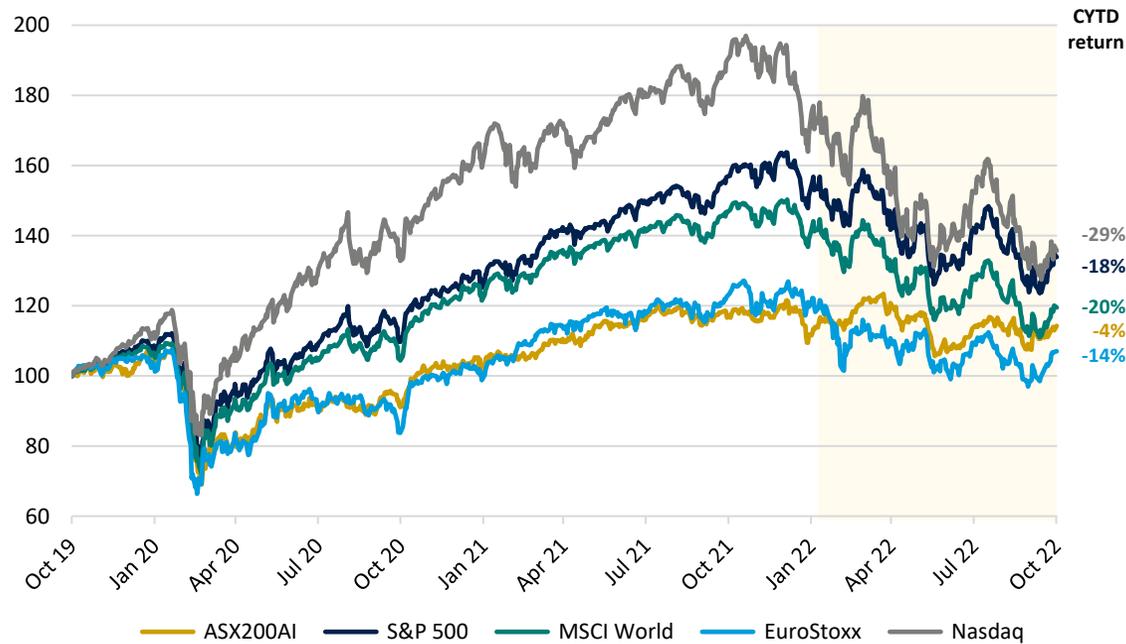
# Market review



Higher interest rates and a withdrawal of liquidity has caused a sharp correction in asset values

## Largest sell off in equity indices since March 2020

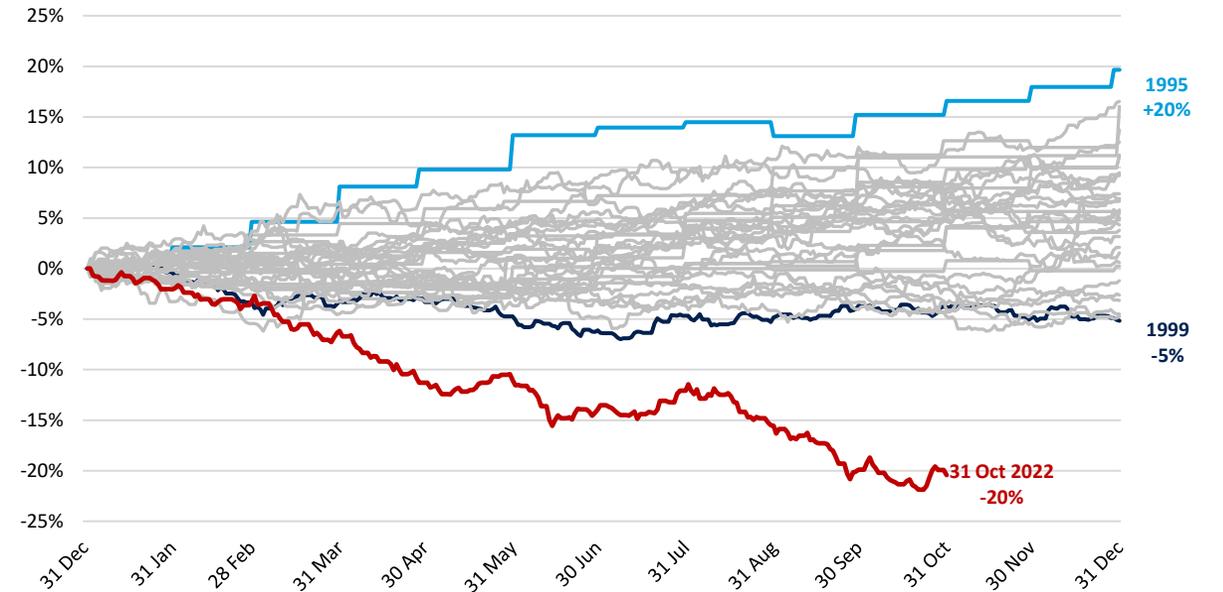
Major global equities indices performance (3 years to 31 Oct 2022)



- Equities sell-off has been severe and global (Nasdaq ↓29%, MSCI World ↓20%, S&P500 ↓18%).

## Collapse in bond markets

Bloomberg global aggregate bond index performance (since inception in 1990)



- Unlike prior crises, bonds have not been a safe haven.
- Biggest sell-off for bonds in almost 100 years.

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# Market outlook



Equity markets likely to remain difficult and volatile

## Equities backdrop: **March 2020 – March 2022**

- Incredibly attractive valuations
  - Corporate earnings likely to beat expectations
  - Falling interest rates & policy stimulus
  - Cheap energy
  - Heightened M&A activity
  - Excessive COVID-19 pessimism
- = LSF net long 100-120%**



## Equities backdrop: **Current**

- Full valuations
  - Corporate earnings unlikely to beat expectations
  - Rising interest rates & policy tightening
  - Energy crisis (with no end in sight)
  - More difficult M&A environment
  - Tail risk from geopolitical tensions
- = LSF net long 40-50%**

**Since the start of 2022, we have been significantly reducing our net market exposure.**

**Importantly, we do not need the stock market to rally to generate positive returns.**

# Market outlook

The Fed is unlikely to 'pivot' in the near-term

“We are taking forceful and rapid steps to moderate demand so that it comes into better alignment with supply, and to keep inflation expectations anchored.

We will keep at it until we are confident the job is done.”

*Jerome Powell, Fed Chair*

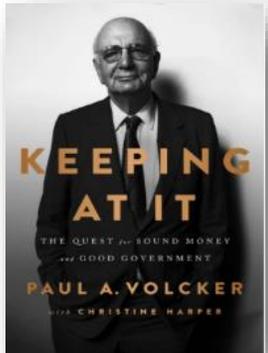
*Jackson Hole Address – 26 August 2022*

It's very premature in my view to think about, or be talking about, pausing our rate hikes.

We have a ways to go.”

*Jerome Powell, Fed Chair*

*FOMC Meeting press conference – 2 November 2022*



Movement in U.S. Treasuries post Powell's Jackson Hole speech and the 2 Nov FOMC meeting



# Market outlook



U.S. economic indicators are flashing red

## 30-year mortgage rates are now over 7%

U.S. 30-year fixed mortgage rate



- 400bps increase in mortgage rates in less than 9 months
- Highest mortgage rates in 20 years.
- Economic impact will be felt in 2023.

## Yield curve inversion implies a U.S. recession is likely

U.S. yield curve (2s10s)



- Yield curve is now the most inverted since 1980s.
- Major U.S. recession likely in 2023.

# Market outlook

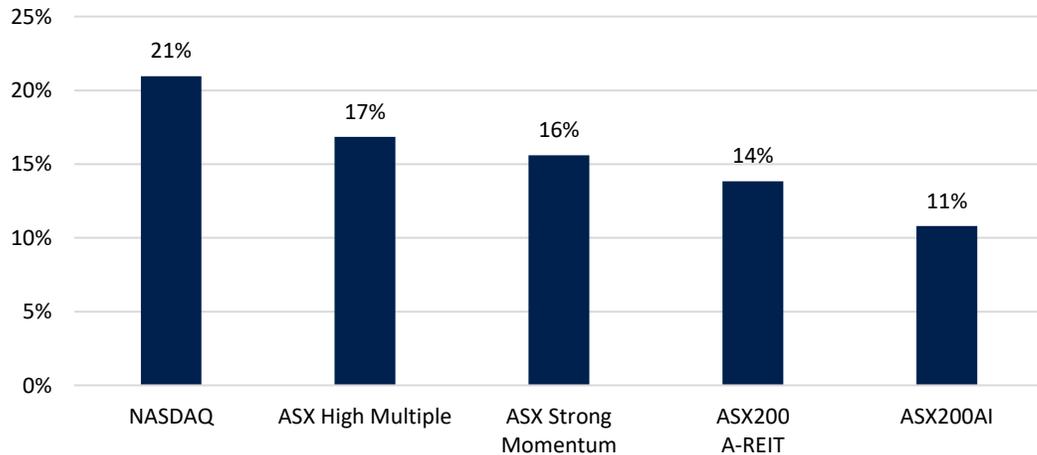
The investment playbook of the last decade is unlikely to work going forward

## Markets over the last decade:

- Benefited from interest rates falling to near-zero, low bond yields, low inflation.
- Favouring long-duration assets, growth stocks and momentum strategies.

Long duration assets benefitted from falling interest rates

10 year returns p.a. (2011-2021)

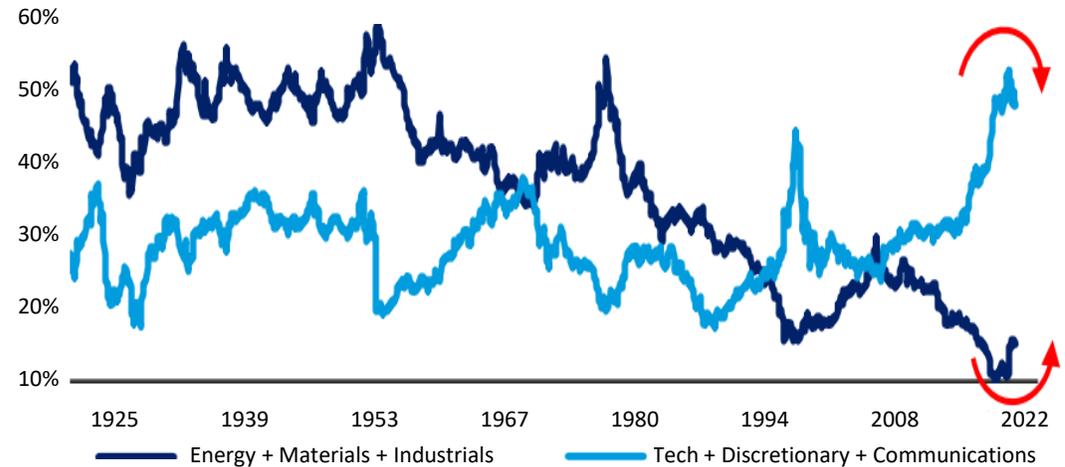


## Markets going forward:

- Higher interest rates and higher inflation.
- ‘Fed Put’ no longer in effect to provide safety net.
- **Major rotation in sector leadership to come.**

‘Old economy’ sectors set to lead the market after decades of underperformance

Sector weight in the S&P500



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# LSF advantages



LSF has a number of key advantages over many other funds:

## Market exposure

Adjust portfolio net long to reflect the risk-reward of the market.

## Shorting

Able to profit from both rising and falling share prices.

## International

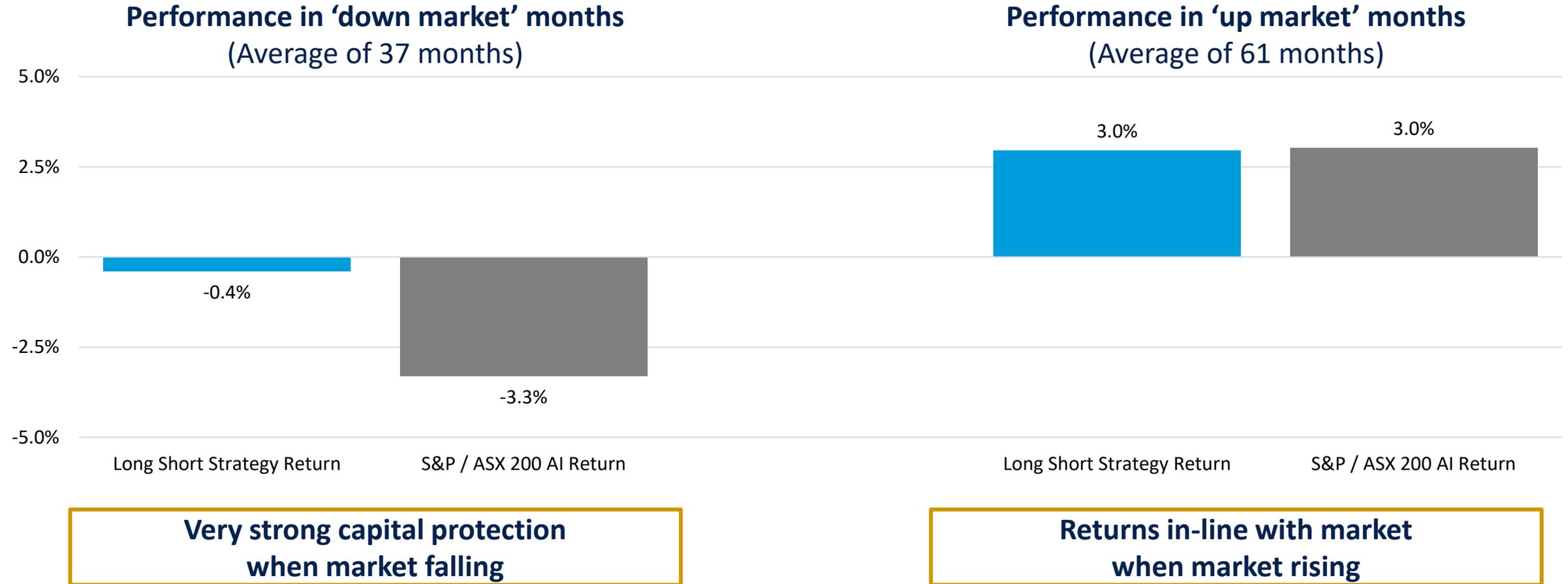
Exploit research insights offshore, not just domestically.

Able to generate returns from all investment and market insights

# Downside protection



The strategy has protected our investors' capital in falling markets



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# LSF positioning



# LSF positioning



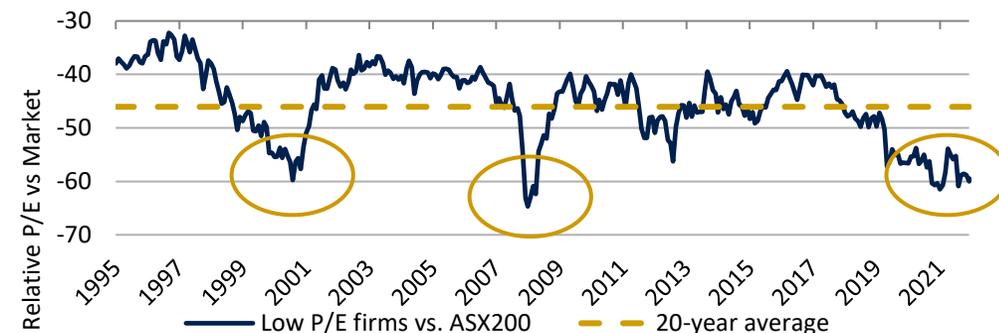
The portfolio is skewed to lower P/E stocks with strong cashflow generation

- Low P/E stocks are far better value than high P/E stocks (see charts).
- High P/E stocks remain very expensive, crowded and unappealing.
- Portfolio positioning:
  - Median long: 10x P/E, 7% FCF yield, same EPS growth as shorts.
  - Median short: Much lower cashflow and earnings (versus longs).

## Portfolio metrics

FY23 Consensus Forecasts	Portfolio longs	Portfolio shorts
P/E	10.3x	18.2x
EPS Growth YoY	5.1%	5.6%
Free Cash Flow Yield	7.0%	2.9%

Low P/E firms trade at a 59% discount to the market (13% below 20-year Average)

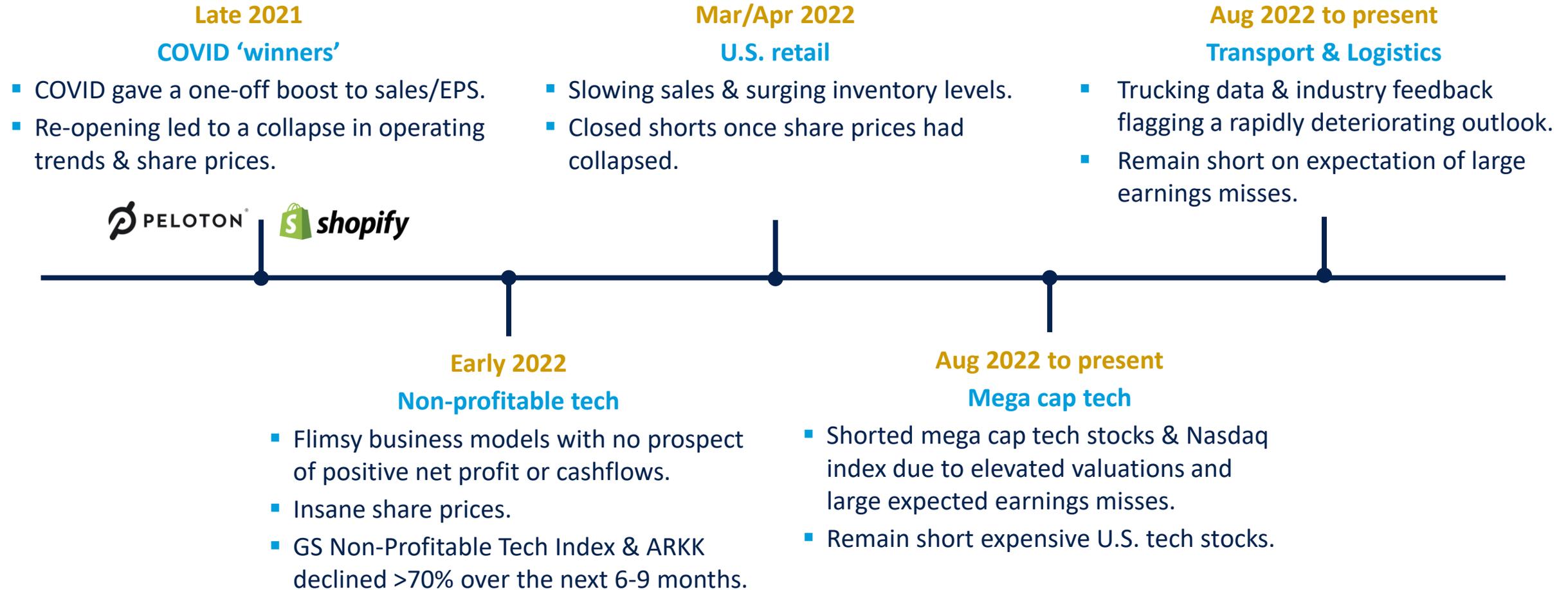


High P/E firms trade at a 75% premium to the market (33% above 20-year average)



# LSF short positioning – Past 12 months

Short book has been a strong positive contributor to performance





## China re-opening

- China set to re-open over the coming 6 months.
- Investor sentiment extremely depressed and valuations compelling.
- Re-opening likely to coincide with policy stimulus, providing further momentum.



## Resources

- Copper & oil shares have fallen since June on concerns over slowing U.S. macro.
- Share prices detached from the tight physical commodity markets.
- Expect strong share price recovery with physical markets set to remain incredibly tight.



## Sports betting

- Sector under pressure due to near-term concerns over U.K. regulations review and U.S. competitive intensity.
- Positive inflection point likely as U.S. divisions becoming strongly profitable and U.K. regulations finalised.



## Cash machines

- Low P/E stocks, with enormous cashflow generation, under-gearred balance sheets and strong industry positions.
- Flexibility to use cashflows for increased dividends, buybacks or accretive M&A.

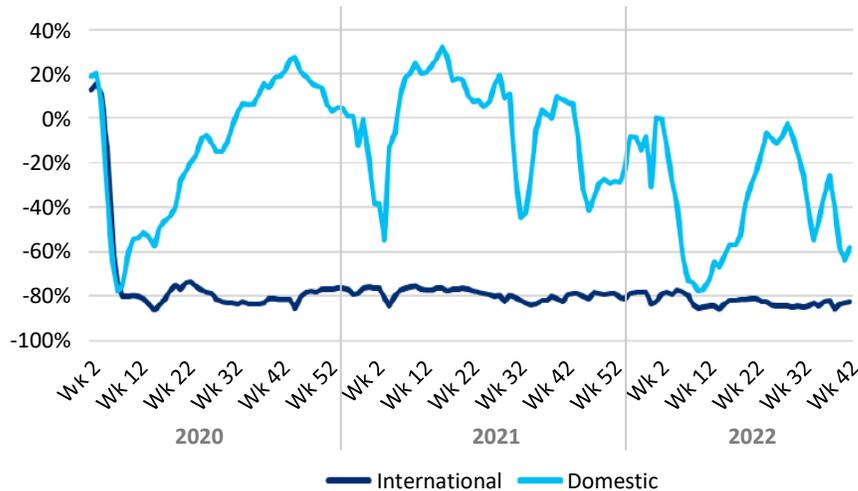
# China re-opening

Chinese travel and consumer-related stocks will see a surge in operating trends

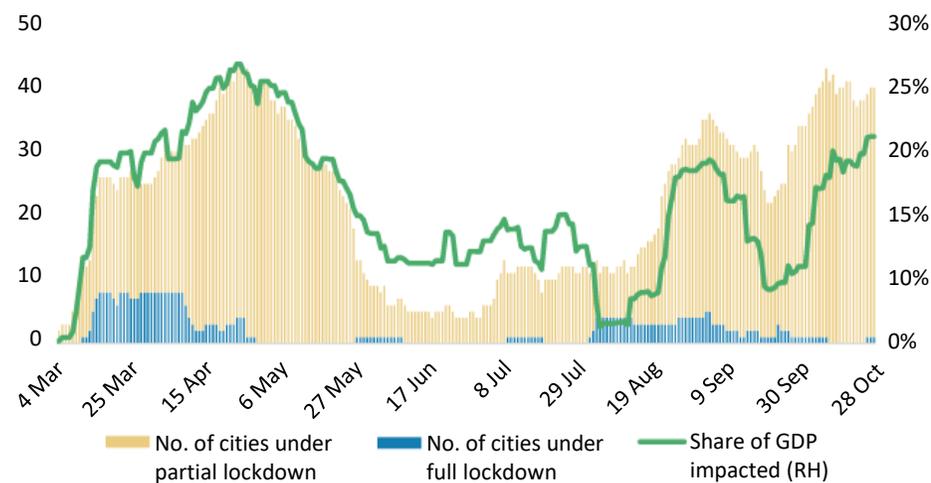


- Many market commentators believe China will remain in harsh lockdowns indefinitely.
- Chinese aviation activity is incredibly depressed (domestic -50%, international -80% v pre-COVID).
- Our detailed research suggests China will be able to re-open in H1 2023.
- Consistent with China recently ordering US\$37b of aircraft from Airbus (delivery 2023-2027).
- Expect to see strong performance from Chinese travel and consumer stocks.

### Flight volumes well below pre-pandemic levels



### Close to 20% of national GDP under partial lock-down



## Key positions

Several China travel stocks



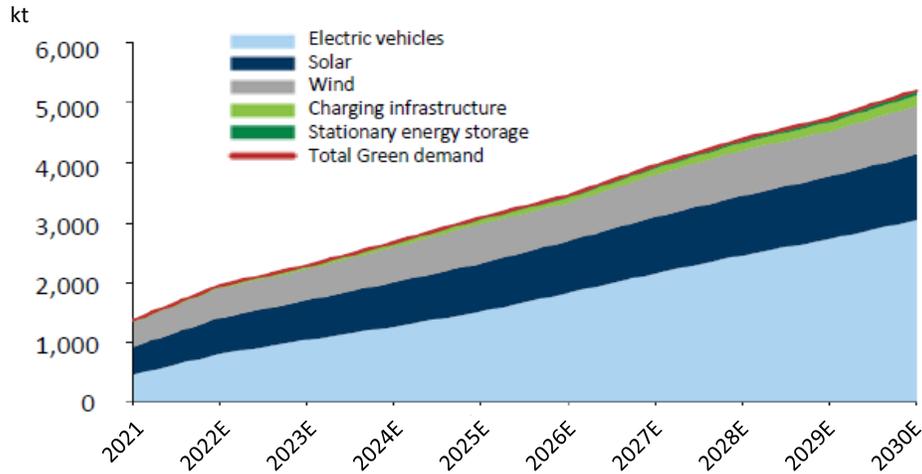
# Resources

## Copper – The forgotten play on electric vehicles

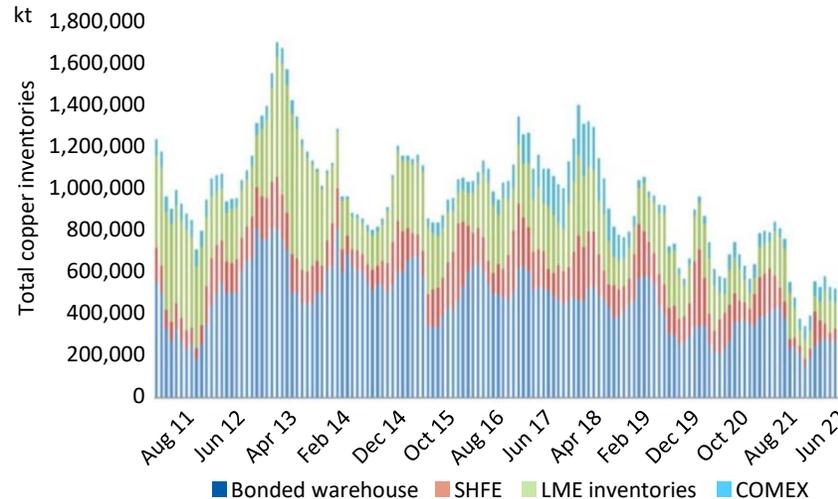


- Copper price has fallen close to ~30% CYTD on rising global recession fears.
- However, physical copper inventories are incredibly tight (see chart below right).
- Medium term copper fundamentals remain positive:
  - **Copper demand** expected to grow due to ‘energy transition’ demand.
  - **Copper supply** is very difficult to bring on-line quickly.
  - **Takeover activity** from BHP & RIO shows clear intent to increase copper exposure.

**Structural boom in green energy (copper intensive)**



**Copper inventories already at record lows**



### Key positions



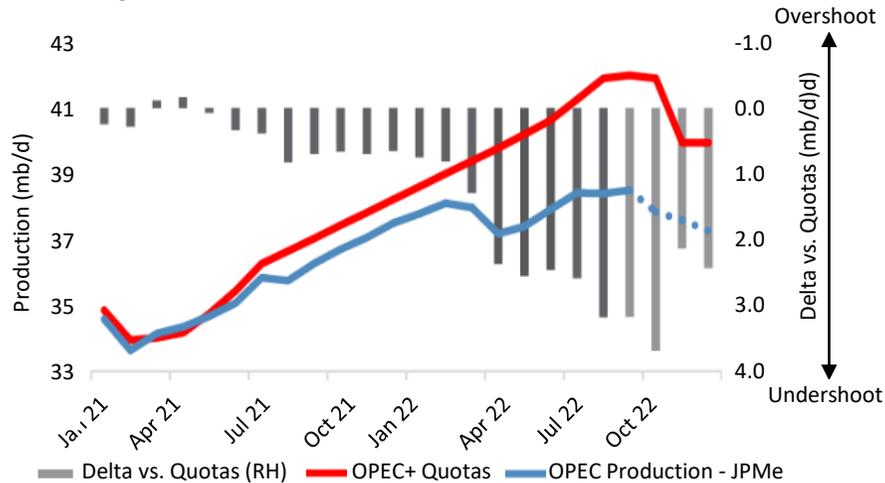
# Resources

Energy – Structural under-investment suggests a prolonged period of high oil prices

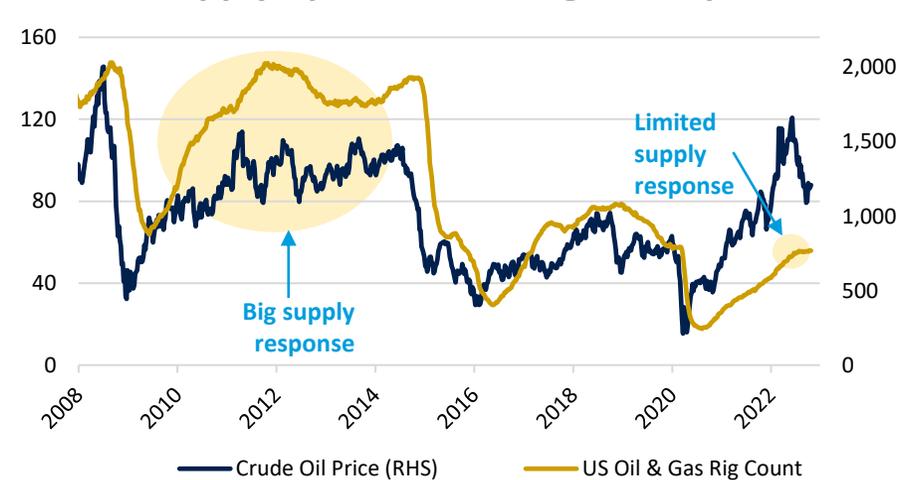


- Oil market set to become increasingly tight:
  - Demand has recovered quickly to above pre-COVID levels (+ China potential re-opening).
  - U.S. strategic petroleum reserve (SPR) injecting 1m barrels/day into the market, but this is set to stop in November (after using up 40% of the SPR).
  - OPEC+ struggling to meet existing quotas (& recently reduced its quota by 2m barrels/day).
  - Western oil companies have reduced their 'old energy' capex by 25% since 2019.

### OPEC+ production continues to undershoot



### Limited supply uplift even at higher oil prices



## Key positions



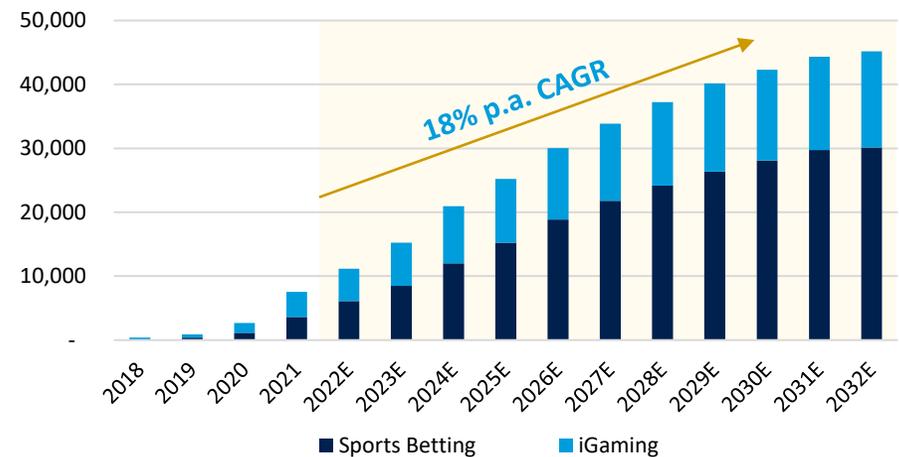
# U.S. sports betting

One of the most exciting, high growth industries globally



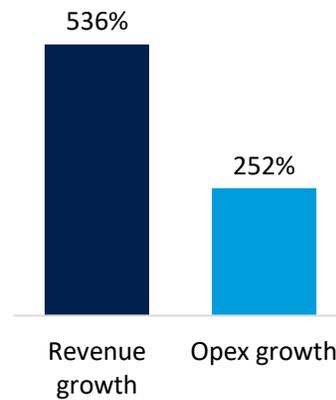
- U.S. sports betting/iGaming industry set to grow 18% p.a. to 2030.
- Major inflection point in 2023 – underlying profitability will finally become apparent.
- Leveraging Australian and U.K. IP to win in the U.S.:
  - Flutter (through FanDuel) the #1 player in U.S. Sports Betting.
  - Entain (through BetMGM JV) the #1 player in U.S. iGaming.

## Market forecast to grow to ~US\$40b in 2030

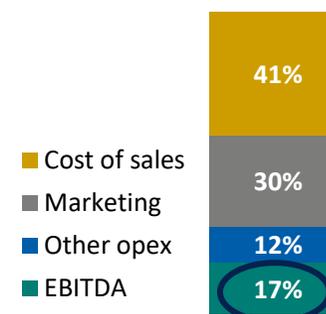


## P&L developing like existing markets (Fan Duel)

Op leverage since H119



New Jersey LTM P&L



## Key positions



# Cash machines

High quality companies with exceptional cash generation potential

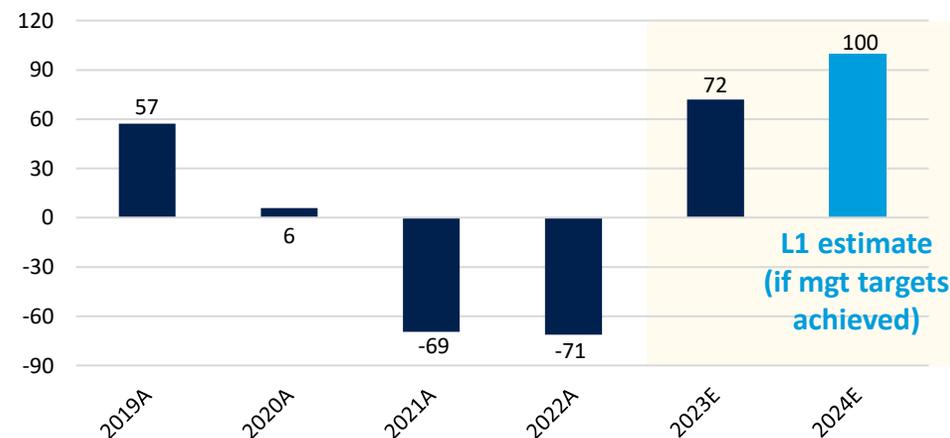


## Compelling risk-reward to buy companies that have:

- Enormous cashflow generation
- Strong industry positions
- Proven management
- Conservative balance sheets
- Attractive valuations
- Organic growth options

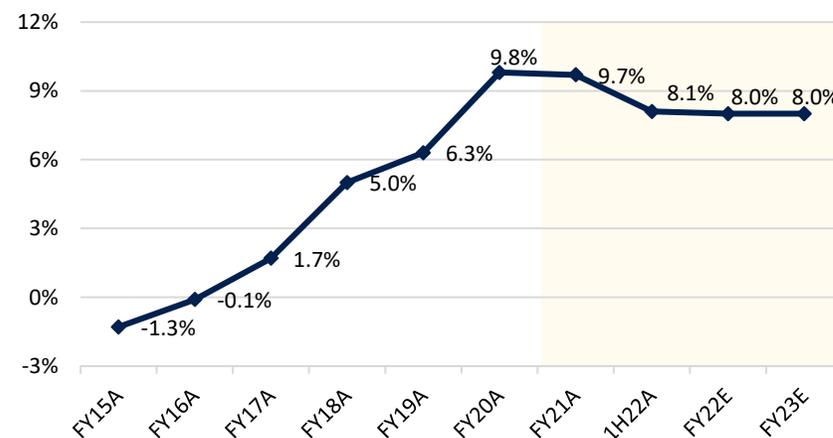
## Qantas EPS on track to be ~75% above pre-COVID levels

Qantas underlying EPS (cents per share)



## Step change in QBE's premium rate growth

QBE Group premium rate movements



## Key positions

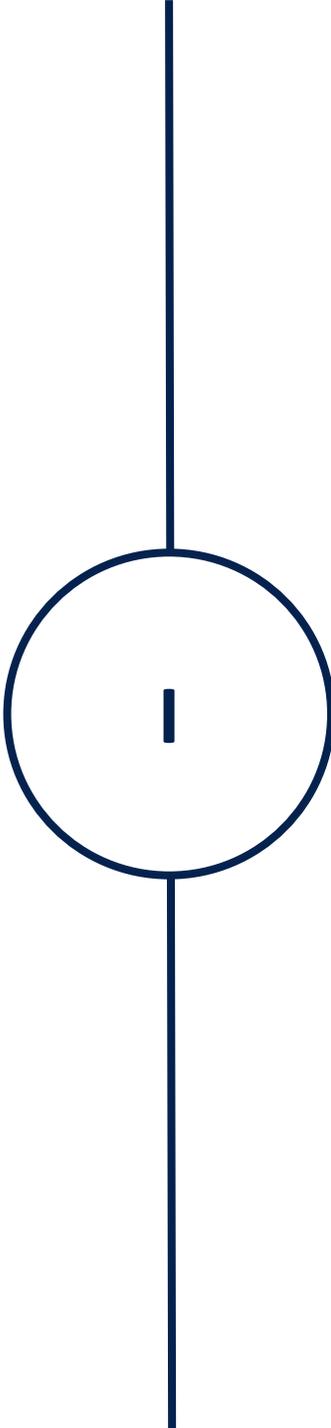


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## Summary



- 1 We expect a major rotation in sector leadership to 'old economy' sectors (and away from growth, yield and momentum stocks).
- 2 Despite our cautious macro view, we believe the recent sell-off has been quite erratic and is providing us with a better than usual set of long and short opportunities.
- 3 LSF has the advantage of being able to adjust market exposure, short stocks and invest internationally. We do not need the stock market to rally to generate positive returns.
- 4 We have identified four themes that offer a compelling, asymmetric risk-reward: China re-opening, Resources (Copper and Energy), U.S. sports betting and Cash machines.
- 5 While heightened market volatility can be unnerving, we believe it provides us with numerous mis-priced stocks and the ideal backdrop to generate long-term alpha for our shareholders.



**I**

# **Appendix**

## **Overview of L1 Capital**



## Specialist investment manager founded by Mark Landau & Rafi Lamm in 2007

- ‘L’ – Derived from the surnames of the founders (Lamm & Landau).
- ‘1’ – Genuine firm-wide aspiration to be the “best”, not just “good”.
- Reputation for investment excellence and best of breed investment funds.
- All L1 Capital funds have delivered outstanding returns since inception.
- Diverse client base – large superannuation funds, pension funds, asset consultants, financial planning groups, family offices, high net worth investors and retail investors.

### People



Proven, high calibre and stable team

### Integrity



Ethical and professional in all respects

### Ownership



Owned by senior L1 staff

### Alignment



L1 staff invested alongside clients

# Global Investment Manager

Well resourced and experienced team across investments, operations, compliance and investor relations

## Business Overview

- Founded in 2007
- Circa A\$5b FUM
- Investment professionals in 5 locations globally



# L1 Capital Funds



Investment Excellence – Outstanding performance since inception across all strategies

## Long Short Fund

**19.7%** p.a.

net return S.I.  
(ASX200AI 6.8% p.a.)<sup>1</sup>

**Best performing long short fund in Australia since inception<sup>2</sup>**

**>25% p.a. net return in 6 out of 7 calendar years**

### AUS. ALTERNATIVE INV. AWARDS

Best Alternative Manager of the Year 2021  
Best Alts. Inv. Product (LIC) 2021 & 2022

### ZENITH FUND

**AWARD WINNER**  
Aus. Equities – Alts  
Strategy 2022

### ZENITH RATING

'Recommended'

### LONSEC RATING

'Recommended'

Melbourne

Sep 2014

## Global Opportunities

**32.9%** p.a.

net return p.a. S.I.<sup>3</sup>

**One of the best performing hedge funds globally since inception**

**No negative months since inception**

### HSBC SURVEY

'Top 20 Hedge Fund Globally' in 2017, 2018,  
2020 and 2021<sup>4</sup>

Miami

Jun 2015

## International Equities

**9.7%** p.a.

net return S.I.  
(MSCI World 10.3% p.a.)

**Strong performance since inception**

### ZENITH RATING

'Recommended'

### LONSEC RATING

'Recommended'

Sydney

Mar 2019

## Catalyst

**13.7%** p.a.

net outperformance of  
ASX200AI S.I.

**High conviction activist strategy  
Strong early performance**

### ZENITH RATING

'Recommended'

### LONSEC RATING

'Recommended'

Melbourne

Jul 2021

## U.K. Residential Property

**6.1%** p.a.

total return on U.K. Fund I<sup>5</sup>

**Achieving target yield  
despite impact from pandemic  
on student properties**

London

Sep 2017

# Competitive Edge



A proven team that drives performance through high quality, independent research

## Track Record

Best performing long short fund in Australia since inception in 2014<sup>1</sup>.

## Quality Research

Differentiated company, industry and macro research (e.g. vaccine, inflation).

## Independent Thinking

Low correlation with other fund managers and typically not in crowded positions.

## Sound Judgement

Unemotional investment approach and track record of taking advantage of market volatility and dislocations.

## Alignment

Investment team has the majority of personal wealth invested alongside investors.

# L1 Long Short Fund Limited



Monthly performance, strategy returns (Net, %)

Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>2014</b>	-	-	-	-	-	-	-	-	(2.42)	3.03	2.85	1.61	<b>5.17</b>
<b>2015</b>	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.62	<b>60.52</b>
<b>2016</b>	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.13)	0.55	2.22	<b>29.61</b>
<b>2017</b>	2.51	1.87	3.15	1.03	4.18	1.70	2.62	1.69	1.93	2.54	0.89	3.56	<b>31.40</b>
<b>2018</b>	0.56	(0.47)	(1.64)	(1.32)*	(4.05)	(5.96)	1.01	(5.34)	(2.06)	(3.90)	(2.60)	(5.95)	<b>(27.74)</b>
<b>2019</b>	4.26	5.11	0.16	3.05	(2.73)	3.87	0.63	0.40	2.54	3.46	0.36	2.06	<b>25.46</b>
<b>2020</b>	(7.75)	(6.85)	(22.93)	23.16	10.94	(2.12)	(1.69)	9.99	0.63	(2.37)	31.94	4.29	<b>29.50</b>
<b>2021</b>	(0.17)	9.00	(0.14)	5.11	4.07	(0.52)	1.75	5.10	4.86	2.32	(7.36)	3.66	<b>30.29</b>
<b>2022</b>	2.79	6.87	1.34	3.44	0.06	(13.39)	(3.34)	5.37	(7.60)	5.24			<b>(1.33)</b>

**Best performing long short fund in Australia since inception<sup>1</sup>.**

**Outperformed ASX200AI by ~13% p.a.\* (net) since inception despite a major factor/style headwind.**

All performance numbers are quoted after fees to 31 Oct 2022. \* Full performance history (net of fees) is for the L1 Long Short Limited (LSF:ASX) since inception on 24 Apr 2018. Performance prior to this date is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014). Past performance should not be taken as an indicator of future performance. 1. Ranking in FE Analytics Australian Shares universe.

# Important information

## L1 Long Short Fund Limited



L1 CAPITAL

### 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.

### Lonsec

The rating issued for L1 Capital Long Short Fund – Daily Class (Sep 22), 09/2022 L1 Capital Long Short Fund – Monthly Class (Sep 22), L1 Capital Catalyst Fund (Sep 22), L1 Capital International Fund (May 22) and L1 Capital Australian Equities Fund (Jun 22) are published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec). Ratings are general advice only, and have been prepared without taking account of your objectives, financial situation or needs. Consider your personal circumstances, read the product disclosure statement and seek independent financial advice before investing. The rating is not a recommendation to purchase, sell or hold any product. Past performance information is not indicative of future performance. Ratings are subject to change without notice and Lonsec assumes no obligation to update. Lonsec uses objective criteria and receives a fee from the Fund Manager. Visit [lonsec.com.au](http://lonsec.com.au) for ratings information and to access the full report. © 2022 Lonsec. All rights reserved.

### Zenith

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) (Zenith) ratings assigned to (ABN 27 103 132 672, AFS Licence 226872) (“Zenith”) rating assigned to L1 Capital Long Short Fund (Jun 22), L1 Capital International Fund – Nov 21 and L1 Capital Catalyst Fund (Jun 22) referred to in this document are limited to General Advice (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at <http://www.zenithpartners.com.au/RegulatoryGuideline>



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