

- The L1 Long Short Fund (LSF) portfolio returned -7.6%<sup>1</sup> in September (ASX200AI -6.2%).
- The portfolio has returned 18.8%<sup>1</sup> p.a. over the past 3 years (ASX200AI 2.7% p.a.).
- Global equity markets suffered their largest sell-off since March 2020, due to increasing concerns over central bank policy tightening and the possibility of a U.S. recession.
- We invite you to join Mark Landau for a LSF investor webinar where he will discuss portfolio positioning and the outlook for equity markets at 11am AEDT on Thursday 10 November. Please register [here](#).

Global equity markets fell sharply in September (MSCI World -9.3%, S&P500 -9.2%, Nasdaq -10.4%) as the Fed maintained an aggressive stance on tackling high inflation through continued policy tightening, despite rising recession fears. U.S. markets sold off significantly over the month, with the Nasdaq and S&P500 falling below their June 2022 lows. The Fed has now increased interest rates by ~300bps since March 2022, the fastest rise since the early 1980s, with consensus expectations for a further 125bps increase by year-end. At the start of this year, U.S. markets were pricing in only 75bps of rate increases for the entire calendar year.

The S&P/ASX 200 Accumulation Index returned -6.2% in September with all sectors coming under pressure. Despite being negative, the strongest sectors were Materials (-2.3%), Energy (-3.8%) and Healthcare (-4.4%) while Utilities (-13.8%), Property (-13.6%) and Information Technology (-10.6%) were the weakest sectors.

Portfolio performance was impacted by the broad-based market sell-off over the month with limited stock-specific news flow driving share price performance. We believe the recent sell-off is presenting some exceptional opportunities, with our median portfolio long position now trading on only 9.7x FY23 P/E.

While these periods of heightened market volatility can be unnerving, we continue to believe that taking a 2 year view and focusing on enduring investment fundamentals (cashflows, industry structure, management, operating trends and balance sheet) will deliver strong absolute and relative returns to our investors.

**We believe equity markets are entering a more difficult and uncertain period due to a combination of aggressive central bank policy tightening, deteriorating leading economic indicators in the U.S, worsening geopolitical tensions and continued war in the Ukraine, along with an energy crisis. As a result, we have significantly reduced our net market exposure. We continue to find both safety and value in low P/E stocks with undergeared balance sheets and strong cashflow generation. In contrast, we believe high P/E stocks and 'expensive defensives' look crowded, risky and unappealing.**

Returns (Net) <sup>1</sup> (%)	L1 Long Short Portfolio	S&P ASX 200 AI	Out-performance
1 month	(7.6)	(6.2)	(1.4)
3 months	(5.9)	0.4	(6.3)
6 months	(15.8)	(11.6)	(4.2)
1 year	(7.9)	(7.7)	(0.2)
2 years p.a.	28.1	9.8	+18.3
3 years p.a.	18.8	2.7	+16.1
4 years p.a.	15.0	5.0	+9.9
LSF Since Inception p.a.	8.8	6.2	+2.6
Strategy Since Inception <sup>2</sup> p.a.	19.2	6.1	+13.1

Key detractors to portfolio performance in September included:

**BlueScope Steel (Long -9%)** shares weakened over the month, along with most offshore steel-making companies as U.S. and Asian steel spreads declined. U.S. steel spreads have fallen from record levels but remain healthy and are starting to stabilise as the arbitrage on importing steel has now largely been eroded.

BlueScope continues to focus on growing its U.S. operations with a 850ktpa capacity expansion at the North Star facility in Ohio, the acquisition of the U.S.'s second largest metal coating/painting company in Coil Coatings, and the establishment of BlueScope Recycling from its acquisition of the MetalX recycling business. Given its strong net cash balance sheet, we expect BlueScope to continue its significant on-market share buyback program alongside further investment in its U.S. and Australian businesses. Currently trading on just ~4.0x consensus FY23 EV/EBIT and ~6.0x consensus FY23 PE, we continue to believe the market significantly undervalues BlueScope's unique and strategic asset base.

1. All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. 2. Strategy performance and exposure history is for the L1 Long Short Fund Limited (ASX:LSF) since inception on 24 Apr 2018. Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014). NOTE: Fund returns and Australian indices are shown in A\$. Returns of U.S. indices are shown in US\$. Returns are on a total return basis unless otherwise specified.



L1 CAPITAL

# L1 Long Short Fund Limited

Monthly Report | SEPTEMBER 2022

**James Hardie (Long -8%)** shares declined over the month on an expected sharp correction in U.S. housing demand as 30 year fixed mortgage rates lifted by 100bps to nearly 7% and fears of a U.S. recession increased. James Hardie is the market leader in fibre cement siding with a history of market share growth in the U.S. over more than 20 years. The business mix has evolved considerably since the GFC, with ~65% of group revenues currently driven by repair and remodel exposure and ~35% from new housing. We attended the company's investor day in New York in September (and also had several meetings with James Hardie senior management and board members) and came away confident in James Hardie's ability to continue to grow market share for many years to come as well as the resilience and flexibility of the business to manage through a period of softer new housing demand.

We believe the market correction has provided us the opportunity to invest in a very high-quality company with a decade of structural growth ahead of it at a very attractive valuation. James Hardie currently trades on a FY23 consensus P/E of only ~13x relative to its long-term average of 20-25x. While we expect U.S. housing starts to be negatively impacted by the steep rise in interest rates, at this valuation, we believe the market is implicitly assuming a ~40% decline in James Hardie earnings. This would be a similar impact to what the company suffered during the GFC, however, the business mix at that time was much more cyclical, with a ~60-65% skew to new housing.

**Ramsay Health Care (Long -20%)** shares fell during September following the company ceasing discussions with the KKR consortium on its non-binding indicative proposal, originally valued at \$88 cash per share. Ramsay is the largest private hospital operator in Australia with over 70 hospitals and day surgery units nation-wide and a well-established global footprint that includes Australia, the United Kingdom, France, the Nordics and South-East Asia. The collapse of the takeover offer is disappointing as we viewed it as a near-term realisation of some of the catalysts that exist in the business, including portfolio simplification, unlocking value from its Australian property portfolio and capital management opportunities. We believe these value unlock opportunities continue to exist and that Ramsay management and board still have a range of alternative options that can maximise value for shareholders.

**Sandfire Resources (Long -19%)** shares declined in September due to copper prices remaining under pressure in the face of a weaker global economic backdrop. The physical copper market continues to remain tight, with supply continuing to be impacted by production challenges in Chile – the number one global producer. Sandfire completed the transformational US\$1.865b (A\$2.850b) acquisition of the MATSA mine in Southern Spain in February this year and is currently developing the Motheo Copper Mine in Botswana. We believe the commencement of Motheo production in FY24 will deliver a step-change in free cash flow for the company as capex declines and the operating cash flow from the mine expands. We see compelling value upside in Sandfire with the company currently trading at a discount to the acquisition price of MATSA alone, before factoring in any value for its other mining assets, including Motheo.

## Strategy Returns (Net)<sup>3</sup> (%)

	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) <sup>3</sup>	(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)				<b>(6.24)</b>

## Portfolio Positions

Number of total positions	82
Number of long positions	55
Number of short positions	27
Number of international positions	27

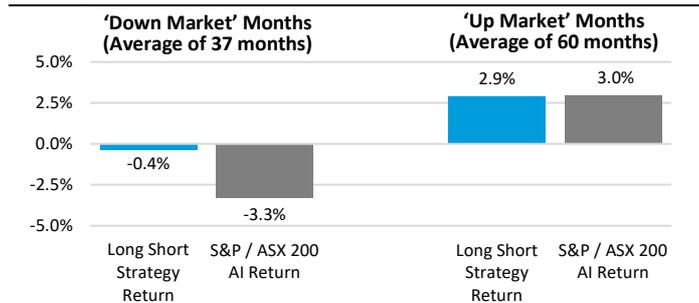
## Company information as at 30 September 2022<sup>4</sup>

Share Price	\$2.35
NTA before tax	\$2.4961
NTA after tax	\$2.5961
Shares on issue	613,825,593
Company market cap	\$1.44b

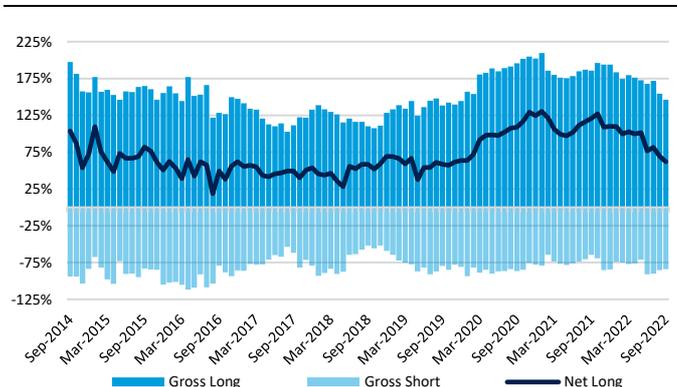
## Net & Gross Exposure by Region<sup>3</sup> (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia/NZ	91	69	22
North America	37	15	22
Europe	15	0	15
Asia	4	0	4
<b>Total</b>	<b>147</b>	<b>84</b>	<b>62</b>

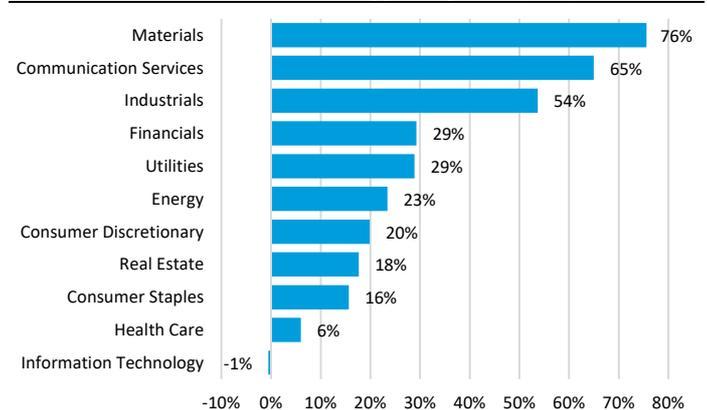
## Strategy Performance Since Inception<sup>3</sup> (Net)



## Historical Strategy Exposures<sup>3</sup>



## Sector Contribution Since Strategy Inception<sup>3</sup> (Net)



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# L1 Long Short Fund Limited

Monthly Report | SEPTEMBER 2022

## Key personnel

<b>Andrew Larke</b>	Independent Chair
<b>John Macfarlane</b>	Independent Director
<b>Harry Kingsley</b>	Independent Director
<b>Raphael Lamm</b>	Non-Independent Director
<b>Mark Landau</b>	Non-Independent Director
<b>Mark Licciardo</b>	Company Secretary
<b>Registry</b>	Link Market Services Limited
<b>Company website</b>	<a href="http://www.L1LongShort.com">www.L1LongShort.com</a>
<b>Manager website</b>	<a href="http://www.L1.com.au">www.L1.com.au</a>
<b>LinkedIn</b>	Follow us on

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## Company Information – LSF

<b>Name</b>	L1 Long Short Fund Limited
<b>Structure</b>	Australian Listed Investment Company (ASX:LSF)
<b>Inception</b>	24 April 2018
<b>Management Fee</b>	1.44% p.a. inclusive of GST and RITC
<b>Performance Fee</b>	20.0%
<b>High Watermark</b>	Yes

## 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, financial planning groups, family offices, high net worth individuals and retail investors.



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## Information contained in this publication

L1 Long Short Fund Limited, managed by L1 Capital Pty Ltd, has been established to invest in a portfolio of predominantly Australian and New Zealand securities, with up to 30% invested in global securities. The Company has the ability to both buy and short-sell securities, which provides a flexible strategy to deal with changing stock market conditions. The objective is to deliver strong, positive, risk-adjusted returns to investors over the long term.

### Disclaimer

This communication has been prepared for L1 Long Short Fund Limited (ACN 623 418 539) by its investment manager, L1 Capital Pty Ltd (ABN 21 125 378 145 and AFS Licence 314302). L1 Capital Pty Ltd has prepared this publication in good faith in relation to the facts known to it at the time of preparation. This publication contains general financial product advice only. In preparing this information, we did not consider the investment objectives, financial situation or particular needs of any individual investor, and you should not rely on the opinions, advice, recommendations and other information contained in this publication alone. This publication has been prepared to provide you with general information only. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. We do not express any view about the accuracy or completeness of information that is not prepared by us and no liability is accepted for any errors it may contain. Past performance is not a reliable indicator of future performance.

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