L1 CAPITAL

Monthly report

L1 Capital Long Short Fund – Daily Class

January 2025

- The L1 Capital Long Short Fund returned 0.2%[1] in January (ASX200AI 4.6%).
- Over the past 5 years, the Fund has returned 16.4%[1] p.a. (ASX200AI 8.0% p.a.).
- Markets recovered from December's decline, with risk-on sentiment driven by deregulation, a more stable interest rate outlook and the strength of the U.S. economy.

Markets recovered in January as investors turned more positive on the benefits of the Trump administration's deregulation agenda along with a continued improvement in business confidence as U.S. economic data remained robust.

The January Fed meeting resulted in no changes to benchmark interest rates with the market now expecting the next U.S. rate cut in June. Investors were encouraged by the Fed's comments that inflation is tracking in the right direction with analysts expecting it to slowly trend towards the FOMC's target range. Strong U.S. unemployment data added to investor confidence as the unemployment rate ticked down slightly to 4.1% in December.

The AI-growth narrative faced a setback as China's DeepSeek AI model triggered questions on the extent of U.S. tech spending on their models and concerns over broader leadership in the global AI race going forward.

In Australia, the ASX 200 benefitted from the global risk-on rally and from increased confidence in rate cuts following a weaker-than-expected inflation print in January (trimmed mean inflation rose 0.5% quarter-on-quarter in December, less than consensus of 0.6%).

The S&P/ASX 200 Accumulation Index returned 4.6% during January. Consumer Discretionary (+7.1%), Financials (+6.1%) and Property (+4.7%) were the strongest sectors, while Utilities (-2.4%), Consumer Staples (+0.7%) and Communication Services (+2.4%) lagged.

The portfolio was relatively flat in January as gains in stocks such as Lloyds, Ryanair, Bluescope and Santos were offset by short positions in the ASX200 index (which we view as fully priced), along with shorts in some of the domestic banks. CBA now trades at an extraordinary P/E of 26x, compared to its decade average of 16x. We prefer to be invested in the best quality U.K. banks, which trade at a P/E of 7x (73% lower P/E than CBA), despite having much stronger earnings growth, double the dividend yield, stronger capital ratios with larger buyback programs, a better outlook for net interest margin, while delivering a similar return on equity.

Returns (Net)[1] (%)

	L1 Capital Long Short Fund	S&P/ASX 200 AI	Out-performance
1 month	0.2	4.6	(4.3)
1 year	2.2	15.2	(13.0)
3 years p.a.	5.2	11.4	(6.3)
5 years p.a.	16.4	8.0	+8.5
7 years p.a.	8.9	9.2	(0.4)
10 years p.a.	17.3	8.6	+8.6
Since Inception p.a.	17.1	8.4	+8.7

Figures may not sum exactly due to rounding.

Returns since inception (Net)[1] (%)

	Cumulative return	Annualised return p.a.
L1 Capital Long Short Fund	419.0	17.1
S&P/ASX 200 Accumulation Index	131.0	8.4
MSCI World Net Total Return Index (USD)	162.6	9.7

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. Figures may not sum exactly due to rounding. **Past performance should not be taken as an indicator of future performance.** Based on returns achieved by the L1 Capital Long Short Fund – Daily Class since inception on 3 October 2016 (being the date that the first Daily Class units were issued). Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014) which is subject to a different fee structure. 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.

In terms of the ASX overall, we currently have only an 8% net long, as we continue to believe there are numerous pockets of clear and significant overvaluation, where we have shorts that we believe will add to portfolio returns over time as their overvalued share prices adjust to cashflow based fundamentals.

Key contributors to portfolio performance in January were:

De Grey (Long +14%) shares moved upwards as the gold price rose 7.8% over the course of January (we refer investors to our December quarterly for broader views around the gold price). De Grey is currently under a takeover offer from Northern Star and, as a result, continues to benefit from a rising gold price environment in the run up to a shareholder vote on the transaction anticipated in April 2025. 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. Northern Star's offer is consistent with our core De Grey investment thesis that Hemi is a genuine tier one project with significant upside beyond its initial metrics. The scarcity of new high quality gold discoveries makes new tier one gold projects attractive consolidation targets for large existing producers.

NatWest (Long +8%) shares rallied on positive banking sector updates and supportive commentary from regulators. Bank of England ('BoE') data showed that deposit growth was strong in December and that the mix between low-cost vs. high-cost deposits was favourable. These deposit trends translate into lower funding costs which support further margin expansion. Importantly, NatWest management expects ongoing net interest margin growth despite the impact of upcoming BoE rate cuts. During December, U.K. bank investors were also encouraged by reports that the BoE may ease regulatory restrictions on new mortgages which could provide a tailwind for mortgage market growth in time. Furthermore, regulators announced a delay in the implementation of Basel 3.1 capital standards, giving banks an extra year to build capital in advance of any changes, thereby increasing the certainty of FY25 dividends and share buybacks. Given the U.S. has watered down Basel 3.1 requirements there is also scope for more positive updates once regulators finalise the U.K. standards. U.K. inflation data came in below forecasts, pulling bond yields lower due to greater prospects of BoE interest rate cuts. This eased fears that high borrowing costs could damage the U.K.'s public finances.

In our view, NatWest leads the U.K. Banking sector with improving underlying operating trends, a superior mortgage margin trajectory and increasing interest rate hedge income. We also note the U.K. government decreased their stake in NatWest from 9.99% to 8.99% during the month, with further disposals likely to be well received by the market.

Key detractors to portfolio performance in January were:

Westgold Resources (Long -9%) declined during the month as the company reported a weaker than expected production result for Q2 25, resulting in a reduction of its FY25 guidance. Westgold's significant growth profile is driven primarily by the simultaneous ramp-up of two core assets, Beta Hunt and Bluebird. During the first half of FY25, both assets were slower to progress than anticipated due to constraints around mine infrastructure (e.g. ventilation, pumping and ground support). While disappointing, Westgold is undertaking the necessary investment over the remainer of FY25 to de-bottleneck the assets moving into FY26.

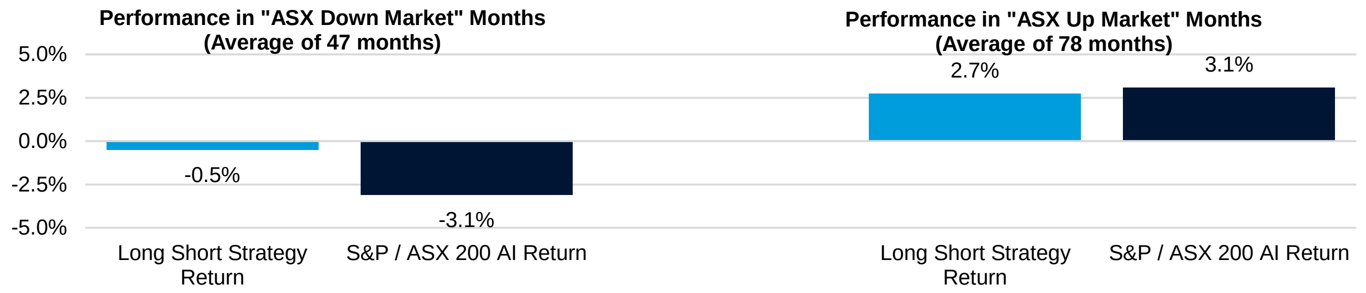
Westgold is rapidly transforming into a producer of material scale, with FY24 production of ~230koz expected to grow towards >500koz post FY26, driven by a combination of organic growth and its merger with Karora, which closed in August 2024. Importantly, Westgold is upgrading the quality of its portfolio by focusing on scalable operations, enabled through investment in exploration. We expect this to result in a more efficient cost structure over time, and ultimately, stronger cash flow generation.

JD Sports (Long -7%) shares fell after the company released a trading update for the nine weeks to 4 January 2025. Trading was mixed during this period, with a like-for-like sales decline in November partially offset by positive growth in December. Overall, like-for-like sales declined 1.5% during the period and organic sales growth (which includes new stores) was +3.4%. Trading continues to be negatively impacted by elevated promotional activity from competitors, particularly in relation to key Nike products, despite the strong performance of other established and emerging brands. JD Sports has chosen to maintain promotional discipline, with its gross margin ahead of last year. We believe that the company 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 it trades on only 7x FY26 P/E on consensus earnings. While trading conditions are likely to remain challenging for much of 2025, we expect that the recent acquisitions of Hibbett and Courir, along with supply chain improvements and Nike's turnaround initiatives, should start delivering meaningful benefits from 2026.

Fund returns (Net)[2] (%)

	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	(0.2)[2]	0.5	2.1	**29.4**
2017	2.5	1.8	2.8	1.0	4.1	1.7	2.6	1.7	1.9	2.5	0.9	3.5	**30.5**
2018	0.5	(0.5)	(1.7)	1.6	(3.8)	(6.3)	0.8	(5.9)	(2.1)	(4.0)	(2.6)	(6.1)	**(26.6)**
2019	4.3	5.1	0.2	2.8	(2.8)	3.8	1.2	0.4	2.6	3.3	0.3	2.2	**25.9**
2020	(7.8)	(7.1)	(23.0)	22.9	10.9	(2.2)	(2.0)	10.0	0.5	(2.6)	30.8	4.3	**26.5**
2021	(0.1)	9.1	(0.1)	5.0	4.1	(0.6)	1.8	5.2	4.8	2.3	(7.2)	3.6	**30.4**
2022	2.7	7.0	1.4	3.3	0.1	(13.7)	(4.7)	5.9	(8.0)	5.1	8.1	4.2	**9.4**
2023	3.7	(2.0)	0.6	1.8	(3.4)	1.8	5.4	(4.7)	0.9	(3.1)	2.5	3.6	**6.6**
2024	0.3	(0.8)	8.3	3.3	2.6	(5.0)	1.6	(3.4)	4.1	(1.2)	(2.9)	(3.8)	**2.2**
2025	0.2												**0.2**

Strategy performance in rising and falling markets[3] (Net)



Portfolio positions

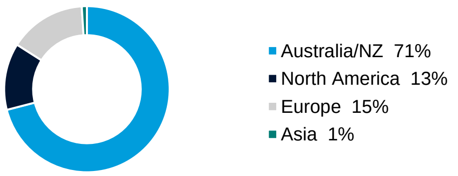
	Current	Avg. since inception
Number of total positions	75	81
Number of long positions	57	57
Number of short positions	18	24
Number of international positions	26	25

Net and gross exposure[3] (%)

	Gross long	Gross short	Net exposure
Australia/NZ	105	(92)	13
North America	33	(4)	28
Europe	43	-	43
Asia	2	-	2
Total	**182**	**(96)**	**86**

Figures may not sum exactly due to rounding.

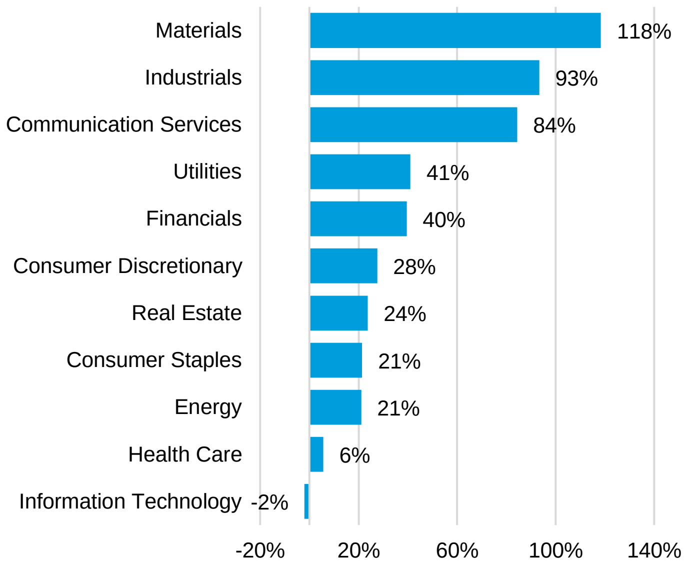
Gross geographic exposure as a % of total exposure[3]



Fund information as at 31 January 2025[4]

Unit price	$1.47
Fund NAV	$1.78b

Sector contribution since Strategy inception[3] (Net)



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Fund information – Daily Class

Class Name	L1 Capital Long Short Fund – Daily Class
Structure / Currency	Australian Unit Trust / AUD
Inception	1 September 2014
Management Fee*	1.54% p.a.
Performance Fee**	20.5%
High Watermark	Yes
Buy / Sell Spread	15bps / 15bps
APIR / ISIN	ETL0490AU / AU60ETL04909
Minimum Investment	A$25,000
Subscription / Redemption Frequency	Daily
Platform Availability	Asgard, Australian Money Markets, BT Panorama, CFS FirstWrap, HUB24, IOOF, Macquarie Wrap, Mason Stevens, Netwealth, North, Powerwrap, Praemium, uXchange, Xpand

L1 Capital 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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Key service providers for the Fund are: Responsible Entity – Equity Trustees Limited, Prime Brokers – Morgan Stanley, Merrill Lynch and Goldman Sachs, Fund Administrator – Apex Fund Services Ltd (formerly known as Mainstream Fund Services), Fund Auditor – EY, Legal Advisor – Hall & Wilcox. There have been no changes to key service providers since the last report.

* Fees are quoted inclusive of GST and net of RITC. ** The performance fee is equal to the stated percentage (inclusive of GST and net of RITC) of any increase in the NAV over any Performance Period (adjusted for applications and redemptions and before the payment of any distribution after the payment of the management fee and expenses) above the high-water mark.

All performance numbers are quoted net of fees. All performance prior to 3 October 2016 (being the date that the first Daily Class units were issued) relate to the Monthly Class units which are subject to a different fee structure. Sources of information in this report are Apex Fund Services, Bloomberg and L1 Capital.

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