Offshore Feeder

L1 Capital Long Short Fund

Monthly Report | OCTOBER 2022

- **The L1 Capital Long Short Fund returned 5.2%[1] in October (ASX200AI 6.0%).**
- **Over the past 3 years, the portfolio has returned 21.5%[1] p.a. (ASX200AI 4.8% p.a.).**
- **Global equity markets rebounded in October on speculation that central banks were nearing the peak of policy tightening.**

Global equity markets rallied in October with investors expecting the Fed to begin to scale back the pace of its tightening program in the months ahead. We found this move to be surprising for two reasons. Firstly, the Fed has been very clear that it is not close to enacting a policy pivot with inflation still tracking at over 8%. On November 2, Powell stated:

"It is very premature, in my view, to think about or be talking about pausing our rate hikes. We have a ways to go."

Secondly, numerous high quality 'bellwether' companies in the U.S. downgraded their earnings guidance significantly, suggesting the deteriorating macro was beginning to bite. We used the rally to further reduce our market exposure.

The S&P/ASX 200 Accumulation Index returned 6.0% in October. The strongest sectors were Financials (+12.2%), Property (+9.9%) and Energy (+9.5%), while Consumer Staples (-0.2%), Materials (-0.1%) and Healthcare (+0.6%) were the weakest sectors.

Portfolio performance was driven by several positive stock-specific updates along with the broader recovery in global markets.

Key contributors to portfolio performance in October included:

Flutter (Long +17%) shares rose with continued strong momentum from its U.S. business through the start of the key NFL season. The U.S. business moved to positive EBITDA in Q2 2022, well ahead of its peers, and its sports betting market share accelerated to 51% from ~40% six months ago, driven by its superior product, efficient customer acquisition strategies and strong operational execution. The U.S. division is now the largest by revenue for the company, with a clear path to profitability in 2023. This shift to profitability, together with the exponential growth of the U.S. sports betting market, underpins the ability for Flutter to significantly accelerate its earnings growth over the next few years. We believe Flutter remains significantly undervalued given its exceptional growth outlook and dominant industry position.

Fund Returns (Net)[1] (%)	L1 Long Short Fund	S&P ASX 200 AI	Out-performance
1 month	5.2	6.0	(0.8)
3 months	2.6	0.7	+1.9
CYTD	(0.4)	(4.1)	+3.8
1 year	(4.0)	(2.0)	(2.0)
2 years p.a.	34.5	12.0	+22.5
3 years p.a.	21.5	4.8	+16.7
5 years p.a.	11.1	7.2	+4.0
7 years p.a.	17.3	8.3	+9.1
Since inception p.a.	20.4	6.8	+13.6
Since inception cumulative	356.5	70.9	+285.6

Returns Since Inception (Net)[1] (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	356.5	20.4
S&P ASX 200 Accumulation Index	70.9	6.8
MSCI World Net Total Return Index (USD)	68.6	6.6
HFRX Global Hedge Fund Index	9.4	1.1

Mineral Resources (Long +11%) shares performed strongly over the quarter as lithium markets remain tight, supported by demand for electric vehicle batteries. The company is expected to finalise its joint venture agreement with Albemarle (over their jointly owned upstream and downstream lithium assets). This agreement will give clarity to Mineral Resources' lithium portfolio and support full downstream integration for >100kt of lithium hydroxide production. This will also provide the foundation for any possible separate listing of the lithium business in the future. We continue to believe that all key areas of Mineral Resources' business (iron ore, lithium and mining services) have favourable medium-term tailwinds with significant optionality that is not fully reflected in the current share price.

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. Strategy performance and exposure history is for the L1 Capital Long Short Fund – Monthly Class. 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.

Cenovus Energy (Long +31%) shares rallied due to a ~10% increase in the oil price over the month. Given the long-life nature of its oil sands assets and its low cost of production, we estimate Cenovus is free cash flow break-even at an oil price of ~US$40/bbl. Oil prices remain more than double this break-even point, implying considerable free cash flow generation potential for the company at current levels, with Cenovus currently trading on a consensus FY22 free cash flow yield of around 15%. Furthermore, we expect the company to reach its target net debt level of US$4b by early CY23 at which point we expect it will allocate all available free cash flow to shareholder returns.

Qantas (Long +16%) shares climbed after providing a very strong trading update, including first half profit before tax guidance of $1.2b – $1.3b. The earnings guidance was more than 150% above market expectations, driven by strong domestic travel demand and exceptional yield management.

The company has also managed to dramatically reduce its net debt to below the bottom end of its target range with significant headroom for further capital management going forward.

We continue to view Qantas as having emerged from the pandemic even stronger than before, given its $1b cost out program, improved market position and the massive pent-up demand for leisure and business travel, which we expect will persist despite macroeconomic headwinds. If Qantas management can achieve its FY24 targets, there is potential to deliver close to $1 of earnings per share, with Qantas currently trading on only ~6x P/E on that basis. We believe there is significant share price upside through earnings growth and a P/E re-rating as the company's earnings mix shifts towards more predictable domestic earnings and loyalty business.

A key detractor from portfolio performance in October was:

Alibaba Group (Long -21%) shares fell as investor sentiment weakened from COVID-19 policy uncertainty and fears stemming from political changes at the recent National Congress of the Chinese Communist Party. We believe Alibaba's earnings are likely to have bottomed in Q2 and should see a gradual recovery as retail spending recovers post stringent lockdowns. Alibaba remains a high-quality business with leading positions in both eCommerce and Public Cloud. We believe earnings growth in 2023 will be supported by a broader economic recovery as COVID-related restrictions are finally eased.

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Fund returns (Net)[2] (%)

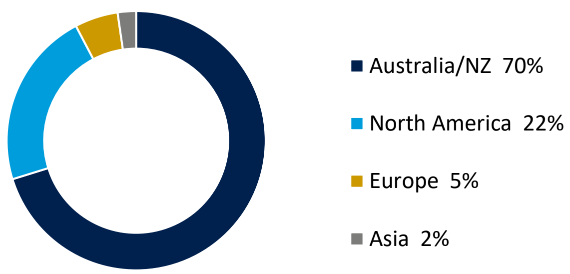
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	–	–	–	–	–	–	–	–	(2.42)	3.03	2.85	1.61	**5.07**
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.61	**60.52**
2016	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.13)	0.55	2.22	**29.61**
2017	1.55[3]	1.06	3.27	0.74	4.07	1.72	2.82	1.53	1.84	2.46	0.55	3.63	**28.28**
2018	0.56	(0.48)	(1.59)	1.47	(3.78)	(6.09)	0.81	(5.95)	(2.16)	(3.99)	(2.63)	(5.86)	**(26.28)**
2019	4.28	4.94	0.24	2.91	(2.81)	3.87	1.09	0.53	2.72	3.39	0.38	2.29	**26.29**
2020	(7.57)	(6.83)	(21.42)	23.62	11.04	(1.47)	(1.94)	9.96	0.49	(2.53)	31.56	4.25	**32.57**
2021	(0.06)	9.31	(0.06)	5.14	4.32	(0.05)	1.39	5.35	4.88	2.46	(7.01)	3.61	**32.37**
2022	3.03	7.10	1.42	3.26	0.26	(13.27)	(3.35)	5.39	(7.46)	5.21			**(0.35)**

Portfolio positions	Current	Avg. since inception
Number of total positions	94	81
Number of long positions	61	56
Number of short positions	33	25
Number of international positions	30	25

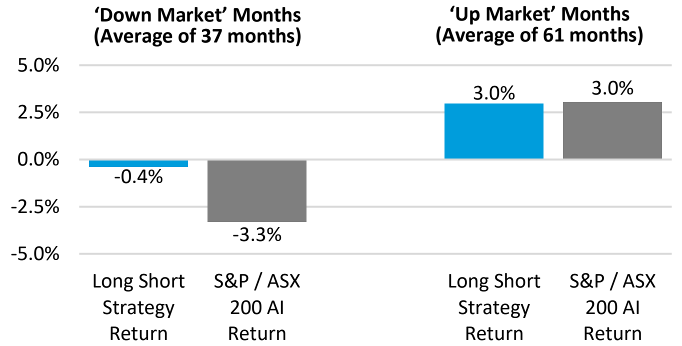
Net & gross exposure by region[2] (%)

Geography	Gross long	Gross short	Net exposure
Australia / NZ	91	84	7
North America	35	21	14
Europe	14	0	14
Asia	6	0	6
Total	**145**	**105**	**40**

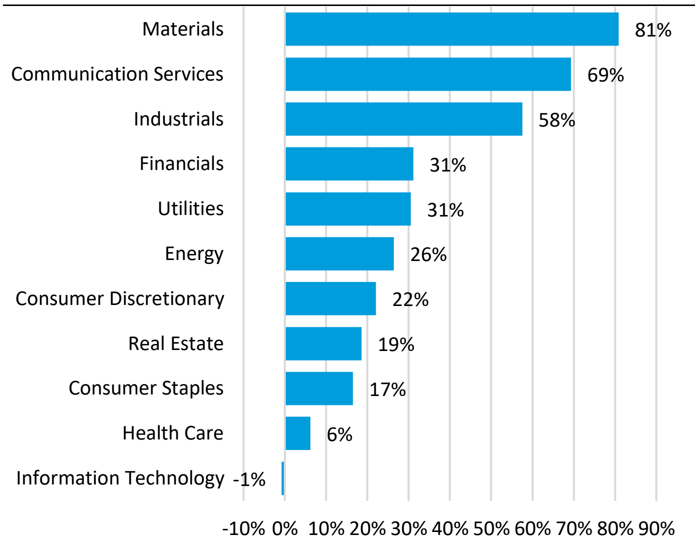
Gross Exposure as a % of Total Exposure[2]



Performance in rising & falling markets[2] (Net)



Sector contribution since Strategy inception[2] (Net)



2. 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. Strategy performance and exposure history is for the L1 Capital Long Short (Offshore Feeder) Fund since inception on 4 Jan 2017 (being the date that the first Offshore Feeder Fund shares were issued). Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014) which is subject to a different fee structure. This is representative of the investment strategy employed by the L1 Capital Long Short (Offshore Feeder) Fund.

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Fund Information – Offshore Feeder

Class Name	L1 Capital Long Short – (Offshore Feeder) Fund
Structure	Master – Feeder
Domicile/ Currency	Cayman Islands / USD
Inception	4 January 2017
Management Fee	1.25% p.a.
Performance Fee	20.0%[3]
High Watermark	Yes
APIR / ISIN	KYG555391039 / G55539103
Minimum Investment	USD$250,000
Subscription / Redemption Frequency	Monthly

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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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Key service providers for the Fund are: 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 – Norton Rose Fulbright. There have been no changes to key service providers since the last report.

3. The performance fee is equal to the stated percentage of the increase in the Net Asset Value per Participating Share for the Performance Fee Calculation Period above the Base Net Asset Value of that Participating Share.