

L1 Long Short Fund Limited (ASX:LSF)

September 2024

- The L1 Long Short Fund (LSF) portfolio returned 4.3%¹ in September (ASX200AI 3.0%).
- The Strategy has been the best performing long short fund in Australia over the past decade², returning 19.1% p.a., outperforming the ASX200AI by 10.8% p.a. and the MSCI World Index by 9.4% p.a. since inception.
- Global markets increased over the month supported by the Fed's 50bps interest rate cut and the launch of a larger than expected stimulus package by Chinese authorities.
- For further insights, [please join our webinar](#) on Thursday, 31 October at 11am AEDT for an update on the Fund.

Following a weak start to the month, global markets recovered strongly as the Fed's 50bps interest rate cut eased investor fears of a recession and drove U.S. 10-year bond yields down 13bp to 3.79%. Fed Chair Jerome Powell noted that with inflation moving back towards its target, the Fed can focus more on the slowing labour market by moving off its restrictive rate policy. At a subsequent meeting later in the month, he added that the U.S. economy remains in solid shape and that the Fed intends to use the tools available to it to keep it there.

Sentiment was further supported by China announcing a broad range of fiscal and monetary stimulus measures, including, reserve requirements cuts, interest rate cuts, liquidity support measures, cash handouts to poorer households and property market incentives to correct oversupply. This resulted in a sharp rally in the Shanghai Shenzhen CSI 300 index which was up 25% in the five trading sessions post the announcement.

The ASX 200AI returned 3.0% over the month. Materials (+13.1%), IT (+7.4%) and Property (+6.6%) were the best performing sectors, while, Healthcare (-3.2%), Consumer Staples (-1.7%) and Communication Services (-0.9%) lagged.

The Materials sector was driven by commodity prices rallying (iron ore +8%, lithium +4%) on the China stimulus announcements. Technology and Property sectors were supported by dovish central bank signals and the larger than expected U.S. rate cut.

The portfolio performed positively over the month, driven by broad-based stock gains (11 individual positions contributed more than 0.4% to returns). In addition, the portfolio benefitted from what we believe are the early stages of a recovery in the materials sector and rotation away from more crowded areas of the market, such as the domestic banks.

Returns (Net)¹ (%)

| | L1 Long Short Portfolio | S&P/ ASX 200 AI | Out-performance |
|--|-------------------------|-----------------|-----------------|
| 1 month | 4.3 | 3.0 | +1.3 |
| 3 months | 2.4 | 7.8 | (5.4) |
| 1 year | 14.0 | 21.8 | (7.8) |
| 2 years p.a. | 17.9 | 17.5 | +0.3 |
| 3 years p.a. | 8.6 | 8.4 | +0.1 |
| 4 years p.a. | 22.9 | 13.6 | +9.3 |
| 5 years p.a. | 18.4 | 8.4 | +10.0 |
| LSF Since Inception p.a. | 11.6 | 9.6 | +2.0 |
| LSF Strategy Since Inception³ p.a. | 19.1 | 8.3 | +10.8 |

Figures may not sum exactly due to rounding.

We believe domestic and global equity markets are generally fully priced, however, we continue to find compelling opportunities with major valuation distortions in select stocks and sectors. In Australia, we 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. 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 large 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 this recent move.

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. Ranking amongst funds in Zenith Australian Shares – Long Short sector using FE Analytics data as at 31 August 2024. 3. Strategy performance and exposure history is for the L1 Long Short Fund Limited (ASX:LSF) since inception on 24 April 2018. Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014). 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 September were:

Mineral Resources (Long +30%) shares rallied following numerous Chinese stimulus measures, which resulted in iron ore prices rebounding from recent lows (+8% over the month). In addition, the company announced the completion of its A\$1.3b Onslow Haul Road sale, providing additional funding during this period of elevated capital spend for the business. We increased our position in Mineral Resources during the month at ~\$30/share (shares closed the month at \$52/share), as we viewed the stock as materially oversold on concerns over balance sheet flexibility in a lower commodity price environment.

We believe the company is approaching a favourable inflection point with its Onslow Iron Ore project commencing ramp-up towards positive cash flow contribution from mid-FY25 and its mining services volumes materially increasing over the coming 18 months. The mining services volumes alone should support EBITDA generation of ~\$1b and is underpinned by long life contracts, providing a strong earnings base for the business. Mineral Resources has significant volume optionality to produce over 1,000kt of spodumene concentrate when market conditions improve. We continue to believe that each of the company's core segments should see material improvement from current levels over the medium term.

Fraport (Long +9%) shares were stronger during September against a backdrop of limited news flow. August traffic was reported, showing an increase of 3.7% at Frankfurt Airport, in line with expectations, while trends at international concessions remained strong. During the month we travelled to Frankfurt to see construction progress on the new Terminal 3. The terminal infrastructure build is now effectively complete with remaining works focussed on fit outs and external access infrastructure. The terminal is expected to be completed by October next year for testing, and to be fully operational in the second quarter of 2026 for the summer season. With demand for air travel remaining resilient, we see traffic at Frankfurt Airport continuing to gradually recover towards 100% of 2019 levels over the next few years (86% CYTD). Against this backdrop, as major capital programs in Frankfurt and Lima wind down, we believe Fraport is well-positioned to generate strong cash flows and a return to paying dividends from 2026 and beyond. We 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.

Rightmove (Long +11%) shares were stronger as its Australian peer, REA Group, made several takeover proposals for the company and then ultimately withdrew its interest on the last day of the month as it was unable to secure Board support for its approach. We were disappointed that a formal proposal to shareholders could not be reached given the bids made were at a ~40% premium to the pre-offer Rightmove share price and came from a global leader that had the potential to bring increased capability to the group.

Despite the cessation of the takeover process, we remain very positive on Rightmove's prospects. It currently captures over 80% of real estate search traffic and delivers an equivalent proportion of leads, which locks in positive network effects as the U.K.'s leading real estate marketplace. We see the business as well placed to deliver double-digit earnings growth over the long term, while also being positioned to benefit near-term from any cyclical improvement in the U.K. housing market. Against this backdrop, we see Rightmove's valuation as highly attractive, with the company trading on a 2025 P/E of less than 22x, representing a significant discount to global peers.

NexGen (Long +9%) strengthened on the back of positive sentiment in the uranium sector, as Microsoft announced an agreement with Constellation Energy to restart a previously closed nuclear power facility, to support the power requirements of its AI data centres. We continue to see the uranium market as having positive fundamental supply/demand tailwinds over the medium to long term. NexGen is preparing to develop the world's largest undeveloped uranium deposit, Arrow, located in Saskatchewan, Canada. This would be a major, new, strategic Western source to address the anticipated uranium market deficit. We anticipate that NexGen will have completed all regulatory requirements over the course of the next six months, providing a clear pathway to full scale construction of the project. Arrow has the potential to generate more than C\$2b of cash flow annually, once developed (2028) – a highly attractive proposition given NexGen's current market cap of ~C\$5b.

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 | | | | 10.8 |

Figures may not sum exactly due to rounding.

Strategy performance in rising and falling markets⁴ (Net)

Portfolio positions

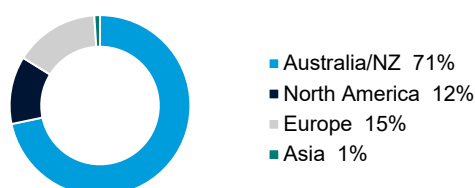
| | |
|-----------------------------------|----|
| Number of total positions | 72 |
| Number of long positions | 54 |
| Number of short positions | 18 |
| Number of international positions | 22 |

Net and gross exposure (%)

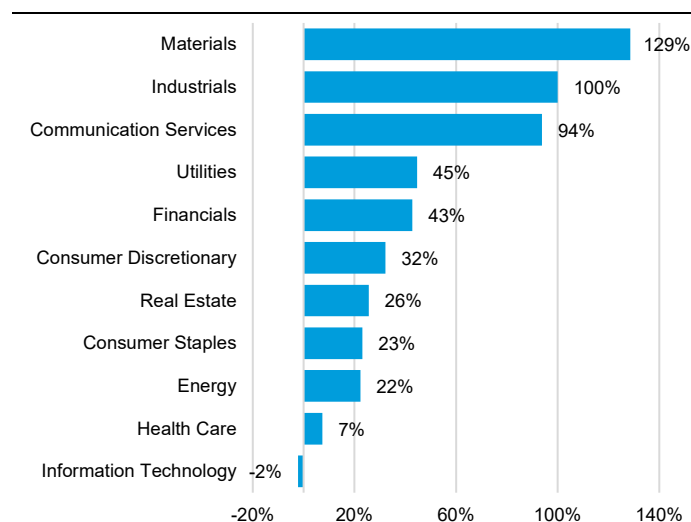
| | Gross long | Gross short | Net exposure |
|---------------|------------|-------------|--------------|
| Australia/NZ | 99 | (76) | 23 |
| North America | 28 | (3) | 25 |
| Europe | 36 | - | 36 |
| Asia | 4 | - | 4 |
| Total | 167 | (79) | 88 |

Figures may not sum exactly due to rounding.

Gross geographic exposure as a % of total exposure

Company information as at 30 September 2024⁵

| | |
|--------------------|-------------|
| Share Price | \$3.13 |
| NTA before tax | \$3.17 |
| NTA after tax | \$3.07 |
| Shares on issue | 622,412,649 |
| Company market cap | \$1.95b |

Sector contribution since Strategy inception⁴ (Net)

4. 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. Strategy performance and exposure history is for the L1 Long Short Fund Limited (ASX:LSF) since inception on 24 April 2018. Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014). 5. The NTA before tax is calculated before the provision for deferred tax on unrealised gains and losses on the investment portfolio. The NTA after tax is calculated after all taxes.

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 | 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.



Contact us for more information about the Fund

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Invest now

| | | | |
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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.

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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