L1 CAPITAL

Offshore Feeder

L1 Capital Long Short Fund

Quarterly Report | SEPTEMBER 2023

- **The L1 Capital Long Short Fund returned 1.5%[1] (MSCI World -3.5%) for the September quarter.**
- **The portfolio has returned 24.3%[1] (MSCI World 22.0%) over the past year and 27.7%[1] p.a. (MSCI Word 8.1% p.a.) over the past 3 years.**
- **Global equity markets were weaker over the quarter, with investors pricing in expectations that interest rates will likely remain higher for longer.**
- **We invite you to join Mark Landau and Amar Naik for a LSF investor webinar, where they will discuss portfolio positioning and the outlook for equity markets on Thursday, November 2 at 11am AEDT. Please register here.**

Global equity markets started off positively in July as constructive economic data reinforced investor expectations for a soft-landing in the U.S.. GDP growth continued to surprise positively (versus consensus expectations) and inflation moderated further with the PCE price index slowing to year-on-year gains of 3.2% and 3.4% in June and July, respectively.

However, markets declined sharply in August and September to more than offset the positive early start to the quarter. Investor sentiment was impacted by the surge in long-term bond yields.

Weaker Chinese economic data also weighed on markets with credit growth, retail sales, industrial output and investment data all coming in below expectations and indicating a subdued post-COVID recovery.

Considering the above headwinds, portfolio performance was relatively resilient over the quarter (LSF +1.0%, ASX200AI -0.8%, S&P500 -3.3%, Nasdaq -3.9%, MSCI World -3.5%).

Fund Returns (Net)[1] (%)	L1 Long Short Fund	MSCI World Index	Out-performance
3 months	1.5	(3.5)	+5.0
1 year	24.3	22.0	+2.4
2 years p.a.	7.8	(1.0)	+8.8
3 years p.a.	27.7	8.1	+19.7
5 years p.a.	18.1	7.3	+10.8
7 years p.a.	14.2	9.3	+4.9
Since inception p.a.	20.4	7.4	+12.9

Figures may not sum exactly due to rounding.

Returns Since Inception (Net)[1] (%)	Cumulative Return	Annualised Return p.a.
L1 Capital Long Short Fund	439.6	20.4
MSCI World Net Total Return Index (USD)	91.8	7.4
S&P/ASX 200 Accumulation Index	82.9	6.9
HFRX Global Hedge Fund Index	11.0	1.2

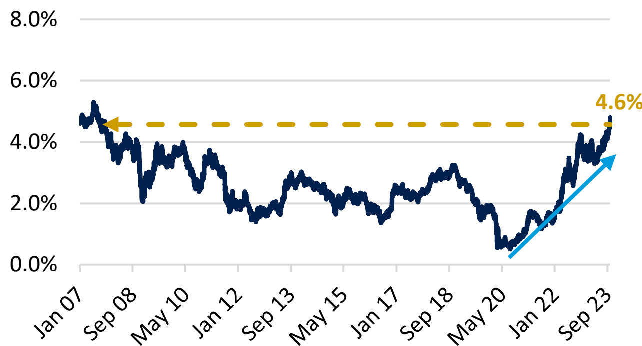
Performance was driven by several positive stock-specific updates over reporting season, including Seven Group, Worley and James Hardie, as well as tailwinds from our exposure to Energy, with oil prices up close to 30% over the quarter. This more than offset headwinds from the weaker general market backdrop and declines across commodities such as copper and nickel, which impacted some of our key Resources positions.

The focus of markets over the quarter was the spike in long-term bond yields. Figure 1 on the next page highlights the move in the U.S. ten-year bond yield, with yields increasing by 75bps to 4.57% at the end of September, a 16-year high. The Australian 10-year bond yield moved similarly, with yields up 47bps over the quarter to 4.49% at the end of September, the highest level since October 2011 (refer Figure 2 on the next page).

Consensus expectations at the short end of the curve have also shifted, with rate cuts in the U.S. expected to start in Q3 CY24 relative to expectations two months ago of cuts starting in early CY24. The shift in rates was driven by several factors, including a more resilient U.S. economy indicating that the Fed will likely have to maintain restrictive policy settings for longer, and an increase in bond supply with the U.S. Treasury raising its Q3 preliminary borrowing plan by over 35%, to ~US$1 trillion.

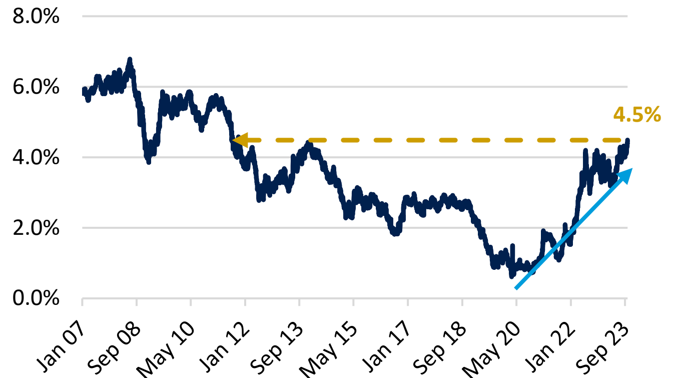
1. All performance numbers are quoted net of fees. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. Strategy performance and exposure history is for the L1 Capital Long Short (Offshore Feeder) Fund since inception on 4 Jan 2017 (being 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. NOTE: Offshore Fund returns are shown in US$ 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.

Figure 1: U.S. 10-year bond yield



Source: Bloomberg as at 30 Sep 2023

Figure 2: Australian 10-year bond yield



Source: Bloomberg as at 30 Sep 2023

There is also greater concern on the long-term health of the U.S. economy with the U.S. fiscal deficit increasing at an alarming rate. Economists currently forecast the surge in borrowing costs will mean that about 15% of total U.S. government revenues will be required to service the interest expense alone on its massive US$33 trillion of debt.

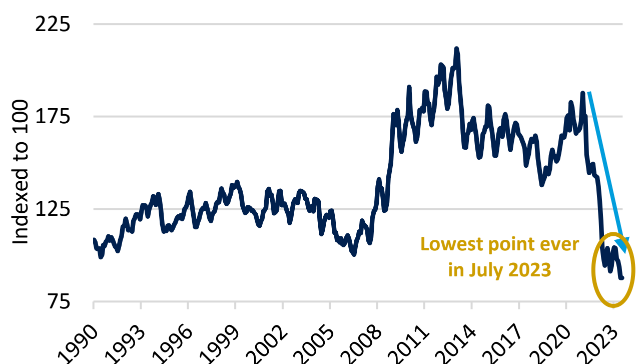
The rate impacts have rippled through the broader economy with a spike in the U.S. 30-year fixed mortgage rate to 7.5%, the highest in 23 years (Figure 3). U.S. housing affordability is now at its lowest point ever, a substantial 13% below the worst level during the GFC (refer Figure 4), and data from the Atlanta Fed indicates that the median housing repayment is ~44% of a household's disposable income.

These factors are likely to place further pressure on economic growth and lead to increasing market volatility as investors continue to reassess their expectations for the economy, interest rates and corporate profits.

Figure 3: U.S. 30-year fixed rate mortgages

Source: Bloomberg as at 30 Sep 2023

Figure 4: Homebuyer Affordability Fixed Rate Mortgage index



Source: Bloomberg as at 31 Jul 2023. Latest data available.

Energy sector positioning and outlook

Energy remains a sector that we are very constructive on and where our analysis supports the potential for a more resilient market than investors expect. In this section we outline the supply and demand dynamics that support this view, as well as provide a deep dive on our investment thesis for Santos, which we see as the best Energy investment opportunity in Australia (refer page 4).

We believe the energy market is likely to remain tight, with solid demand growth and constrained supply growth, which should continue to support oil prices well-above industry break-even levels. On the demand side, fears that a global recession would trigger a decline in consumption and move the market into over-supply have weighed on the oil price since the middle of last year.

Figure 5: WTI oil price ($ p/bbl)

Source: Bloomberg as at 30 Sep 2023

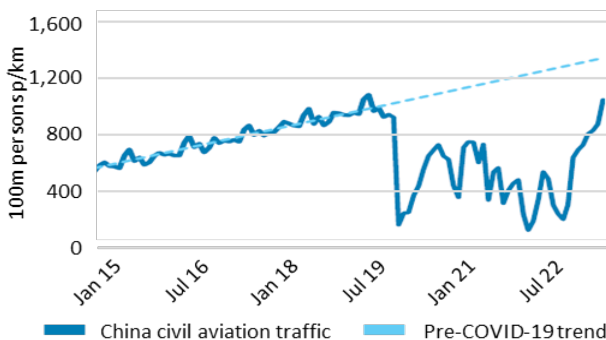
This contributed to a ~45% fall in the WTI crude price from ~US$122/bbl in June 2022 to ~US$67/bbl in June 2023 (refer Figure 5).

However, during the September quarter there was a ~ 30% rally in the WTI crude price, as economic data surprised to the upside driving demand levels above market expectations. In addition, OPEC+ has continued to maintain supply discipline which has pushed the market into a near-term deficit and further supported prices.

As we think about the demand for the Energy sector going forward, we see two broad factors supporting a continued solid outlook:

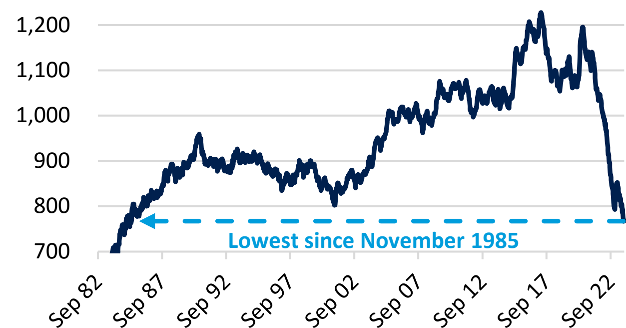
- **China reopening:** The Chinese market continues to recover and re-open post COVID lockdowns, supporting incremental demand. China is the second largest global consumer of oil at roughly 15m barrels per day or ~15% of global oil demand (after the U.S. at ~20m barrels per day). While Chinese GDP growth has been revised downward, oil demand has continued to be resilient as oil-intensive sectors such as transportation services and petrochemicals have performed strongly. In addition, many areas of the economy remain well below their pre-COVID growth trends. Chinese aviation traffic is now rebounding (see Figure 6) and illustrates that a further increase in demand is likely just to return to pre-COVID levels, let alone allowing for any post COVID increase in leisure travel demand. This recovery, along with strong growth in Asian markets such as India, should offset more challenging conditions in the U.S. and Europe.
- **Oil reserves:** The U.S. has used up a large proportion of its Strategic Petroleum Reserve (SPR) and will look to replenish it over the coming years. Figure 7 outlines the level of total U.S. oil inventories, including the SPR which are now at the lowest level since 1985. The SPR holds around 351m barrels of oil as at the last reading in mid-September, which is more than 40% below the long-term average level of ~600m barrels. The U.S. Government has used drawdowns of the SPR over the past two years as a way to reduce inflation but that flexibility has largely been eroded given how depressed the current SPR is.

Figure 6: Civil aviation traffic in China



Source: Wind, Barclays Research

Figure 7: U.S. oil inventories (including SPR) (Bbl, millions)



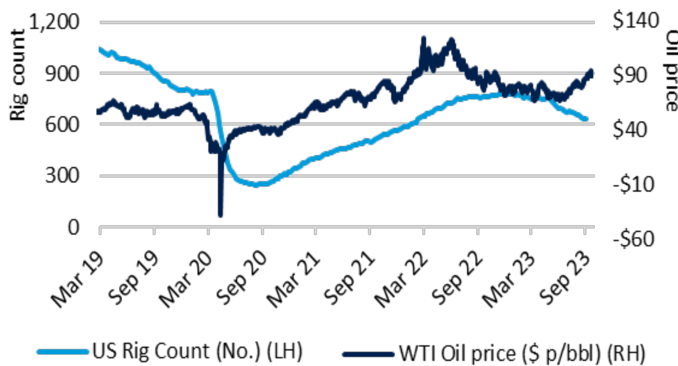
Source: U.S. Energy Information Administration as at 22 Sep 2023

On the supply side, there are three factors that we see limiting supply growth over the medium-term:

- **Supply controls:** OPEC+, which represents about 40% of global oil production, has continued to act to balance the market and maintain higher oil prices. Saudi Arabia, in particular, has led the supply cuts and has recently announced a surprise extension of its 1m barrels per day cut until the end of this calendar year. Russia has also extended its 300k barrels per day cut over the same timeline. With Russia and Saudi Arabia acting in lockstep, the remaining OPEC+ members are operating with limited spare capacity and therefore will be unable to materially influence supply growth. Furthermore, there is effectively a Saudi put option in the Energy market at the moment, where, if oil prices fall meaningfully, Saudi Arabia will likely intervene to ensure market prices are supported.
- **Decline in shale drilling activity:** Unlike prior cycles, the U.S. shale rig count has not responded to the uplift in oil prices. The number of rigs has actually declined over the last twelve months to ~600, versus ~800 at the start of the year (refer Figure 8). Many private drillers have depleted their most lucrative and efficient wells and are finding it difficult to replace or expand production. This issue has been exacerbated by the rising cost of debt to fund new projects. The average break-even price in the Permian Basin (the highest producing oil field in the U.S.) is estimated to have risen by ~40% since 2021 due to a combination of input cost inflation and lower productivity. In addition, publicly listed U.S. shale companies have prioritised capital discipline and returns to shareholders over investing in new supply.
- **Top-down headwinds:** Oil majors (BP, Shell, Exxon, Chevron, Total, etc.) have experienced a reduction in aggregate production over the last decade. This has been exacerbated in the last few years with huge capex cuts driven by a combination of ESG factors, COVID-19 impacts and pressure to deliver returns to shareholders. With the lag between capex investment and delivery, we are unlikely to see meaningful production growth from the majors for at least the next few years.

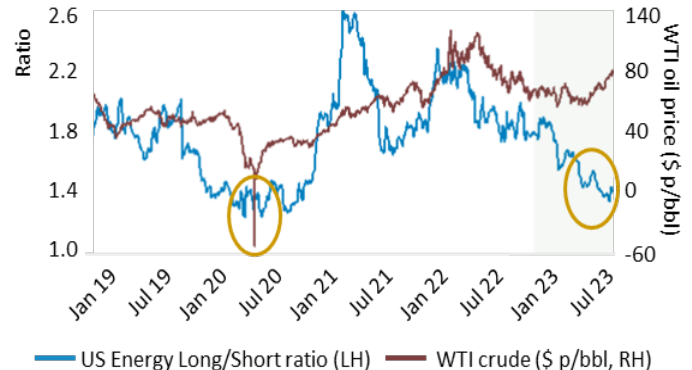
Despite what we believe is a constructive outlook for Energy, sentiment and positioning by institutional investors remains extremely negative. It's hard to believe hedge fund positioning today is as bearish as it was in Q2 2020, when driving and flying activity globally had ground to a halt and the oil price was negative! (see Figure 9) We believe the Energy sector is well placed to deliver attractive returns to investors, given a favourable supply-demand balance, attractive valuations and excessively bearish investor positioning.

Figure 8: U.S. shale rig count vs. oil price



Source: Baker Hughes and Bloomberg

Figure 9: U.S. Energy long/short ratio (MV) vs. oil price



Source: Goldman Sachs Prime Services

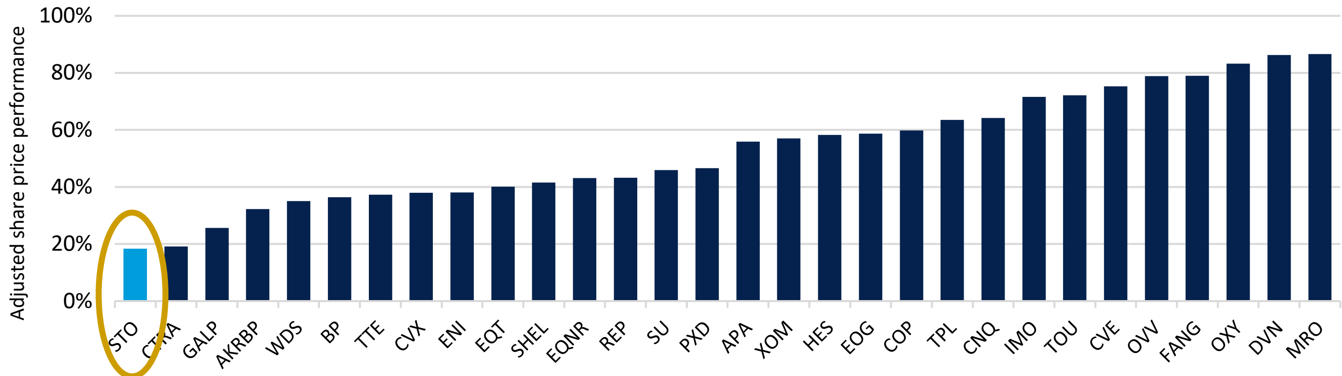
Unlocking Santos' material value potential

Summary

Both the L1 Long Short Fund and the L1 Capital Catalyst Fund (see **September 2022 Catalyst quarterly** report) are invested in Santos (an ASX-listed oil and gas exploration and production company with a current market capitalisation of ~A$24b and an enterprise value of ~A$30b). This investment was based on its portfolio of quality long-life assets and attractive valuation in the context of an elevated oil price environment, supported by long-term underinvestment in the sector.

Despite strong operational execution under CEO Kevin Gallagher, Santos' share price has lagged its global and domestic peer group, across most time periods. Over the last three years Santos' total shareholder return has been the lowest across the entire peer group (Figure 10 on the next page).

Figure 10: Annualised total shareholder return of Santos and global energy peers (last three years).



Source: S&P Capital IQ as at 6 Oct 2023. Annualised share price performance from 9 Oct 2020 to 6 Oct 2023, adjusted to include cumulative dividends paid. Global energy peer group includes 29 other exploration & production companies with a market capitalisation >US$10b headquartered in Europe, Australia or North America.

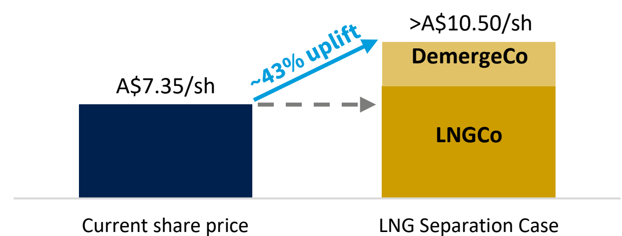
In our view, this poor relative share price performance can be attributed to multiple factors beyond regulatory overhangs (most particularly Barossa, a key growth project awaiting regulatory drilling approval), including smaller relative capital returns, a disparate growth strategy and, in particular, an under-appreciated, LNG-focused equity story.

We believe a structural separation of the Company's Liquefied Natural Gas ('LNG') assets would help to unlock the inherent value of Santos' assets and ultimately present a significant value-creating outcome for shareholders.

Specifically, we propose that the Company's Australian oil and gas assets and Alaskan oil assets ('DemergeCo') should be separated via a demerger and distributed to Santos' shareholders, leaving Santos as an LNG 'pure play' company ('LNGCo'). We have recently written to Santos' Board of Directors encouraging them to initiate a strategic review to fully assess this proposal.

Our analysis suggests a sum-of-the-parts valuation of LNGCo and DemergeCo would be equivalent to >A$10.50 per share representing an uplift of ~43% above the current share price of A$7.35 (Figure 11).

Figure 11: Potential value unlock from LNG separation

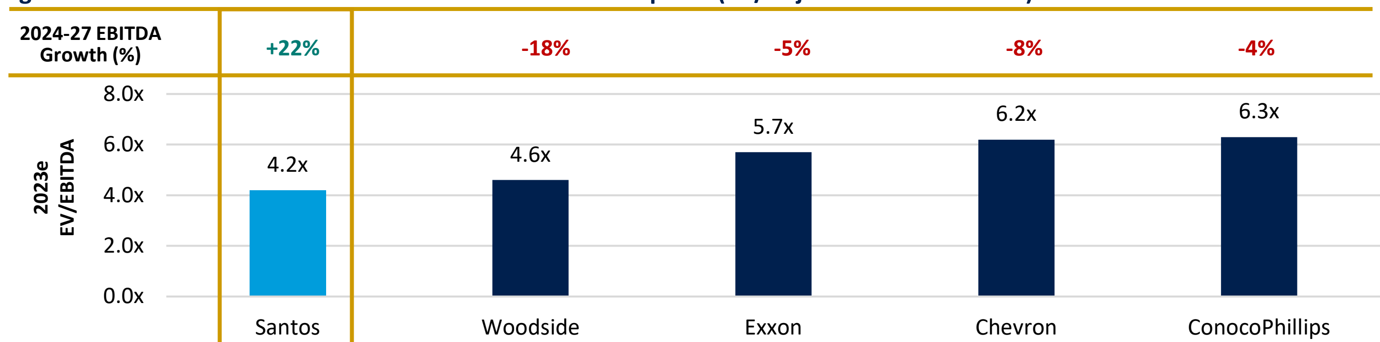


Source: L1 Capital and S&P Capital IQ as at 6 Oct 2023

Substantial valuation discount

As a result of sustained relative share price underperformance, Santos trades at a significantly discounted valuation to its key peers (Figure 12), despite its strong EBITDA growth outlook.

Figure 12: Santos' valuation relative to Woodside and U.S. peers (EV/Adjusted 2023e EBITDA)



Source: Visible Alpha as at 6 Oct 2023. Santos' 2023e EV/EBITDA multiple has been adjusted to remove from the enterprise value the sunk capital into the Pikka (18% complete) and Barossa (60% complete) projects which are not incorporated into the CY2023 EBITDA figures.

This valuation discount to its peers is despite:

- **A high-quality growth profile:** Specifically, Santos' Pikka project in Alaska is expected to deliver strong returns and the Barossa project will bring near-term LNG volumes to an increasingly tight market, and
- **Strong operational execution:** Operating costs across the portfolio have decreased over time despite broad inflationary pressures. For example, the Pikka project remains on-time and on-budget (as per the Company's disclosure), which has become a rarity for developments within Australia and North America.

We believe Santos' share price is trading materially below its intrinsic value and is disconnected from peer valuations in the sector due to the following key reasons:

1. **Market providing inadequate credit for the LNG equity story:** Investors seeking LNG exposure have often chosen alternative stocks to do so, with Santos' LNG equity story (including increasing proportion of spot-linked volumes) underappreciated in our view relative to its peers.
2. **Smaller relative capital returns and balance sheet capacity:** Santos' recent capital returns have lagged Woodside (its most comparable domestic peer) and its key U.S. peers, with Santos having used more of its balance sheet capacity to fund growth projects compared to these peers.
3. **Portfolio complexity, growth strategy and project execution:** We believe that the market is attributing close to zero value to Santos' upstream project pipeline (which includes Barossa and Pikka, as well as the Narrabri, Papua and Dorado projects), despite the fundamental quality of these projects, substantial capital invested to date and Santos' track record of execution. This partly reflects the relatively disparate range of growth projects across geographies and products (oil, domestic gas and LNG).

A separation of Santos' LNG business

We believe a structural separation of Santos' LNG assets will present the best long-term outcome for shareholders for the following key reasons:

1. **Unlock Santos' valuation discount**: We estimate that the valuation of LNGCo on a standalone basis would exceed more than the entire market capitalisation of Santos today, especially considering the scarcity value of such assets within the current macroeconomic backdrop.
2. **Greater management focus:** Standalone management teams and governance structures would further improve project execution and market sentiment towards each company's prospects. In particular, DemergeCo's assets would benefit from enhanced management focus to ensure their longevity and backfill plans materialise.
3. **Tailored capital allocation:** LNGCo and DemergeCo would be established with capital allocation frameworks and balance sheet positions better tailored towards the different asset characteristics and shareholder bases that LNGCo and DemergeCo will attract.
4. **Strong standalone equity stories that will appeal to different investor bases:** In particular, we believe that LNGCo will be highly attractive to a global shareholder base (with a longer-term outlook and greater appreciation of the LNG assets' strategic value) that may not invest in Santos today due to the shorter-life domestic market profile of DemergeCo's assets.
5. **Significant strategic appeal for LNGCo:** We believe the highly attractive group of assets within LNGCo will create a floor to support a favourable trading valuation. This was observed with BG group (a formerly LSE-listed LNG-focused oil and gas business), which consistently traded at a premium to global oil majors prior to ultimately being acquired by Shell in 2016.
6. **Attractive demerger structure:** A demerger would likely receive 'rollover relief' for Santos shareholders with no tax leakage, and both DemergeCo and LNGCo should qualify for ASX 100 index inclusion.

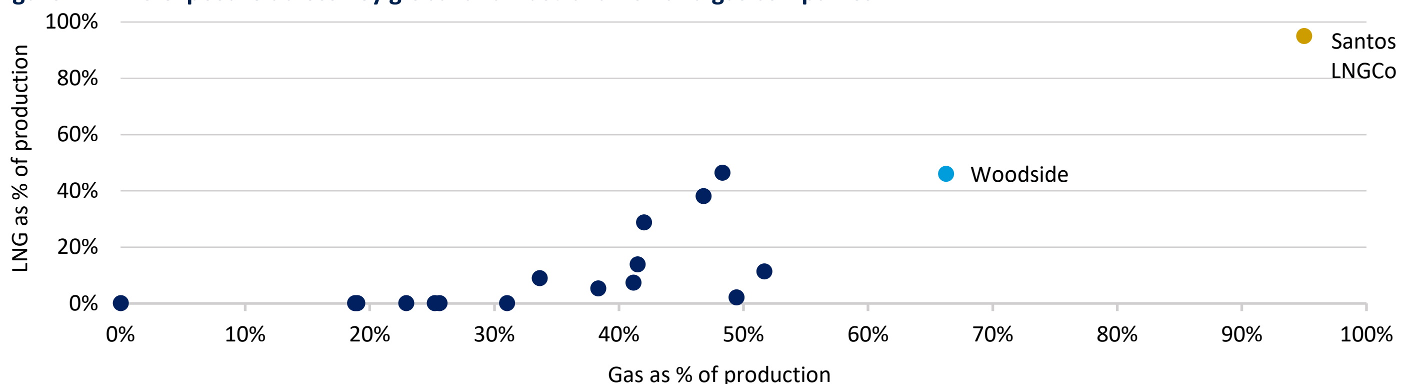
Figure 13: Overview of LNGCo and DemergeCo

	LNGCo	DemergeCo
Assets	PNG LNG GLNG DLNG Papua Barossa Energy Solutions (Bayu-Undan CCS)	Australian Domestic West Coast Australian Domestic East Coast Dorado Narrabri Pikka Energy Solutions (Moomba CCS, WA CCS)
Run-rate production	~72 mmboe p.a.	~50 mmboe p.a.
2P Reserves Life	~17 years	~8 years
Estimated enterprise value	~US$21b	~US$5.5b
Potential investor base	▪ Global investors seeking LNG exposure ▪ ESG-focused funds in the context of gas' role in the energy transition ▪ Significant capital returns potential post-2025	▪ Australian domestic-focused investors ▪ Investors seeking high cash flow yield, underpinned by contracted CPI-linked cash flows
ASX 100 index inclusion?	✓	✓

LNGCo equity story: A leading global LNG pure-play

- **The leading global LNG pure-play exposure:** LNGCo will have the most concentrated exposure to LNG of its global peer group, which should make it the preferred exposure among investors (Figure 14).
- **Portfolio of tier-one, large, low-cost and long-life assets:** LNGCo is set to generate substantial cash flow, with high-quality projects, tier-one partners, low operating costs and long reserve lives.
- **Attractive LNG market fundamentals:** A tight current global market dynamic and expected long-term growth in demand is likely to result in sustained high LNG prices.
- **Strong targeted portfolio growth profile:** Growth (via the Barossa and Papua assets) in existing operating jurisdictions and leveraging existing infrastructure (backfill for DLNG and PNG LNG, respectively). The proportion of uncontracted LNG volumes is also expected to increase from this year, as PNG LNG contracts roll off and Barossa volumes come online.
- **Robust balance sheet and shareholder return capacity**: We expect LNGCo to have improved access to debt financing and greater relative debt capacity, compared with Santos today. The business could even support the entire existing debt of Santos if required and be able to commence material shareholder returns from 2025.

Figure 14: LNG exposure across key global and Australian oil and gas companies

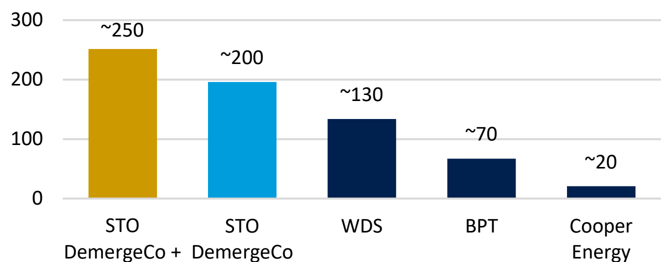


Source: Credit Suisse. Global peers include Saudi Arabian Oil Co, ExxonMobil, Chevron, Shell, Total Energies, ConocoPhillips, Equinor, BP, Petrobras, EOG, CNR, Occidental, ENI, Suncor, Impex.

DemergeCo: An Australian domestic gas champion with strong liquid growth opportunities

- **Exposure to tightening Australian domestic gas markets:** The Australian domestic gas market is undersupplied and is expected to tighten over the medium-term, with declining production rates from existing sources and limited new supply.
- **Domestic gas champion:** We see an opportunity for an Australian champion in the domestic market as larger players (including Woodside and offshore players) outgrow and exit certain positions. Narrabri represents a critical source of gas for NSW with the ability to supply up to 10% of the current east coast domestic demand, offsetting supply declines (Figure 15).

Figure 15: Australian domestic gas market supply (PJ p.a.)



Source: Company reports (last full year volumes reported by each company)

- **Attractive free cash flow yield, underwritten by CPI-linked contracts:** Once the Pikka project starts production in 2026, we believe DemergeCo has the ability to generate a free cash flow yield of ~15% at our base case valuation, making it an attractive value proposition for yield-focused investors.
- **Cohesive growth strategy which is underpriced in Santos today:** DemergeCo has a strong volume growth outlook, which we think is currently underappreciated by investors today. In particular, Dorado is the largest oil discovery in Australia since 2003 and Pikka has significant optionality to grow beyond its phase 1.
- **Conservative balance sheet and funding options for growth:** There is potential for DemergeCo to initially take on a conservative quantum of debt, positioning it to provide sustainable and attractive returns to shareholders. Given the Australian domestic gas business' revenues are largely based on CPI-linked contracts, we also believe that DemergeCo has strong debt capacity to support the funding of its growth projects. In addition, we believe the development of Dorado in Western Australia could be part funded via a partial sell-down of 80% stake currently held by Santos.

Key stock contributors for the quarter

Cenovus (Long +23%) shares rallied as WTI oil prices rose to ~US$91/bbl over the month, the highest level since November 2022. The company also had tailwinds from higher refinery margins, particularly in North America which remains their key exposure. Cenovus continues to generate strong free cash flow at current oil price levels, with the long-life nature of its oil sands assets and its low cost of production providing a break-even oil price at around ~US$40/bbl. We estimate the company can reach its net debt target in early CY24, enabling a step-up in shareholder returns through on-market share buybacks.

Seven Group (Long +26%) shares continued to rise after reporting strong FY23 results in August and providing a positive outlook for the FY24 period with high-single-digit EBIT growth expected. WesTrac and Coates performed strongly, with earnings well positioned to grow over the medium term as investment in mining, construction and infrastructure continues to increase. Seven also holds a 71.6% shareholding in Boral, one of the largest building and construction materials companies in Australia. Boral's earnings have been impacted by surging input costs and significant wet weather. Under new leadership, and in a normalised trading environment, we believe Boral has the potential to double earnings over the medium term from FY23 levels.

James Hardie (Long +17%) shares rose after announcing first quarter earnings well above market expectations and strong second quarter earnings guidance. Having built exposure on shareprice weakness early in the quarter, the portfolio benefitted from a 17% share price rise during the portion of the quarter that we held the stock. There continues to be uncertainty in terms of the impact that rising interest rates will have on housing, and on repair and remodel demand. However, the company provided confidence that it can maintain strong operating margins even allowing for a sharp decline in fibre cement volumes. This is driven by its more resilient end-market exposure, the benefits of its product mix shifting towards higher-margin products, and its proactive cost management program.

Worley (Long +10%) shares rallied after reporting strong FY23 results and providing an upbeat qualitative outlook for FY24. Worley has multi-year revenue growth tailwinds from the recovery in conventional energy capex, growth in energy transition spend and the execution of major project wins secured over the last 12 months. Worley is in the early innings of the pivot to 'green' energy opportunities. We believe the market is starting to shift its view that the company is no longer a pureplay legacy oil and gas contractor but more a diversified engineering company that is critical to enable the energy transition.

Key stock detractors for the quarter

Flutter (Long -15%) shares declined over the quarter on concerns over a ramp-up in competitive intensity and promotions in the U.S. due to PENN Entertainment/ESPN partnering to launch ESPN BET and Fanatics acquisition of PointsBet's U.S. operations. Two U.K. listed peers also announced earnings downgrades due to softer-than-expected performance in the U.K. and Australia which weighed on the sector. We believe Flutter is well placed to mitigate these risks. In the U.S., promotional activity in the lead up to NFL season has been less intense than feared and Flutter has maintained its dominant position. Furthermore, management have already factored in a decline in Australian earnings in its full year guidance and in the U.K. it has been outperforming peers in recent quarters.

We continue to believe Flutter is undervalued given its leading industry position and exceptional growth outlook. The U.S. business is on track to deliver strong EBITDA growth in the second half. As the U.S. continues to scale, we believe the group can deliver double digit annual earnings growth until the end of the decade. Flutter is also set to complete a U.S. secondary listing in early 2024 which will enhance its profile, increase the liquidity in its shares and highlight the valuation discount versus its listed US peers.

Imdex (Long -18%) shares fell as the company delivered a full year 2023 result modestly below consensus expectations and guided that it expects conditions to remain subdued in the near term. We believe Imdex will continue to outperform the broader exploration drilling industry because of its strong execution and its roll-out of market-leading new products. The company recently acquired Devico, a leading global mining technology company, an acquisition that will accelerate the company's global growth strategy and augment its industry-leading suite of new and improved drilling technology products. We used the recent sell-off in the share price to add to our position given our positive view of the long-term outlook for Imdex and its strong industry position.

Nufarm (Long -7%) shares declined along with global agriculture peers due to the impact of drier weather conditions and a reduction in on-farm purchases by farmers. After a build-up of inventories during COVID-19, farmers shifted to just-in-time purchasing for key crop inputs this year as prices fell sharply and supply chains normalised. This led to a significant contraction in demand for crop protection products, particularly in North America, to bring inventories back to more balanced levels.

Towards the end of the month, Nufarm announced a ~5% downgrade to EBITDA guidance for the FY23 year due to this challenging operating environment. We view this as a relatively strong performance given major industry headwinds (which are transitory) and considering Nufarm's listed peers had announced negative earnings impacts of 20% or more. We believe Nufarm is a much higher quality business than it was a few years ago. The company is in the process of augmenting its crop protection business with a series of high-margin, high-growth proprietary formulations. In addition, Nufarm's seeds business has commercialised several exciting traits, including Omega-3 and Carinata, that are gaining traction and should deliver strong earnings growth in the Seeds division for many years to come.

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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[2]	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	7.96	4.53	**12.45**
2023	3.87	(1.87)	1.05	1.66	(3.30)	1.88	5.49	(4.69)	0.99				**4.74**

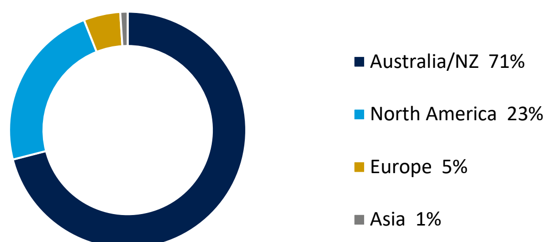
Portfolio positions	Current	Avg. since inception
Number of total positions	75	81
Number of long positions	58	56
Number of short positions	17	25
Number of international positions	21	25

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

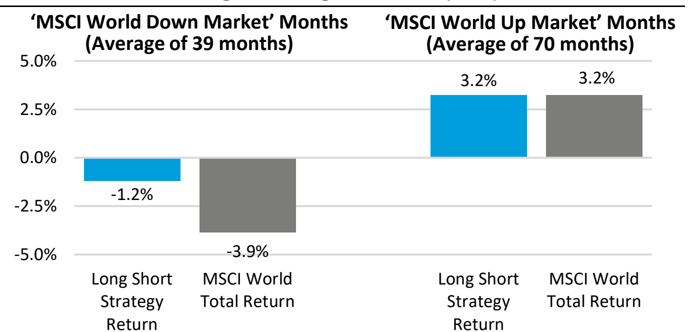
Geography	Gross long	Gross short	Net exposure
Australia / NZ	102	80	22
North America	53	6	47
Europe	14	-	14
Asia	2	-	2
Total	**171**	**86**	**86**

Figures may not sum exactly due to rounding.

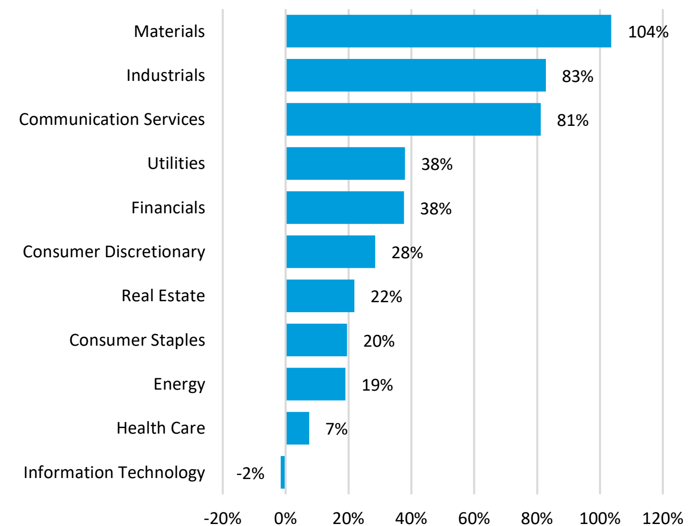
Gross exposure as a % of total exposure[2]



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.

Offshore Feeder

L1 Capital Long Short Fund

Quarterly Report | SEPTEMBER 2023

Fund Information – Offshore Feeder

Class Name	L1 Capital Long Short – (Offshore Feeder) Fund
Structure	Master – Feeder
Domicile/ Currency	Cayman Islands / USD
Inception	4 February 2017
Management Fee	1.25% p.a.
Performance Fee	20.0%^
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, 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: Prime Brokers – Morgan Stanley, Merrill Lynch and Goldman Sachs, Fund Administrator – Apex Funds Services (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.

^ 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.

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