

# L1 Capital Long Short Fund

Monthly Report | OCTOBER 2023

- The L1 Capital Long Short Fund returned -3.1%<sup>1</sup> in October (ASX200AI -3.8%).
- Over the past 3 years, the portfolio has returned 25.0%<sup>1</sup> p.a. (ASX200AI 8.9% p.a.).
- Global markets declined in October, as investors faced headwinds from further increases in long-term bond yields, along with heightened geopolitical risks.

Global markets were weaker in October as investors faced headwinds from further increases in long-term bond yields, along with heightened geopolitical risks following the terrorist attack on Israel by Hamas on October 7.

Yield curves continued to steepen as investors priced in an increased likelihood that interest rates will remain higher for longer in the face of sustained inflationary pressures and strained Government budgets. The Australian 10-year bond yield rose a further 44bps in September to 4.92%, while U.S. 10-year bond yields increased by 33bps to 4.90%.

Gold was one of the few commodities that was stronger in the month, rising by 7.4% to US\$1,985/oz, as markets turned to it as a hedge against geopolitical risk, inflation and potential U.S. dollar weakness. Despite tensions in the Middle East, Brent crude oil prices fell ~8% in October, reflecting concerns over global growth (following a bounce of nearly 30% in the September quarter).

The S&P/ASX 200 Accumulation Index returned -3.8%. Utilities (+1.7%), Materials (-0.8%) and Communication Services (-2.9%) were the strongest sectors, while Information Technology (-7.6%), Healthcare (-7.2%) and Industrials (-6.4%) lagged.

Fund returns (Net) <sup>1</sup> (%)	L1 Long Short Fund	S&P/ASX 200 AI	Out-performance
1 month	(3.1)	(3.8)	+0.7
3 months	(6.9)	(7.2)	+0.3
1 year	13.1	3.0	+10.2
2 years p.a.	2.7	0.4	+2.3
3 years p.a.	25.0	8.9	+16.1
5 years p.a.	15.8	7.2	+18.7
7 years p.a.	12.2	7.8	+4.4
Since inception p.a.	18.6	6.4	+12.2

*Figures may not sum exactly due to rounding.*

Returns since inception (Net) <sup>1</sup> (%)	Cumulative return	Annualised return p.a.
L1 Capital Long Short Fund	376.8	18.6
S&P/ASX 200 Accumulation Index	76.0	6.4
MSCI World Net Total Return Index (USD)	86.3	7.0
HFRX Global Hedge Fund Index	10.1	1.1

A key contributor to portfolio performance in October was:

**Westgold Resources (Long +23%)** rallied strongly during the month on the back of the ongoing increase in the gold price in Australian dollar terms, as well as the company's release of a positive Q1 FY24 production update. Westgold is a Western Australia-based gold producer with four mines across three processing hubs. The company is currently producing around 250koz of gold per annum, with the potential for this to increase to over 300koz in 2025 and has significant earnings leverage from the rising A\$-denominated gold price. Alongside this strong growth potential, the company's new management has delivered an outstanding turnaround over the past year with all in sustaining costs falling substantially and net cash growing to over \$200m.

**We believe equity markets are facing opposing forces of positivity from moderating inflation and potential policy stimulus in China, offset by negativity from weak leading economic indicators, heightened geopolitical tensions and increasing pressure on corporate earnings.**

**We anticipate rising market volatility as investors continue to reassess their expectations for the economy, interest rates and corporate profits. From our extensive company research, we are continuing to identify numerous mis-priced stocks that we believe will deliver very attractive long-term returns for our investors.**

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 – Daily Class since inception on 3 Oct 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 Sep 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.



L1 CAPITAL

Daily Class

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Key detractors to portfolio performance in October were:

**Capstone (Long -18%)** fell along with the sector as copper prices continued to decline due to concerns around the weak global economy and the strong U.S. dollar. The company also reported soft second quarter production and modestly reduced guidance for the full year. Capstone has an exceptional growth profile with a pipeline of fully permitted projects that are poised to more than double its current copper production of ~185kt to nearly 400kt over the next few years.

Additionally, the company is quickly approaching completion and commissioning of its Mantoverde project which we expect to result in a major inflection in operating metrics across the business. Together with the integration of its Santo Domingo asset, Capstone is also set to become one of the largest (ex Democratic Republic of Congo) and most cost-effective battery-grade cobalt producers in the world. The company is fully funded to complete its currently approved project pipeline and is led by a highly capable, focussed and aligned management team.

**Mineral Resources (Long -15%)** shares declined as lithium prices continued to weaken, falling ~23% over the month. Lithium markets continue to adjust from a significant supply deficit to a more balanced outlook in the short term. Mineral Resources also released its first quarter production report which illustrated the continued ramp-up of the company's lithium assets. The company is forecast to more than double lithium production over the coming years to exceed 1,000kt of spodumene concentrate. In addition, the company continues to progress its Onslow Iron project, which we visited this quarter, noting the rapid progress firsthand. The project is expected to transform its existing smaller scale iron ore business into a sizeable, long-life, low-cost operation, with first production targeted for June 2024. We continue to believe that all key areas of Mineral Resources' core business (iron ore, lithium, mining services and gas) have favourable medium-term tailwinds and the shares remain undervalued.

**Nufarm (Long -9%)** shares continued to decline 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. Nufarm recently 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.

## Fund returns (Net)<sup>2</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>5.07</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	4.61	<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	(0.18) <sup>2</sup>	0.55	2.13	<b>29.43</b>
<b>2017</b>	2.48	1.79	2.83	1.01	4.14	1.68	2.61	1.67	1.91	2.50	0.86	3.50	<b>30.50</b>
<b>2018</b>	0.54	(0.49)	(1.68)	1.59	(3.77)	(6.31)	0.79	(5.93)	(2.13)	(4.01)	(2.62)	(6.07)	<b>(26.60)</b>
<b>2019</b>	4.33	5.14	0.19	2.82	(2.80)	3.84	1.16	0.41	2.59	3.34	0.30	2.19	<b>25.87</b>
<b>2020</b>	(7.83)	(7.11)	(23.04)	22.93	10.95	(2.21)	(1.96)	9.97	0.50	(2.64)	30.80	4.33	<b>26.54</b>
<b>2021</b>	(0.14)	9.06	(0.14)	4.96	4.08	(0.56)	1.81	5.22	4.79	2.29	(7.20)	3.56	<b>30.35</b>
<b>2022</b>	2.72	6.98	1.45	3.28	0.10	(13.69)	(4.66)	5.86	(7.98)	5.08	8.10	4.24	<b>9.39</b>
<b>2023</b>	3.65	(2.00)	0.62	1.84	(3.45)	1.76	5.41	(4.70)	0.88	(3.14)			<b>0.39</b>

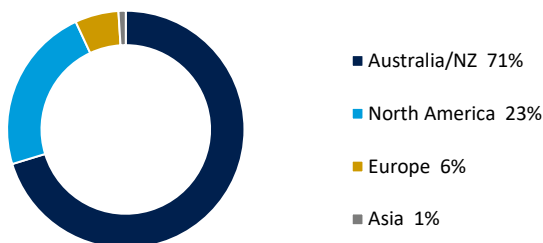
Portfolio positions	Current	Avg. since inception
Number of total positions	76	81
Number of long positions	58	56
Number of short positions	18	25
Number of international positions	22	25

## Net & gross exposure by region<sup>2</sup> (%)

Geography	Gross long	Gross short	Net exposure
Australia / NZ	106	77	30
North America	52	7	45
Europe	14	-	14
Asia	2	-	2
<b>Total</b>	<b>175</b>	<b>84</b>	<b>91</b>

Figures may not sum exactly due to rounding.

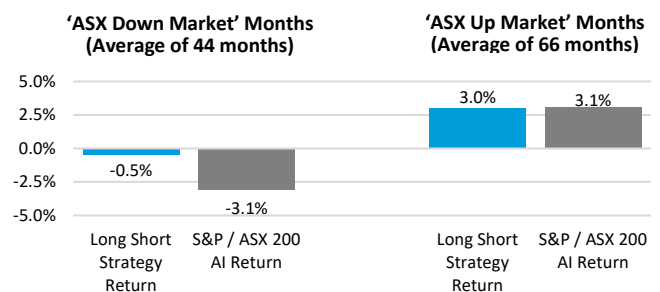
## Gross geographical exposure as a % of total exposure<sup>2</sup>



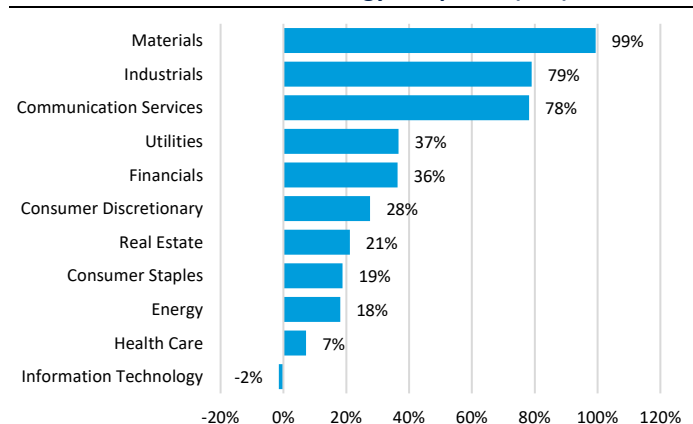
## Fund information as at 30 October 2023<sup>3</sup>

Unit price	\$1.35
Fund NAV	\$1.17b

## Performance in rising & falling markets<sup>2</sup> (Net)



## Sector contribution since Strategy inception<sup>2</sup> (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 Fund – Daily Class since inception on 3 Oct 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 Sep 2014) which is subject to a different fee structure. 3. The value of the Fund's assets less the liabilities of the Fund net of fees, costs and taxes. The unit price is calculated by decreasing the NAV price by the sell spread (currently 0.25%). The NAV price is the NAV divided by the units on issue.

## Fund information – Daily Class

<b>Class Name</b>	L1 Capital Long Short Fund – Daily Class
<b>Structure / Currency</b>	Australian Unit Trust / AUD
<b>Inception</b>	1 September 2014
<b>Management Fee</b>	1.54% p.a. inclusive of GST and net of RITC
<b>Performance Fee</b>	20.5% inclusive of GST and net of RITC <sup>4</sup>
<b>High Watermark</b>	Yes
<b>Buy / Sell Spread</b>	15bps / 15bps
<b>APIR / ISIN</b>	ETL0490AU / AU60ETL04909
<b>Minimum Investment</b>	A\$25,000
<b>Subscription / Redemption Frequency</b>	Daily
<b>Platform Availability</b>	Asgard, Australian Money Markets, BT Panorama, CFS FirstWrap, HUB24, IOOF, Macquarie Wrap, Mason Stevens, MLC, Netwealth, North, Powerwrap, Praemium, uXchange

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Scan the QR code for more information



## 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: 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.

4. 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 Oct 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.

### Information contained in this publication

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the L1 Capital Long Short Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). This publication has been prepared by L1 Capital Pty Ltd (ACN 125 378 145, AFSL 314 302), to provide you with general information only. In preparing it, we did not take into account the investment objectives, financial situation or particular needs of any particular person. 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. Neither L1 Capital Pty Ltd, Equity Trustees nor any of its related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product. The L1 Capital Long Short Fund's Target Market Determination is available at <https://bit.ly/3a0Kj68>. A Target Market Determination is a document which was required to be made available from 5 December 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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