Monthly Class

L1 Capital Long Short Fund

Quarterly Report | MARCH 2024

- **The L1 Capital Long Short Fund returned 7.8%[1] for the March quarter(ASX200AI 5.3%).**
- **Over the past 3 years, the portfolio has returned 15.0%[1] p.a. (ASX200AI 9.6% p.a.).**
- **Global markets rose over the quarter with U.S. economic data continuing to trend above market expectations and corporate earnings remaining relatively resilient.**

Equity markets moved higher over the March quarter as U.S. economic data continued to surprise to the upside relative to market expectations. 2024 U.S. Real GDP growth forecasts have moved up 90bps since the start of the year, from 1.3% to 2.2%, as consumer spending remains strong, employment data remains resilient and manufacturing data is recovering. U.S. PMI data showed growth in March for the first time since September 2022, a positive economic indicator.

The strength of the economic data more than offset a hawkish repricing of monetary policy expectations. At the start of this year the market was expecting seven 25bps interest cuts, with the first cut expected in March 2024. This has subsequently shifted to two 25bps interest rate cuts, starting in the back half of 2024. This compares to the three cuts projected by the median Fed forecast.

The ASX200AI was up 5.3% for the quarter, driven by the Information Technology (+24.4%), Property (+16.8%) and Consumer Discretionary (+12.9%) sectors, while Materials (-6.2%), Communication Services (+1.1%) and Consumer Staples (+2.0%) lagged.

Fund returns (Net)[1] (%)	L1 Long Short Fund	S&P/ASX 200 AI	Out-performance
3 months	7.8	5.3	+2.5
1 year	12.6	14.4	(1.8)
2 years p.a.	6.5	7.0	(0.5)
3 years p.a.	15.0	9.6	+5.3
5 years p.a.	19.4	9.2	+10.3
7 years p.a.	13.3	8.6	+4.7
Since inception p.a.	19.8	8.0	+11.8

Figures may not sum exactly due to rounding.

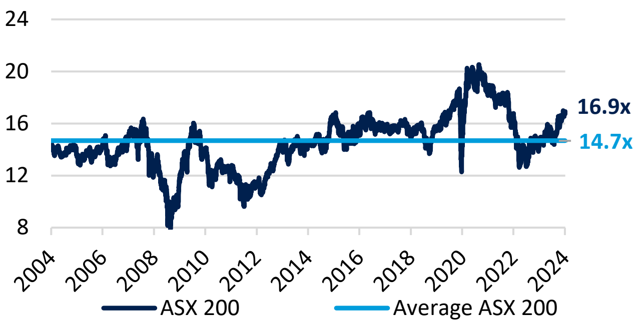
Returns since inception (Net)[1] (%)	Cumulative return	Annualised return p.a.
L1 Capital Long Short Fund	464.3	19.8
S&P/ASX 200 Accumulation Index	108.8	8.0
MSCI World Net Total Return Index (USD)	132.7	9.2
HFRX Global Hedge Fund Index (USD)	15.7	1.5

The portfolio performed strongly over the quarter driven by broad-based stock gains in several positions including CRH, Downer, Imdex, Flutter and QBE. The portfolio was also well positioned to benefit from the tailwinds we are starting to see in the copper, energy and gold markets. This supported gains in several stocks, including Capstone, Cenovus, Teck and Westgold.

Equity market observations

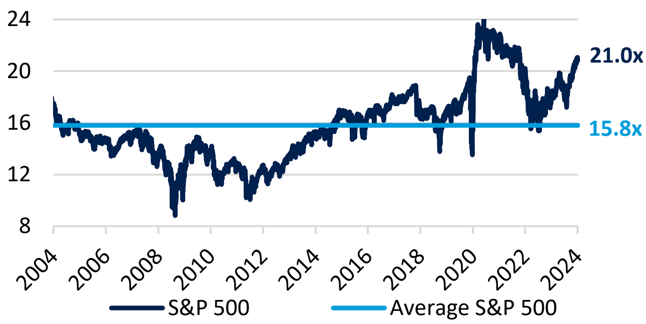
Equity market performance over the quarter both domestically and offshore has been driven predominantly by multiple expansion rather than positive revisions for earnings expectations. Market multiples are fully priced relative to history at current levels. Figures 1 and 2 illustrate the price to earnings ratio (12-month forward P/E) for the ASX200 and S&P500 versus their long-term averages. The ASX200 currently trades on 16.9x P/E, which is 15% above the 20-year average. The S&P500 trades on 21x P/E, which is ~33% above its 20-year average.

Figure 1: ASX200 forward P/E vs. history



Source: Goldman Sachs Investment Research as at 31 Mar 2024

Figure 2: S&P500 forward P/E vs. history



Source: Goldman Sachs Investment Research as at 31 Mar 2024

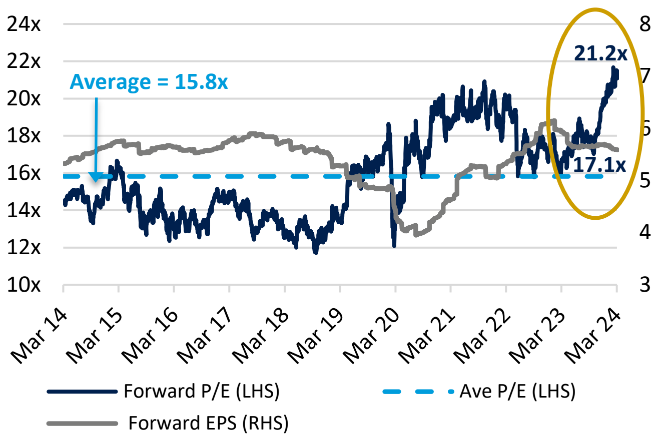
1. All performance numbers are quoted net of fees. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. Strategy performance and exposure history is for the L1 Capital Long Short Fund – Monthly Class. NOTE: Fund returns and Australian indices are shown in A$. Returns of U.S. indices are shown in US$. Index returns are on a total return (accumulation) basis unless otherwise specified.

At a sub-sector level, we are starting to see some divergence in markets. Strong U.S. economic data has led to increased confidence that the U.S economy may avoid a downturn altogether or may achieve a 'soft landing'. This has led to a broadening in the market rally beyond large U.S. Technology/A.I. stocks and supported the outperformance of Cyclical stocks over Defensive stocks.

However, the Australian market has not seen the same strength of economic data and the rally has been more concentrated in large-cap/ASX20 stocks, which now appear expensive versus history. The contribution of the major domestic banks to index returns illustrates this 'melt up' in performance. Commonwealth Bank of Australia (CBA), the largest domestic bank, has re-rated from a P/E of ~17x at the end of October 2023, to ~21x at the end of March 2024. At the same time, its earnings per share has moved moderately backwards (see Figure 3). CBA is now trading at an all-time high valuation (and one of the highest P/Es of any bank in the world) despite having 2-year EPS growth (FY24 to FY26) of only 0.8% p.a. based on consensus broker forecasts.

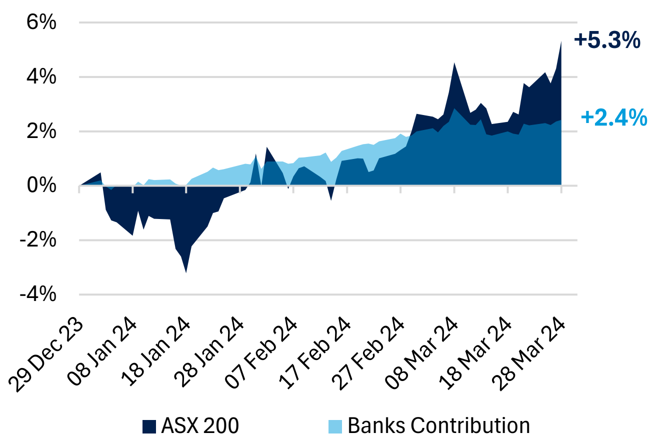
The major banks have been the single largest driver of index returns for the ASX200, contributing ~45% of the total index return year-to-date despite making up only ~20% of the index weighting (Figure 4). We find it difficult to justify this rally given bank earnings have shown very little leverage to rising interest rates so far and there continue to be economic risks from cost-of-living pressures that could impact bad debt levels going forward (off a near zero base).

Figure 3: CBA forward P/E and EPS revisions



Source: Goldman Sachs as at 31 Mar 2024

Figure 4: Banks contribution to ASX200 Returns (%)



Source: Goldman Sachs as at 31 Mar 2024

Overall, we continue to see equity markets as relatively fully priced at an index level, driven by the melt up in large-cap constituents, along with a re-rating in high growth stocks where valuations are very stretched versus history. This comes at a time of elevated geopolitical risk, moderating corporate earnings growth and heightened risks from any potential upside inflation surprises (equities are implicitly factoring in interest rate cuts to justify today's share prices).

Portfolio positioning

Portfolio positioning of the Fund has remained broadly consistent with the prior quarter, although we have taken the opportunity to trim some net market exposure. We used the recent rally to take profits in several stocks and have rotated the portfolio to some new opportunities. Despite relatively fully priced equity markets, we continue to view the current environment as favourable for bottom-up stock picking and we are finding numerous compelling opportunities in low P/E stocks that have typically lagged the broader market rally.

Figure 5: Portfolio statistics as at 31 Mar 2024

FY25 Consensus forecasts	Portfolio longs	Portfolio shorts
P/E	10.6x	20.3x
EPS Growth YoY (%)	13.7%	13.8%
FCF Yield (%)	6.3%	3.9%

Source: L1 Capital and Bloomberg. Median for the relevant constituents.

As Figure 5 highlights, the portfolio remains heavily skewed on the long side to lower P/E stocks, with strong cash flow generation and solid earnings growth. The median short, on the other hand, is trading on over 20x FY25 earnings, delivering much lower cash flow than our longs and with broadly similar earnings growth. Importantly, these metrics are based on consensus data and in many cases we expect our longs to beat consensus earnings expectations (and vice versa for our shorts), further improving these metrics.

Over the past 12-15 months the Fund has faced headwinds from a number of market thematics and macro headwinds. These include (a) the bias of equity market performance to Growth stocks over Value stocks, (b) the re-rate of high multiple growth stocks (with no A.I. exposure) where we have some short positions that have rallied on broader Technology/A.I. euphoria, (c) the passive equity flow-driven rally in large-cap ASX20 stocks (such as the domestic banks) or NASDAQ's 'Magnificent Seven', where we have minimal portfolio exposure, and (d) a de-rate in resource equities, predominantly on China recovery concerns.

Given that unfavourable backdrop, we are pleased with Fund performance, delivering a ~12% net return over the past 12 months. This has largely been achieved through detailed, bottom-up stock picking and timely trading decisions. Furthermore, we are now starting to see some of these headwinds abating, which should benefit portfolio performance over time.

The Tech/A.I. mania driving the broader performance of high-multiple Growth stocks appears to be moderating, and so too the 'melt up' in ASX20 stocks, such as the domestic banks. We have also seen the early stages of a recovery in the Copper, Energy and Gold markets, which we have discussed previously as key themes in the portfolio.

On **Copper**, we have outlined our views on the key factors impacting supply and demand, and why we expect the market deficit to hit sooner than consensus expectations and for it to persist for longer. This progression towards copper scarcity should in turn lead to scarcity pricing (see page 33). The fragile supply-demand balance has been highlighted recently by supply disruptions, and we are starting to see these dynamics play out to the benefit of existing copper producers, with Capstone and Teck being key beneficiaries.

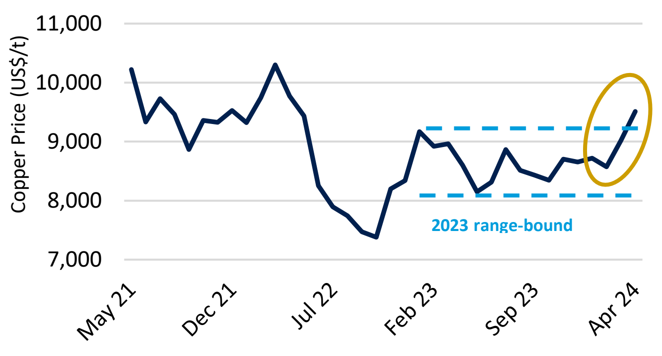
On **Energy**, we continue to think the sector outlook remains much better than market expectations. We have provided a summary of our sector views, as well as an update on our positioning in Santos and the potential for value to be unlocked in the company through strategic initiatives (see page 66).

On **Gold**, we have seen a sharp rise in the gold price driven by robust demand from Central Banks, as well as an increase in geopolitical tensions. While share prices of gold equities have moved higher, they have materially lagged the rally in the gold price so far. Our key portfolio positions have leverage to both production growth and rising prices and are well-placed to generate strong and growing earnings in the current environment.

Copper: Shifting towards an extended deficit in global markets

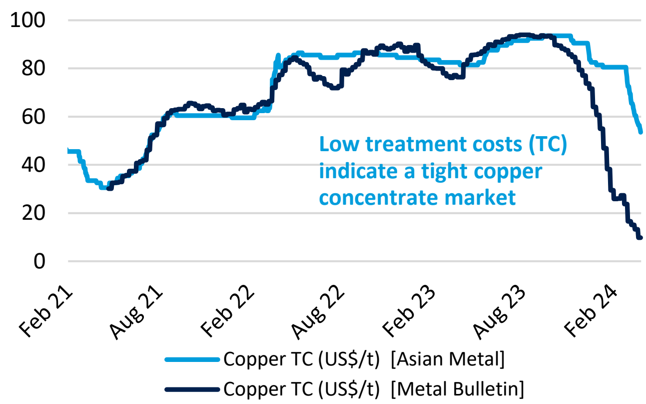
In the **September 2022 Quarterly Report**, we discussed in detail our medium-term optimism on copper as the forgotten play on electrification. Throughout 2023, copper prices were largely range-bound (Figure 6), as weak developed market demand and growing supply were offset by robust Chinese demand (housing completions, growth in copper-intensive industries). Recently however, mine supply disruptions have brought the reality of imminent long-term deficits into the market's thinking. Tightness in copper mine output has been evidenced by Chinese smelters' inability to secure copper concentrate from miners, resulting in them significantly reducing their processing fees (treatment charges). Low treatment charges are a real-time indicator of tight mine supply, relative to smelter capacity (Figure 7).

Figure 6: LME futures (18 month) copper price (US$/t)



Source: IRESS

Figure 7: Copper treatment costs (US$/t)



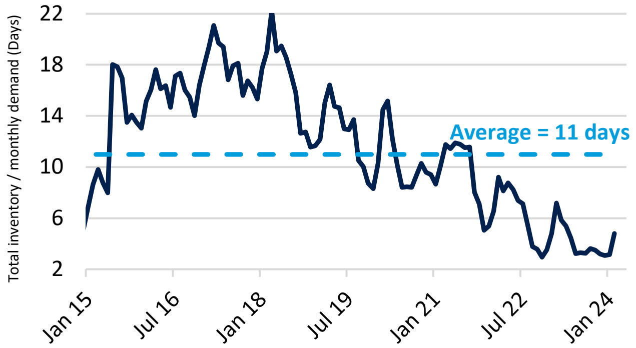
Source: Bloomberg, JP Morgan

Copper equities rallied strongly on the back of these dynamics, which benefitted several of our portfolio holdings this quarter including Capstone (+34%) and Teck (+8%). We maintain our conviction on copper's medium-term fundamentals, given:

- **Robust demand growth** due to electrification tailwinds, incremental data centre and A.I. related demand, as well as potential for improving global manufacturing activity on easing monetary policy, and
- **Constrained supply** resulting from the insufficient number of new major mines planned over the next decade and the significant decline of the existing production base.

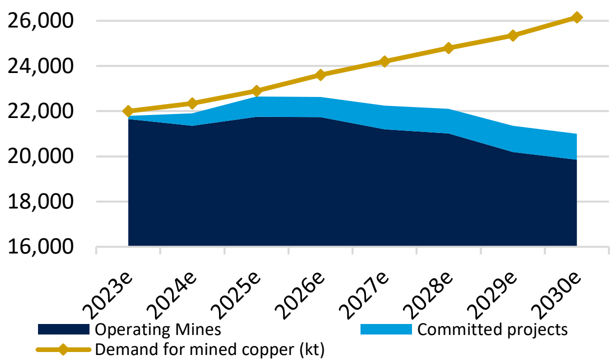
We therefore expect the market deficits to continue to widen over time, with copper prices moving closer to scarcity pricing over the next few years. While near-term copper pricing will likely be more volatile, given an uncertain economic outlook and a low inventory buffer (Figure 8), we view the medium to longer term dynamics as robust, with physical deficits virtually unavoidable (Figure 9).

Figure 8: Copper inventory days (inventory/demand)



Source: Bloomberg, J.P. Morgan. Inventory/demand = Total exchange plus bounded inventory/monthly demand.

Figure 9: Copper demand/supply forecast

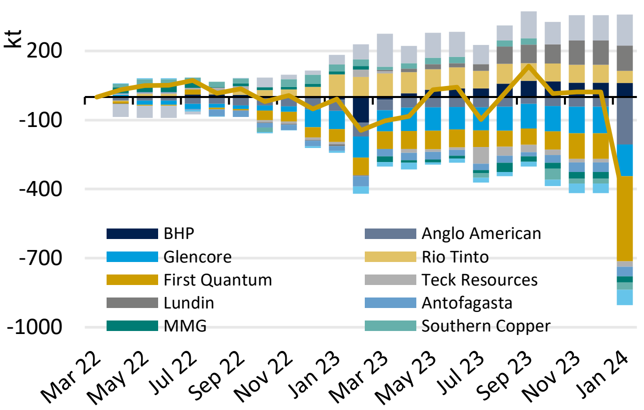


Source: Wood Mackenzie, UBS Research

Supply

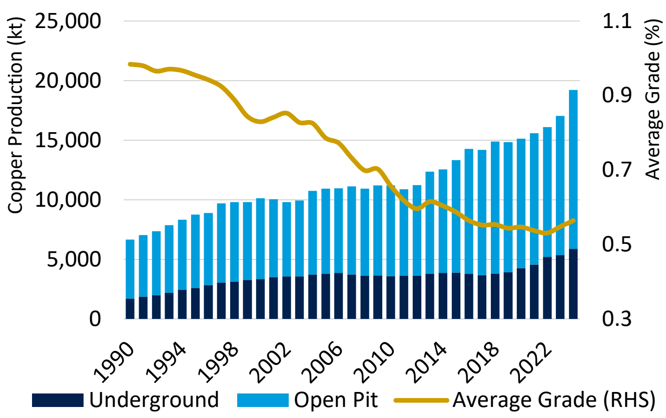
Market supply has tightened into 2024 as existing mine production downgrades and suspensions flowed into the physical markets. The most notable event here was the Cobre Panama mine (~400kt p.a.), which was placed into suspension by the local authorities in November 2023. Other major producers such as Anglo American have also significantly reduced near-term production guidance (Figure 10). While these disruptions provide a catalyst for supply tightness, the industry is structurally challenged in the longer term by a declining existing asset base, as the geological characteristics (i.e. mine grades) deteriorate over time (Figure 11). Escondida, the world's largest copper mine, has seen copper grades decline from ~3% in the 1990's to ~0.5% today. **This means to produce the same amount of copper, roughly six times the material is required to be mined than at the start of the mine's life.**

Figure 10: Change in 2024 expected copper supply



Source: Goldman Sachs Investment Research

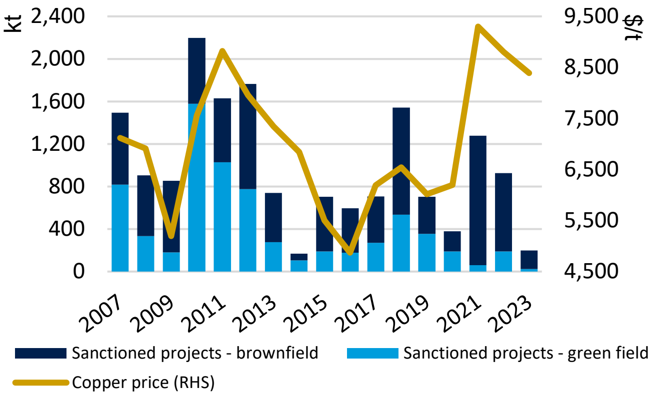
Figure 11: Industry-wide copper grade decline



Source: Wood Mackenzie, UBS Research

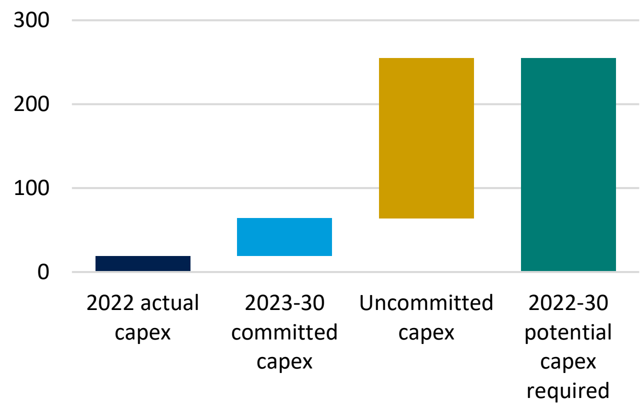
While supply growth has been robust over the last three years with numerous projects commissioned (10 projects, bringing ~2Mt of incremental supply), this is largely already factored into current supply estimates, as incremental new project growth slows from 2025. Going forward, BHP estimates the world may need incremental supply of ~10 Mtpa of copper by 2030 (7 Mt to meet growth and 3 Mt to offset projected decline at existing operations), while in 2023 only 340kt of new supply was sanctioned (Figure 12). BHP further estimates the capital requirement to achieve the 10Mtpa production is a staggering US$250b, of which a small amount has been committed today (Figure 13). **For context, Sandfire is the largest listed ASX copper producer – the capital requirement to meet market demand represents ~100x their current market cap (i.e. the world needs 100 more Sandfires spent).**

Figure 12: Copper projects (kt) vs. copper price (US$/t)



Source: Goldman Sachs Investment Research

Figure 13: Copper capex requirements (US$b, real FY23)



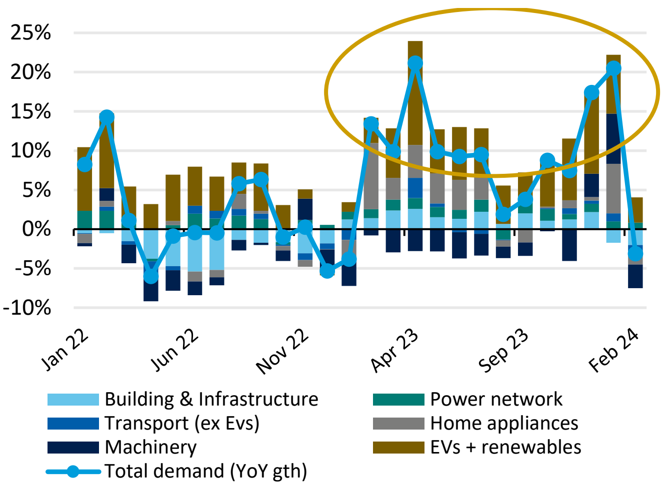
Source: BHP

While short-term supply disruptions can impact a relatively balanced market, we believe we are potentially seeing the beginning of a more structural supply shortage in new copper mines.

Demand

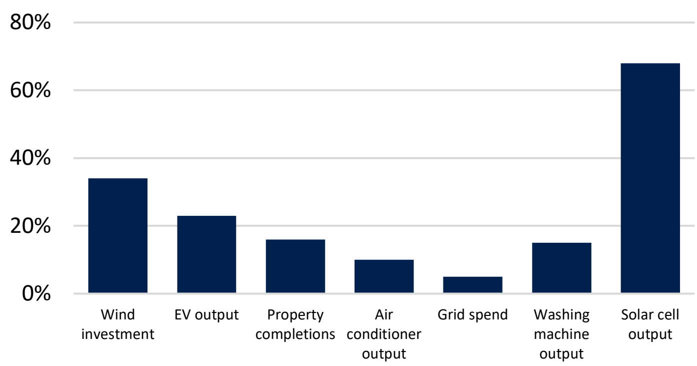
2023 was mixed for copper demand, with weak OECD demand in traditional end uses (construction, manufacturing, etc.) having been compensated by very robust Chinese demand growth, which accounts for over 50% of global copper consumption (Figure 14). While the Chinese economy has well publicised structural issues to returning to historical growth rates, the more copper-intensive parts of the economy (Figure 15) have continued to grow at healthy rates. In addition, housing completions remain robust (lagging the decline in housing starts and sales).

Figure 14: Chinese copper demand growth



Source: Goldman Sachs Investment Research, Wind, SMM

Figure 15: 2023 China copper demand drivers YoY (growth rates)

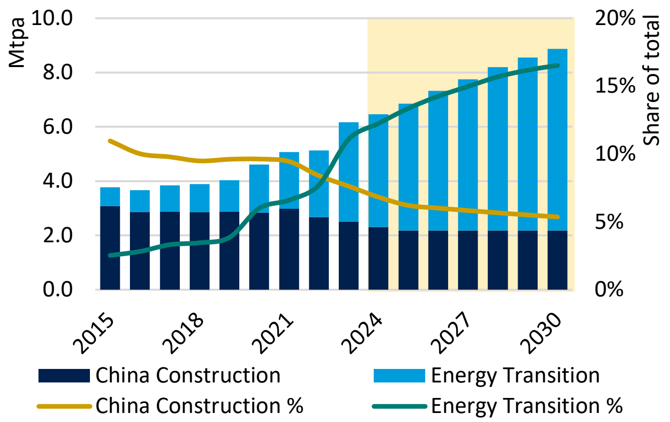


Source: Morgan Stanley

Copper is the single most critical metal required to execute on the energy transition, including heavy usage in infrastructure and electric vehicles. Approximately, 2.5x more copper than other commodities (such as lithium or nickel) is required to build an electric vehicle. Critically, 2023 represented an inflection year where the rate of growth in copper demand from energy transition initiatives has overtaken the demand from Chinese construction markets, which is likely in a structural decline (Figure 16).

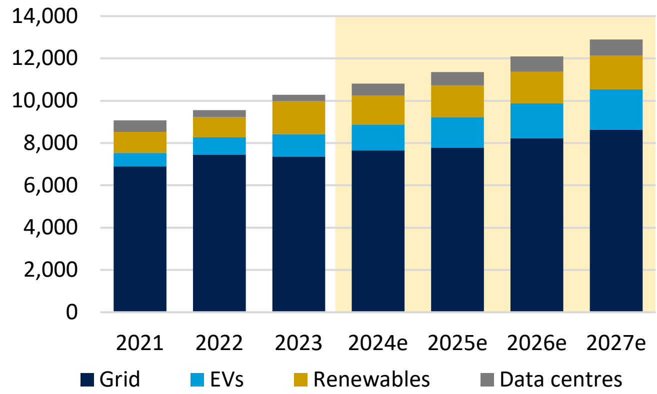
In an increasingly power intensive economy, new drivers of copper demand continue to emerge at a rapid pace. Most recently, the A.I. driven boom in data centres, for which copper is critical to provide power, is set to increase demand in an already tight market. **It is estimated that by 2027, new data centres could add in excess of 1 million tonnes p.a. (Mtpa) of copper demand, representing >3% of total global demand (Figures 17).**

Figure 16: Copper demand from China construction vs. global demand from energy transition



Source: Wood Mackenzie, UBS Research

Figure 17: Evolving drivers of global copper demand (Kt/pa)



Source: Morgan Stanley

Copper demand tends to be an 'economic bellwether' that rises and falls with moves in general economic activity. Over the past year, developed market demand for copper has been more muted (-2.8% in 2023) due to slower global economic growth dampening demand in more traditional end uses for copper. Despite that, we remain constructive over the medium term, as monetary policy becomes more dovish once inflation normalises. We note that interest rate cuts typically lead to a boost in metals pricing, with copper historically being the largest beneficiary. Moreover, western markets have materially lagged behind China in the pace of electrification (EV and hybrid penetration in China is 34.5% vs. 9.1% in the U.S.) and as a result, we see significant metal demand growth ahead.

Energy sector positioning and outlook

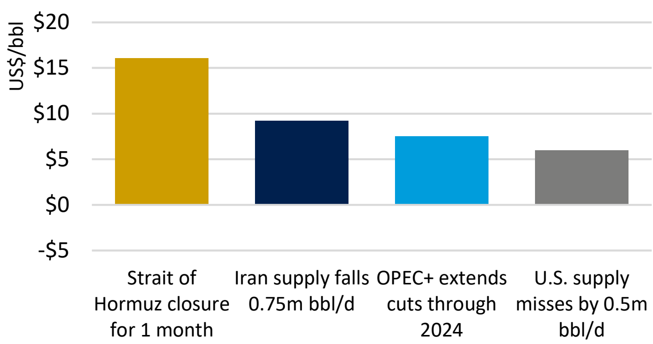
In the **September 2023 Quarterly Report**, we discussed our constructive outlook on the global energy sector more broadly and our investment in Santos. During the first quarter of 2024 oil market fundamentals have been robust (crude oil prices rose 13% during quarter to $87/bbl), with the supply/demand dynamics supporting sustained tightness.

Supply

OPEC is remaining steadfast on supply discipline. In its latest meeting in April 2024, the cartel extended its previous production cuts further and urged increased compliance amongst member states, pushing crude oil prices towards 6-month highs of US$90/bbl. This supply discipline is happening against the backdrop of increasing market fragility given rapidly rising geopolitical tensions. Attacks on Russian energy infrastructure and heightened tensions in the Middle East (including Houthi attacks disrupting oil transportation are a stark reminder of supply risks. (Note – Oil flows through Bab-El-Mandeb Strait are down 28% since disruptions began in late 2023).

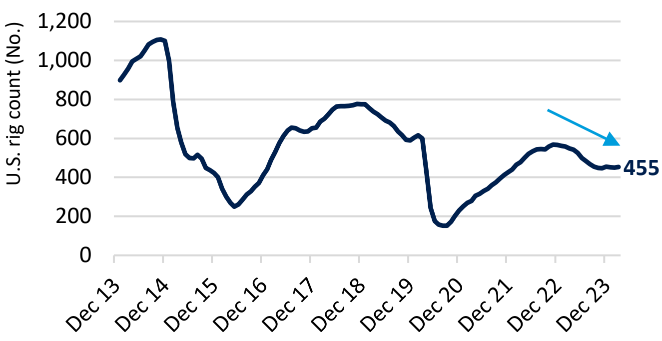
Figure 18 on the next page illustrates the potential material impact to pricing from short-term disruptions, which could increase in frequency as the world becomes more geopolitically unstable. U.S. shale production growth, a major source of additional global oil supply in 2023, appears to be nearing a plateau with drill counts remaining well below late 2022 peaks (Figure 19 on the next page).

Figure 18: Illustrative supply risk impact to brent oil prices



Source: Goldman Sachs Investment Research

Figure 19: U.S. oil rig count (No.)

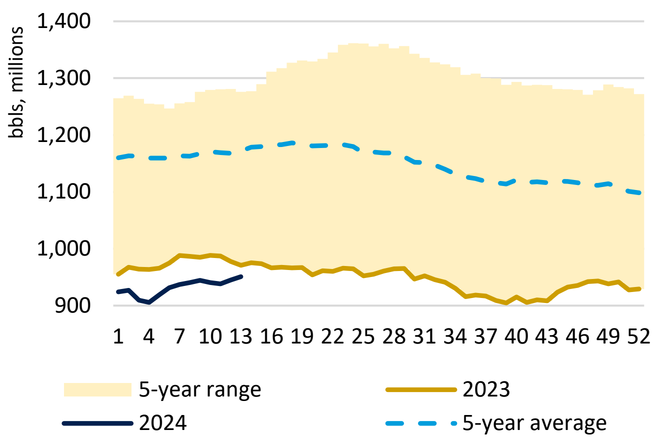


Source: Morgan Stanley

Demand

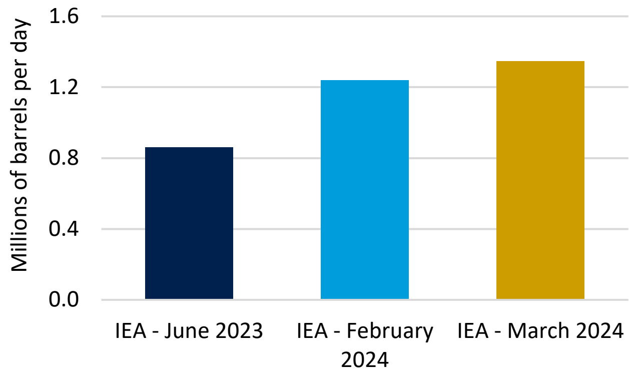
OECD stocks of inventory, including Strategic Petroleum Reserve inventory, remain materially below historical ranges (Figure 20), with typical seasonality likely to lead to an upswing in demand during Q2 and Q3. Notably, during the quarter, the International Energy Agency (IEA) upgraded its forecast for global oil demand. It expects demand growth of 1.3mb/d YoY in 2024 (+1.3% increase from 2023). This represents a material upward revision from its initial forecast for ~0.8 mb/d in June 2023 and continues to demonstrate upside risk to medium-term estimates (Figure 21). Contrary to popular belief, we expect that '*peak oil demand*' is very unlikely before the end of the decade.

Figure 20: OECD crude oil inventories (bbls, million)



Source: Morgan Stanley

Figure 21: International Energy Agency (IEA) 2024 demand growth projections (bbls, million/day)



Source: IEA, Goldman Sachs Investment Research

We continue to believe the Energy sector is well placed to deliver attractive returns to investors, given a favourable supply-demand backdrop and attractive valuations. Investor positioning remains extremely negative, with hedge fund exposure to the energy sector currently lower than at any other point in the last 5 years.

We find this statistic truly astounding – hedge funds are even more negative on energy stocks today than during 'peak COVID' when every oil storage facility in the world was full, the oil price had collapsed, virtually no one in the world was driving or flying and there was no end in sight to COVID.

We find this pessimism to the energy sector hard to reconcile, given a tight supply-demand outlook, subdued new investment in future oil production, the U.S.'s Strategic Petroleum Reserve already being 44% depleted (versus 3 years ago) and the outbreak of war in the Middle East.

Santos: investment update and upside potential

We previously outlined our investment in Santos, and why we viewed a structural separation of the company's Liquefied Natural Gas ('LNG') assets as the optimal approach to unlock value for shareholders (refer **September 2023 Quarterly Report**).

Since the time of our report, energy market fundamentals have remained robust as outlined above. We have also had the opportunity to actively engage with the company and key stakeholders. This has included numerous meetings with the senior management team, Chair and other major institutional shareholders. Following this intensive campaign, we believe there is wider support from the broader Santos investor base for a fulsome review to evaluate structural solutions to realise the company's full value potential.

We have also been encouraged by communications from the company that they continue to examine a range of options, including constructive comments from CEO, Kevin Gallagher during the FY 2023 conference call.

Furthermore, there have been several positive developments over the last six months which have increased our conviction in the upside potential for the company and the rationale of a structural solution, which we discuss below.

"We welcome shareholder feedback and opportunities or ideas to unlock or to create shareholder value…. we'll continue working with our advisers to evaluate, develop and negotiate or implement any of those opportunities or ideas as we go forward"

Kevin Gallagher, CEO (21 Feb 2024)

1. Resolution of Barossa legal challenges

Santos' Barossa LNG project has been subject to numerous challenges by environmental activist bodies. In January 2024, the two material outstanding challenges to progress the project were overcome, including a decisive win for Santos in the Federal court challenging pipe-laying activities due to claims of risk to Indigenous culture heritage.

Santos' Barossa LNG project is now ~70% complete and is expected to be completed with only a very minor delay to the initial schedule and a minor capital increase, a strong outcome given the extent of legal delays. We see the derisking of the Barossa project as enhancing the viability and attractiveness of a standalone Santos LNG equity story.

"The cultural mapping exercise and the related opinions … are so lacking in integrity that no weight can be placed on them."

Justice Charlesworth

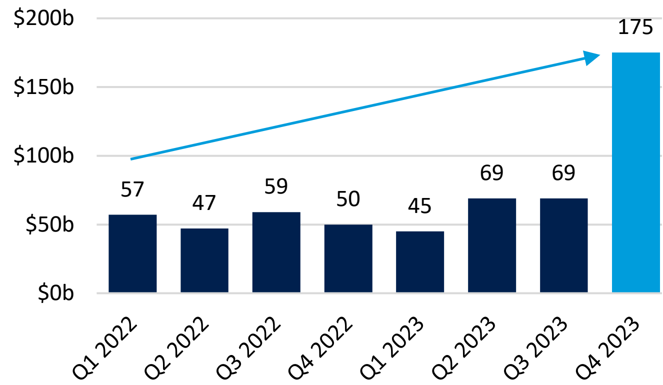
2. Significant sector M&A activity

We have observed a significant recent increase in M&A activity within the oil and gas space globally (Figure 22). Notable deals include Chevron's US$53b acquisition of Hess, Exxon's US$60b acquisition of Pioneer and Chesapeake's US$7.4b acquisition of Southwestern Energy.

We believe the trend of consolidation will continue, driven by several key themes:

- It is more capital efficient to buy growth than to build greenfield projects;
- Consolidation allows for greater efficiency of capital allocation in a capital starved sector;
- Complexity associated with navigating the energy transition can be assisted with scale (e.g. new technologies, influence public policy); and
- Potential for regional synergies.

Figure 22: M&A in the global oil & gas industry – 2022 & 2023 (by deal value in US$b)



Source: GlobalData Oil & Gas Intelligence Center

We believe Santos' LNG portfolio would be a highly attractive M&A target in a consolidating industry. We favour a structural solution that enables this strategic value to be better reflected in market prices.

3. Proposed transaction with Woodside

In December 2023, Woodside and Santos announced that they were having discussions regarding a potential merger (the entities together would be worth ~A$85b). Shortly thereafter, in February 2024, the companies announced they had ceased discussions without a transaction materialising, however Woodside noted that it "considers that the global LNG sector provides significant potential for value creation", further evidencing the strategic value of Santos' LNG assets.

We see Woodside's interest as a positive. We believe that a low-premium merger would have been a sub-optimal outcome for Santos' shareholders with the company having more favourable alternative options available, including a structural separation of its existing LNG assets.

Summary

We believe Santos remains a highly compelling investment, with a number of operational and structural catalysts that can drive material shareholder value over the medium-term. Our analysis continues to suggest substantial upside to the current share price on a sum-of-the-parts valuation basis.

Key stock contributors for the quarter

Downer (Long +16%) shares strengthened over the quarter as the company announced it was increasing its targeted cost-out program by $75m p.a. to a revised total of $175m p.a. to be achieved by FY25. In addition, the company reported that its utilities division successfully returned to profitability during H1 2024, which, together with the expanded cost-out program, saw Downer reaffirm that it remains on track to achieve target EBITA margins of at least 4.5% in FY25. Downer also continues to explore non-core divestments and to finalise a revised capital allocation strategy. While we continue to expect that FY24 will be a transition year for the company, we expect to begin seeing positive impacts from improvements in the cost base and the utilities division materialise during H2 2024. With renewed leadership at both the Board and senior management levels (who are committed to efficiency improvements and simplification initiatives), we expect the company to evolve into a more resilient, less capital-intensive and lower risk services business that is exposed to a growing pipeline of annuity-style contracts.

Capstone (Long +34%) shares rallied as mine supply disruptions increased the risk of a near-term copper deficit. Capstone has an exceptional growth profile with a pipeline of fully permitted projects that are poised to more than double its current copper production 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 positive inflection in operating metrics across the business. The company is fully funded to complete its currently approved project pipeline and is led by a highly capable, focussed and aligned management team.

Teck (Long +8%) shares rose on the same copper market dynamics that drove the Capstone share price**.** Teck is in the process of completing the sale of its steelmaking coal business for US$8.6b. The company has already received US$1.3b and allocated $500m of this to a buy-back, with the remainder of the proceeds subject to regulatory approvals. Post transaction completion, we expect the company to have significant capital management flexibility, including the potential for further returns to shareholders. Following the divesture of its coal portfolio, Teck will become a leading copper-zinc producer with a strong pipeline of organic growth projects that can grow production by more than 60% over the next decade. Throughout 2024, Teck's key focus will be to continue ramping up copper production at QB2 (one of the world's largest new copper mines) and to establish a track record of positive operating performance.

Flutter (Long +13%) shares rallied over the quarter with Flutter's result illustrating that it continues to maintain its leadership position in the U.S. sports betting/iGaming market. This was despite a step-up in competition in the market from the entry of ESPN BET and Fanatics' acquisition of PointsBet's U.S. operations. We believe 2024 has several positive catalysts for the company. Flutter completed its U.S. secondary market listing at the end of January and has announced the intention to shift to a U.S. primary listing in May this year. We expect this will further enhance its profile and highlight the valuation discount versus listed U.S. peers. FanDuel's profitability is set to accelerate meaningfully after several years of high investment. This will transform the company's earnings growth and deleveraging profile, allowing it the flexibility to pursue bolt-on acquisitions and increased shareholder returns. We believe the business has an exciting growth path ahead for the rest of the decade with Flutter's outstanding management team well placed to maintain the company's leadership position.

Cenovus (Long +20%) shares performed strongly as the WTI oil price increased 16% to ~US$83/bbl, while refining margins in the U.S. Midwest improved dramatically from a low base. During March, Cenovus's 2024 investor day was well received, where its 5-year outlook for the business included growth in upstream production of around 150m bbl/d above the current 800m bbl/d and a material turnaround of its downstream refining business. Over the next five years, the company expects to generate C$32b of cumulative free cash flow based on a US$75/bbl WTI oil price, a highly attractive prospect given its current market cap of ~C$51b. Furthermore, it has committed to return 100% of excess cash flow back to investors once it reaches its C$4b net debt target (expected in 2024). Cenovus's strong cash flow generation, combined with the long-life nature of its oil sands assets and its low cost of production, make it one of our preferred Energy exposures.

CRH (Long +25%) shares continued to rally strongly after the company delivered strong Q4 FY23 numbers and provided FY24 guidance ~5% ahead of consensus expectations. The company is a significant beneficiary of the exceptional growth in U.S. infrastructure spending which will underpin many years of robust demand. The Infrastructure Investment and Jobs Act ('IIJA'), Inflation Reduction Act ('IRA') and the Chips and Science Act will together add roughly US$2 trillion in investment to ageing U.S. infrastructure. These market tailwinds, together with CRH's ability to drive value-accretive M&A, position the company to deliver consistent double-digit earnings growth over the medium term.

NexGen (Long +11%) performed well as uranium prices reached 15-year highs during the quarter, due to structural demand tailwinds and as the world's largest producer, Kazatomprom (~20% global supply), downgraded its 2024 production expectations. 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 2024, providing a clear pathway to full scale construction of the project. At the uranium prices reached during the March quarter, Arrow has the potential to generate more than C$2b of cash flow annually, once developed (2028) – a highly attractive proposition given NexGen's market cap of ~C$5.8b. We made the majority of our investment in NexGen when it had a market cap of around C$2b.

Imdex (Long +24%) shares performed well as the company reported H1 2024 results materially ahead of consensus expectations, highlighting business resilience in a difficult market environment where funding availability for junior explorers has been difficult. The strong result was underpinned by the company's Devico business, which it acquired in H2 2023, materially beating expectations and increasing product cross-selling within Imdex's broader business. While exploration activity remains muted, we see Imdex being well-positioned to capitalise on improved activity as the cycle recovers.

QBE (Long +22%) shares rallied after reporting solid FY23 results, with earnings doubling compared to the prior year. Importantly, insurance profits were in line with company guidance, demonstrating the considerable progress the company has made in delivering stronger and more consistent earnings. We see QBE as well positioned to deliver ahead of expectations going forward with conservative guidance and consensus estimates currently reflecting very little improvement in insurance margins going forward. This is despite ongoing positive industry trends and the higher quality of QBE's business relative to history. Moreover, QBE has increased its weather claims budget considerably and divested much of its portfolio with higher weather-related risks, providing a buffer for any future claims' volatility. After 15 years of headwinds, we believe the company has finally reached a turning point and is set to deliver stronger and more consistent margins, dividends and return on equity going forward. QBE shares have been a strong performer for the portfolio, rallying more than 100% since early 2021, yet the shares trade on only 10x FY24 consensus P/E (versus a 10-year pre-COVID average of ~13x).

Key stock detractors for the quarter

Fraport (Long -11%) shares were weaker in the March quarter as expectations for 2024 passenger growth at Frankfurt Airport were slightly lowered and a more subdued outlook than expected emerged following the company's 2023 earnings release. Softness in the passenger outlook reflects industrial action across German airports during Q1, as well as the withdrawal of seat capacity from the upcoming summer season due to delays to new aircraft deliveries and the grounding of aircraft due to industry-wide issues with Pratt & Whitney engines. While demand for air travel remains strong, we see traffic at Frankfurt Airport continuing to gradually recover towards 2019 levels over the next few years. Against this backdrop, as major capital programs in Frankfurt and Lima wind down, we believe Fraport is well-positioned to generate strong cash flow and return to dividends from 2026 and beyond. We see enormous valuation upside for Fraport over the medium term and are happy to remain patiently invested as these positive milestones are achieved.

Monthly Class

L1 Capital Long Short Fund

Quarterly Report | MARCH 2024

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	2.51	1.87	3.15	1.03	4.18	1.70	2.62	1.69	1.93	2.54	0.89	3.56	**31.40**
2018	0.56	(0.47)	(1.64)	1.62	(3.76)	(6.29)	0.82	(5.92)	(2.12)	(3.98)	(2.60)	(6.06)	**(26.40)**
2019	4.35	5.15	0.22	2.84	(2.78)	3.85	1.18	0.44	2.61	3.37	0.32	2.22	**26.20**
2020	(7.81)	(7.10)	(23.02)	22.96	10.97	(2.21)	(1.93)	9.98	0.52	(2.63)	32.28	4.16	**27.99**
2021	(0.10)	9.06	(0.13)	4.99	4.11	(0.55)	1.83	5.24	4.81	2.30	(7.21)	3.59	**30.62**
2022	2.74	7.00	1.47	3.29	0.12	(13.39)	(4.63)	5.70	(7.80)	5.10	7.91	4.27	**9.82**
2023	3.67	(1.99)	0.66	1.86	(3.44)	1.79	5.43	(4.68)	0.90	(3.07)	2.46	3.66	**6.88**
2024	0.31	(0.77)	8.28										**7.78**

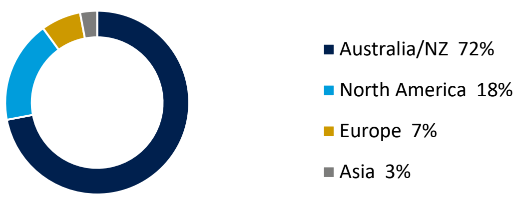
Portfolio positions	Current	Avg. since inception
Number of total positions	82	81
Number of long positions	62	57
Number of short positions	20	24
Number of international positions	23	25

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

Geography	Gross long	Gross short	Net exposure
Australia / NZ	110	82	29
North America	39	7	32
Europe	19	-	19
Asia	7	-	7
Total	**176**	**89**	**87**

Figures may not sum exactly due to rounding.

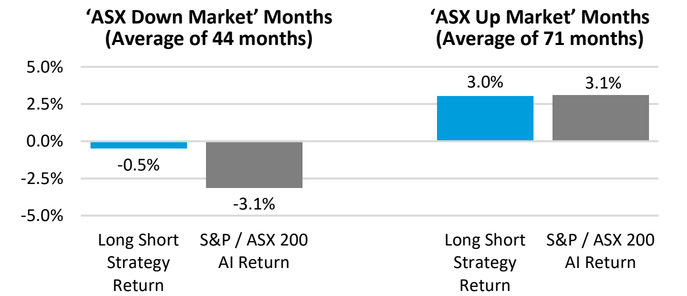
Gross geographic exposure as a % of total exposure[2]



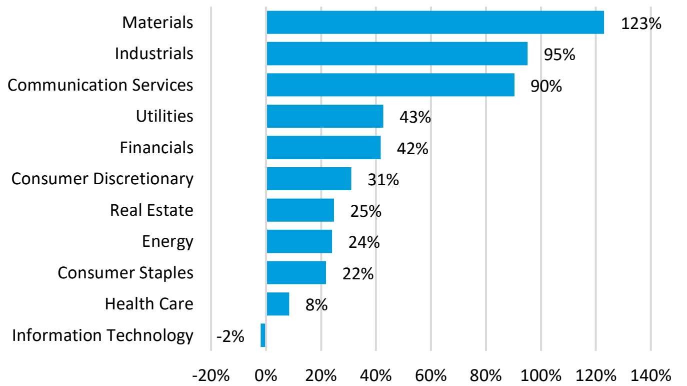
Fund information as at 31 March 2024[3]

Unit Price	$2.21
Fund NAV	$1.50b

Strategy 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 Fund – Monthly Class. 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.

Monthly Class

L1 Capital Long Short Fund

Quarterly Report | MARCH 2024

Fund information – Monthly Class

Class Name	L1 Capital Long Short Fund – Monthly Class
Structure / Currency	Australian Unit Trust / AUD
Inception	1 September 2014
Management Fee	1.28% p.a. inclusive of GST and net of RITC
Performance Fee	20.5% inclusive of GST and net of RITC[4]
High Watermark	Yes
Buy / Sell Spread	15bps / 15bps
APIR / ISIN	ETL4912AU / AU60ETL49128
Minimum Investment	A$500,000
Subscription / Redemption Frequency	Monthly
Platform Availability	Australian Money Market, HUB24*, Mason Stevens*, MLC, Netwealth, PowerWrap, Praemium

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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.

L1 CAPITAL

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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.
* Administration only.

All performance numbers are quoted net of fees. Past performance should not be taken as an indicator of future performance. Sources of information in this report are Apex Fund Services, Bloomberg and L1 Capital.