

- The L1 Long Short Fund (LSF) portfolio returned 4.4%<sup>1</sup> in December (ASX200AI -3.2%).
- Over the past 3 years, the portfolio has returned 23.2%<sup>1</sup> p.a. (ASX200AI 5.5% p.a.).
- Global equity markets fell in December on increasing concerns that Central Bank tightening would persist despite clear signs of a global economic slowdown.

Global equity markets fell sharply in December (MSCI World -4.3%, S&P 500 -5.8%, NASDAQ -8.7%) as the Fed maintained its hawkish tone at the December FOMC meeting and affirmed its resolve to bring down inflation through sustained higher interest rates. The Fed's most recent interest rate projections show no interest rate cuts in 2023, which stands in contrast to market expectations of a pivot in the second half of the year.

The fall in markets over the month capped the worst year of performance for major U.S. stock indices since 2008, with the NASDAQ falling 33% and the S&P 500 falling 18%.

The S&P/ASX 200 Accumulation Index returned -3.2% in December with all sectors declining. Materials (-0.9%), Utilities (-1.2%) and Consumer Staples (-1.8%) were the strongest sectors on a relative basis, while Consumer Discretionary (-7.0%), Information Technology (-5.4%) and Industrials (-4.9%) were the weakest sectors.

Portfolio performance was strong in December, driven by several positive stock-specific updates along with tailwinds from the strong performance of our short book.

**We remain cautious on the outlook for equity markets given the lagged impact of significant interest rate increases, deteriorating leading economic indicators, increasing pressure on corporate earnings into 2023 and tail risk from geopolitical tensions. We believe further negative revisions to earnings estimates are likely in the upcoming reporting season. As a result, we are maintaining our conservative portfolio positioning and have taken profits in several positions that have performed well over the past two years.**

Returns (Net) <sup>1</sup> (%)	L1 Long Short Portfolio	S&P ASX 200 AI	Out-performance
1 month	4.4	(3.2)	+7.6
3 months	18.1	9.4	+8.7
6 months	11.1	9.8	+1.3
1 year	10.7	(1.1)	+11.8
2 years p.a.	20.1	7.7	+12.4
3 years p.a.	23.2	5.5	+17.6
4 years p.a.	23.7	9.8	+14.0
LSF Since Inception p.a.	12.3	7.9	+4.4
Strategy Since Inception <sup>2</sup> p.a.	21.0	7.0	+14.0

Key contributors to portfolio performance in December included:

**Apple (Short -12%)** shares declined over the month on growing concerns over a weakening in demand for Apple's key products and in particular its flagship iPhone 14 device. Despite having a fantastic brand and loyal customer base, we believe the company has benefitted significantly from a one-off pull forward of demand through the COVID-19 lockdown period, which we expect will normalise in 2023. The lockdown period delivered a huge windfall to Apple as a combination of work/study from home conditions and government stimulus fuelled a surge in purchases of its key products. During this period, Apple also benefitted from the launch of two of its most important products (5G iPhone 12 and Apple Silicon MacBook), along with significant market share gains in China as a result of Huawei's exit from the market. This drove a doubling in net profit from a broadly flat range of US\$50-60b over FY15 to FY20 to ~US\$100b in FY22. We believe a normalisation in the above factors, coupled with tougher economic conditions, a less exciting new product line-up and input cost pressures will weigh on Apple's ability to deliver earnings growth in 2023.

**Madrigal (Long +314%)** is a U.S.-listed clinical stage biotech company. Its key asset is Resmetirom which aims to treat NASH (non-alcoholic steatohepatitis), more commonly referred to as 'fatty liver disease'. NASH is the largest disease group that has no approved treatment with an estimated 10 million sufferers in the U.S. alone.

1. All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. 2. Strategy performance and exposure history is for the L1 Long Short Fund Limited (ASX:LSF) since inception on 24 Apr 2018. Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014). NOTE: Fund returns and Australian indices are shown in A\$. Returns of U.S. indices are shown in US\$. Returns are on a total return basis unless otherwise specified.

NASH patients typically present asymptotically but many progress over time to liver cirrhosis and failure. We conducted an extensive due diligence process to evaluate the likelihood of success and risks of Resmetirom. We ultimately invested in Madrigal in 2020 as Resmetirom's Phase 2 results demonstrated strong efficacy in reversing disease with a clean safety profile. It was also the only credible Phase 3 candidate for NASH treatment.

Since we invested, the other companies ahead of Madrigal in NASH trials all failed and COVID-19 prevented new candidates from initiating Phase 3 trials which typically take three years to complete. In December, Madrigal shares surged after the company announced that Resmetirom met all its primary endpoints and beat efficacy expectations while maintaining a clean safety profile. We believe Resmetirom will be approved on these results and will become a blockbuster drug. By being first to market in a massive end market (NASH) and with a multi-year lead over future competitors, we believe Madrigal is now an ideal takeover candidate for large pharmaceutical companies.

**Sandfire Resources (Long +9%)** shares rose as copper prices continued to edge higher and with an easing of electricity prices in Spain where its MATSA operations are based. Energy costs have moderated due to a milder winter than previously expected which should support a meaningful reduction in cash costs for the company. Sandfire also completed its \$255m retail and institutional entitlement offer during the month which de-risks the company's balance sheet as it completes the development of the Motheo Copper Mine in Botswana. The company also announced a formal sale process for its De Grussa operations after receiving several unsolicited expressions of interest.

We continue to see compelling valuation upside in Sandfire with the commencement of Motheo production in FY24 set to deliver a step-change in profits and cash flow for the company. With the acquisition of OZ Minerals by BHP close to completion, we believe Sandfire will become the preferred company for investors to gain copper exposure in the Australian stock market.

**St Barbara (Long +28%)** shares rallied in December following the announcement of a merger with Genesis Minerals ('Genesis'). St Barbara and Genesis will combine their Leonora gold operations into a newly named entity, Hoover House Limited. The remaining St Barbara assets, including Atlantic and Simberi will be demerged into a separate entity to be known as Phoenician Metals.

We have previously flagged the consolidation of the Leonara gold district as a key catalyst for St Barbara. The merger has the potential to generate significant synergy benefits with announced targets of ~\$200m NPV in synergies and the elimination or deferral of \$400m in capital expenditure. The proposed new management team is highly regarded and we believe is well placed to deliver these benefits. Furthermore, the separation of the remaining mining assets in Phoenician Metals could unlock further value for shareholders through improved operational execution and its streamlined asset base increases the potential for further consolidation.

### Strategy Returns (Net)<sup>3</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>5.17</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	4.62	<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	(0.13)	0.55	2.22	<b>29.61</b>
<b>2017</b>	2.51	1.87	3.15	1.03	4.18	1.70	2.62	1.69	1.93	2.54	0.89	3.56	<b>31.40</b>
<b>2018</b>	0.56	(0.47)	(1.64)	(1.32) <sup>3</sup>	(4.05)	(5.96)	1.01	(5.34)	(2.06)	(3.90)	(2.60)	(5.95)	<b>(27.74)</b>
<b>2019</b>	4.26	5.11	0.16	3.05	(2.73)	3.87	0.63	0.40	2.54	3.46	0.36	2.06	<b>25.46</b>
<b>2020</b>	(7.75)	(6.85)	(22.93)	23.16	10.94	(2.12)	(1.69)	9.99	0.63	(2.37)	31.94	4.29	<b>29.50</b>
<b>2021</b>	(0.17)	9.00	(0.14)	5.11	4.07	(0.52)	1.75	5.10	4.86	2.32	(7.36)	3.66	<b>30.29</b>
<b>2022</b>	2.79	6.87	1.34	3.44	0.06	(13.39)	(3.34)	5.37	(7.60)	5.24	7.52	4.36	<b>10.72</b>

### Portfolio Positions

Number of total positions	89
Number of long positions	60
Number of short positions	29
Number of international positions	30

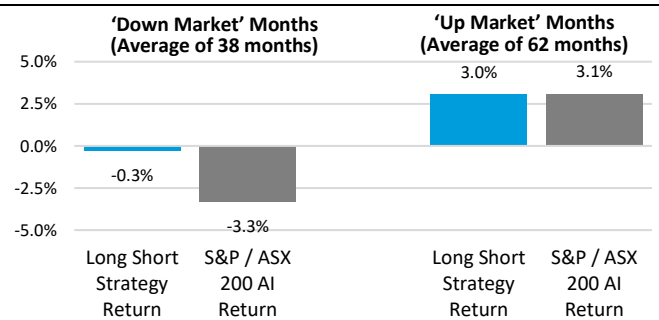
### Company information as at 31 December 2022<sup>4</sup>

Share Price	2.7700
NTA before tax	2.9656
NTA after tax	2.9224
Shares on issue	613,825,593
Company market cap	1,700,296,892

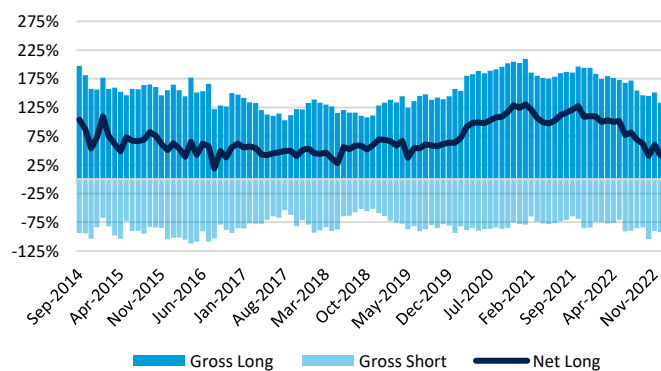
### Net & Gross Exposure by Region<sup>3</sup> (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia/NZ	79	-78	1
North America	36	-14	23
Europe	10	0	10
Asia	8	0	8
<b>Total</b>	<b>133</b>	<b>-92</b>	<b>42</b>

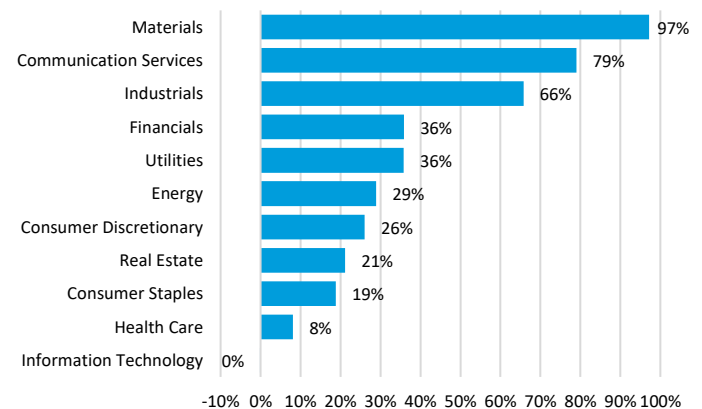
### Strategy Performance Since Inception<sup>3</sup> (Net)



### Historical Strategy Exposures<sup>3</sup>



### Sector Contribution Since Strategy Inception<sup>3</sup> (Net)



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L1 CAPITAL

# L1 Long Short Fund Limited

Monthly Report | DECEMBER 2022

## Key personnel

<b>Andrew Larke</b>	Independent Chair
<b>John Macfarlane</b>	Independent Director
<b>Harry Kingsley</b>	Independent Director
<b>Raphael Lamm</b>	Non-Independent Director
<b>Mark Landau</b>	Non-Independent Director
<b>Mark Licciardo</b>	Company Secretary
<b>Registry</b>	Link Market Services Limited
<b>Company website</b>	<a href="http://www.L1LongShort.com">www.L1LongShort.com</a>
<b>Manager website</b>	<a href="http://www.L1.com.au">www.L1.com.au</a>
<b>LinkedIn</b>	Follow us on 

## Contact us

### Head of Distribution

Chris Clayton | [cclayton@L1.com.au](mailto:cclayton@L1.com.au) | +61 3 9286 7021

### Researchers

Aman Kashyap | [akashyap@L1.com.au](mailto:akashyap@L1.com.au) | +61 477 341 403

### Advisors

Alexander Ordon | [aordon@L1.com.au](mailto:aordon@L1.com.au) | +61 413 615 224

Alejandro Espina | [aespina@L1.com.au](mailto:aespina@L1.com.au) | +61 423 111 531

### Private Clients

Edward Vine | [evine@L1.com.au](mailto:evine@L1.com.au) | +61 412 525 390

## Company Information – LSF

<b>Name</b>	L1 Long Short Fund Limited
<b>Structure</b>	Australian Listed Investment Company (ASX:LSF)
<b>Inception</b>	24 April 2018
<b>Management Fee</b>	1.44% p.a. inclusive of GST and RITC
<b>Performance Fee</b>	20.0%
<b>High Watermark</b>	Yes

## L1 Capital (Investment Manager) Overview

L1 Capital is a global investment manager with offices in Melbourne, Sydney, Miami and London. The business was established in 2007 and is owned by its senior staff, led by founders Raphael Lamm and Mark Landau. The team is committed to offering clients best of breed investment products through strategies that include long short Australian equities, international equities, activist equities, a global multi-strategy hedge fund and U.K. residential property. The firm has built a reputation for investment excellence, with all L1 Capital's strategies delivering strong returns since inception. The team remains dedicated to delivering on that strong reputation through providing market-leading performance via differentiated investment approaches with outstanding client service, transparency and integrity. L1 Capital's clients include large superannuation funds, pension funds, asset consultants, financial planning groups, family offices, high net worth individuals and retail investors.



L1 CAPITAL

Level 45, 101 Collins Street  
Melbourne VIC 3000  
Australia

[www.L1.com.au](http://www.L1.com.au)

### Information contained in this publication

L1 Long Short Fund Limited, managed by L1 Capital Pty Ltd, has been established to invest in a portfolio of predominantly Australian and New Zealand securities, with up to 30% invested in global securities. The Company has the ability to both buy and short-sell securities, which provides a flexible strategy to deal with changing stock market conditions. The objective is to deliver strong, positive, risk-adjusted returns to investors over the long term.

### Disclaimer

This communication has been prepared for L1 Long Short Fund Limited (ACN 623 418 539) by its investment manager, L1 Capital Pty Ltd (ABN 21 125 378 145 and AFS Licence 314302). L1 Capital Pty Ltd has prepared this publication in good faith in relation to the facts known to it at the time of preparation. This publication contains general financial product advice only. In preparing this information, we did not consider the investment objectives, financial situation or particular needs of any individual investor, and you should not rely on the opinions, advice, recommendations and other information contained in this publication alone. This publication has been prepared to provide you with general information only. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. We do not express any view about the accuracy or completeness of information that is not prepared by us and no liability is accepted for any errors it may contain. Past performance is not a reliable indicator of future performance.

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