L1 CAPITAL

L1 Long Short Fund Limited

Quarterly Report | DECEMBER 2021

- **The L1 Long Short Fund portfolio returned -1.7% (net)[1] for the December quarter (ASX200AI 2.1%).**
- **Over the past year, the portfolio has returned 30.3% (net)[1] (ASX200AI 17.2%) and LSF shares have delivered a total return of 43%.**
- **The portfolio has returned more than 25% (net) in each of the past 3 calendar years.**

Despite significant volatility within the quarter, global markets were generally positive overall, with corporate earnings upgrades and reduced contagion risk on the Chinese property sector from a potential default by Evergrande. These more than offset the emergence of the Omicron variant of the COVID-19 virus and more hawkish comments from the U.S. Federal Reserve ('Fed') on the tapering of bond purchases.

The ASX200 had a small gain (+2.1% over the quarter) with the strongest sectors comprising Materials (+12.7%), Utilities (+11.4%) and Property (+10.1%), while Energy (-8.8%), Information Technology (-6.1%) and Financials ex property (-2.2%) lagged.

Returns (Net)[1] (%)	L1 Long Short Portfolio	S&P ASX 200 AI	Out-performance
3 Months	-1.7	2.1	-3.8
6 Months	10.2	3.8	+6.3
1 Year	30.3	17.2	+13.1
2 Years p.a.	29.9	9.0	+20.9
3 Years p.a.	28.4	13.6	+14.8
LSF Since Inception p.a.	12.7	10.5	+2.2
Strategy Since Inception[2] p.a.	22.6	8.2	+14.4

The portfolio was impacted by our positioning in reopening beneficiaries and sectors such as travel and energy which were aggressively sold off in November due to market concerns around the spread of the Omicron variant. We were able to utilise the sell-off to add to our positions in selected stocks as well as identify several attractive new opportunities. Equity markets recovered in December as Omicron concerns moderated and investors adjusted to the more hawkish pivot from the Fed.

Over the quarter, the portfolio was marginally negative, with broad-based stock gains (16 individual stock positions contributed 0.3% or more to returns) and a recovery in reopening beneficiaries in December mitigating much of the impact of the sell-off in November.

We expect volatility to remain elevated as the market reacts to headlines and new data surrounding the Omicron variant and central bank actions. The sharp rebound in markets over 2021 has meant that we currently see less upside in equities relative to 12 months ago. However, we continue to remain constructive going forward as we believe the current environment should be well-suited to our investment approach, with bottom-up stock picking expected to become an even more important driver of returns.

L1 Capital is proud to have received several awards and recognition for the Long Short strategy:

- **Australian Alternative Investment Awards 2021**
  - **Winner:** Best Alternative Investment Manager of the Year
  - **Winner:** Best Listed Alternative Investment Product for L1 Long Short Fund Ltd (ASX:LSF)
- **Ranked in the top 20 performing hedge funds globally by HSBC for calendar year 2021[3]**
- **Best performing long short fund in Australia since its inception in 2014[4]**

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. Indices are shown on total return basis in AUD. 2 Strategy performance and exposure history is for the L1 Long Short Limited (LSF:ASX) 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). Past performance should not be taken as an indicator of future performance. 3 Based on full year Fund performance versus published universe of ranked funds as at 14 Jan 2022. 4 Ranking in FE Analytics Australian Shares universe.

2021 in Review

After one of the most volatile and challenging years of our investment careers in 2020, we had hoped for a more stable market backdrop in 2021. Unfortunately, 2021 proved to be almost as eventful with the emergence of the Delta and Omicron variants of the COVID-19 virus extending the impact of the pandemic and continuing to add unprecedented volatility to financial markets.

Given the challenging macroeconomic backdrop, as well as the continued headwind to our investment style (value and cyclicals underperformed growth stocks for the 5th consecutive year in 2021 and in 10 out of the last 11 years in Australia), we are very pleased to have delivered robust returns for our investors, with the portfolio generating a net return of 30.3% in 2021.

The Long Short Strategy has now delivered a return above 25% (net) in each of the past three calendar years.

We believe there are two primary attributes that have underpinned this performance:

- The depth and quality of company, industry and macro research carried out across the investment team; and
- The unique and flexible structure of the Long Short Strategy that enables us to enhance portfolio returns, while providing downside protection in market sell-offs.

Company, industry and macroeconomic research

Detailed, bottom-up stock research remains the investment team's primary focus and the core driver of portfolio performance. 2021 once again demonstrated the team's ability to identify 'winners' through extensive company and industry research across a diverse range of sectors. The table below provides a summary of some of the largest contributors to portfolio performance over the year, many of which were the top performing stocks in their given sectors.

The table also highlights the number of positions we have exited (refer to the gold highlighted boxes) as near-term value catalysts played out and/or the positions reached our view of fair value. This demonstrates our focus on continually refreshing and rotating the portfolio to ensure it reflects our highest conviction ideas (refer to page 8 where we further outline some of our key ideas going forward).

Figure 1: Key contributors to portfolio performance in 2021 (in alphabetical order)

Company and sector	Comment
Bed Bath & Beyond *Retail*	Shares surged after showing strong operating momentum in early 2021, along with a large buyback program and a short squeeze. Exited holding in January (around $45), near share price peak.
Cenovus Energy *Energy*	Recovering oil price leading to improved investor sentiment, consensus earnings upgrades and strong free cashflow generation.
Downer *Industrials*	Strong full year result, high cashflow conversion and sale of non-core assets delivered a P/E re-rating. Exited our holding as near-term catalysts had played out.
Entain *Gaming*	Top 3 position in the nascent U.S. sports betting market, significant growth potential in the core online business and continued takeover interest.
Imdex *Mining Technology*	Global leader in drilling technology for the mining sector. Strong earnings results (far above market estimates) and robust outlook on exploration spending and medium-term growth.
News Corp *Media*	Improving FCF profile and very strong operating trends in all divisions, especially REA, WSJ, Realtor.com and Book Publishing. Continued efforts by management to unlock shareholder value via improved disclosures, targeted M&A, portfolio and cost rationalisation and share buybacks.

NOTE: Gold boxes indicate stocks exited during the calendar year.

Company and sector	Comment
QBE *Insurance*	Delivery of its best earnings result and outlook in many years. Premium environment continues to remain very favourable. Strong profit leverage to higher interest rates given $28b investment book.
Tabcorp *Gaming*	Lotteries performance ahead of market estimates with positive growth outlook supported by game design changes and further digital penetration. Demerger of wagering business to be completed by June 2022.
Teck Resources *Resources*	Strong operating performance along with rising copper, coking coal and zinc prices. Construction of one of the world's largest copper mines (QB2) remains on track.
Telstra *Telecommunications*	Return to underlying earnings growth led by improving Mobiles segment, cost initiatives and reducing NBN headwinds. Successful sale of a 49% stake in towers portfolio, and scope for further monetisation of infrastructure assets. Exited our holding in December given reduced upside to our valuation.
Treasury Wine Estates *Consumer Disc.*	Initially invested after the over-reaction to China tariff news (duties of ~120% to 220%). Management then demonstrated an ability to reallocate their wine portfolio and adjust for the China loss over time. Position exited at a ~50% gain.
Wells Fargo *Banking*	Improving compliance and operational performance, falling bad debts and progress towards removal of 'asset cap'. Exited our holding in June at a >50% gain.

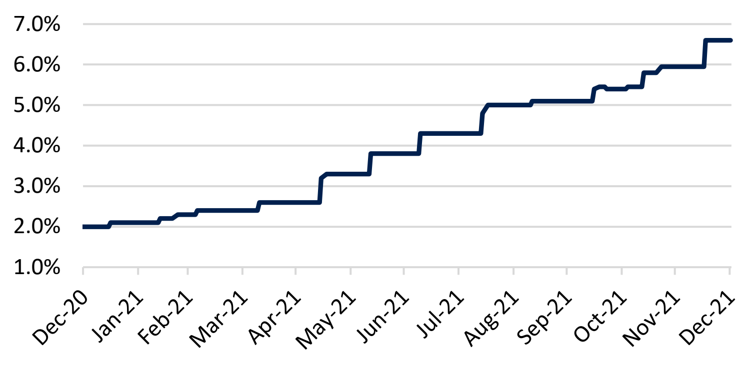
NOTE: Gold boxes indicate stocks exited during the calendar year.

From a macroeconomic research perspective our views are typically formed from hundreds of conversations the investment team conducts with management, industry and sector experts both in Australia and offshore. Over the year, there were three areas of focus (outside of direct stock-related research): inflation, vaccine/COVID-19 and the M&A wave, with these conversations proving to be instrumental in forming and refining our views.

Inflation

We first flagged our views on rising inflationary pressures in our **March 2021 Quarterly Report** after we held numerous company meetings in early 2021 across many sectors with countless anecdotes of rising input costs and supply chain difficulties. We believed there were elevated risks and higher inflation would be far bigger and more persistent than the consensus view and would overshoot relative to central bank expectations. Accordingly, we positioned the portfolio to mitigate against this risk.

Figure 2: U.S. CPI Economic Forecast – Q4 2021



Source: Bloomberg. Data as at 5 Jan 2022.

The chart below outlines the consensus estimate for U.S. CPI in Q4 2021 and illustrates how forecasts rose from ~2.5% in March/April 2021 to ~6.5% by calendar year-end as the market adjusted its view that the inflation spike was likely to be far bigger than expected. At the end of November 2021, U.S. Federal Reserve ('Fed') Chair, Jerome Powell retired the use of word 'transitory' to describe the inflation outlook and acknowledged that the 'risk of higher inflation has increased'.

The Fed pivoted to a much more hawkish tone over the quarter, with a tapering of its bond-buying program announced in November and a further acceleration in December in response to an exceptionally tight labour market and higher inflation risks.

As we enter a central bank tightening cycle that may see the first U.S. rate hike in March and potentially three or four rate hikes across 2022, we continue to believe that short duration (value/cyclical) stocks remain better placed than long duration (growth/defensive) stocks given that backdrop. Furthermore, we continue to maintain our positions in energy, gold and commodities which have tended to outperform in a higher inflation environment. These sectors remain under-owned and are still trading 'cheap' versus the broader market.

Vaccine recovery

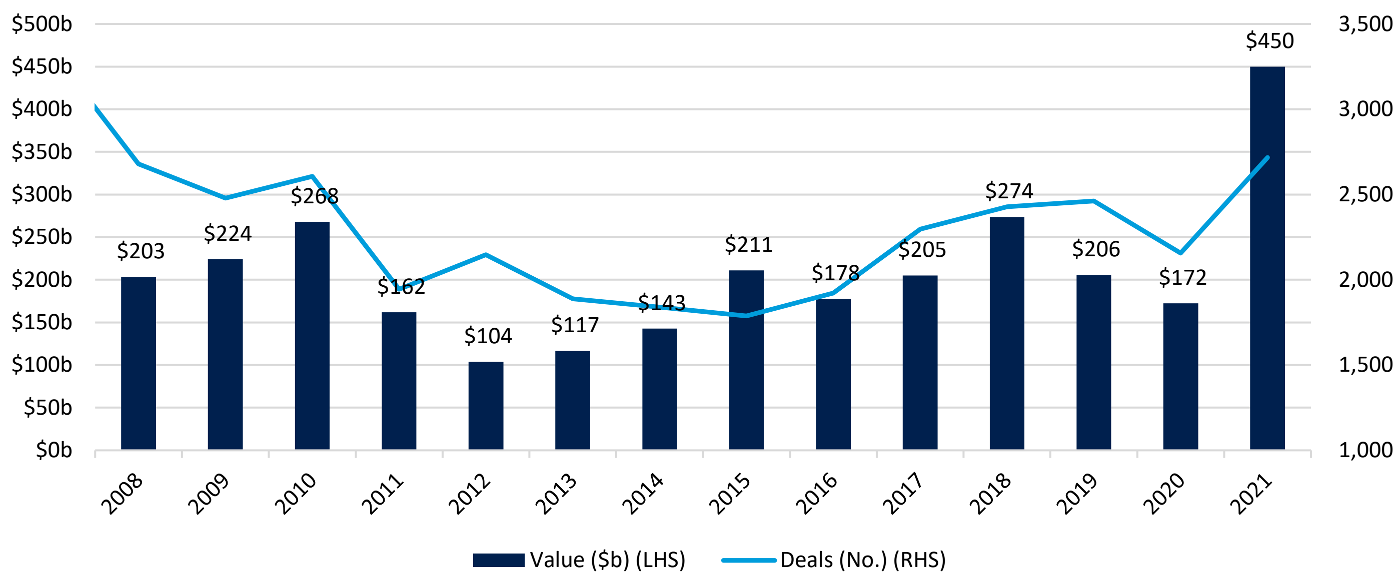
From a vaccine perspective, despite the emergence of the Delta and Omicron variants over the year, our research continues to give us confidence that the reopening story remains on track and is not fully factored into market expectations. With the recent emergence of the Omicron variant, we conducted numerous calls with doctors and medical experts to determine the impact the variant may have. Our research indicates that while the Omicron variant is more contagious, it is much less likely to cause severe illness or death. Existing vaccines have also been shown to provide strong protection from severe illness with booster doses further enhancing protection. An additional factor we believe is a 'game-changer' in the fight against COVID-19 is the encouraging data from antiviral treatments such as Paxlovid from Pfizer. Paxlovid has been shown to deliver an 88% reduction in COVID-19 related hospitalisation or death in trials of unvaccinated COVID-19 patients when taken within five days of the first symptoms of illness. The treatment should remain effective against the Omicron variant and received FDA approval in late December with Pfizer planning to produce 120 million courses by year end.

M&A wave

We first spoke about our bullish views on the M&A cycle in our **December 2020 Quarterly Report** where we thought we were on the cusp of a major M&A cycle not seen since 2007. Our anecdotal feedback from conversations with investment bankers, private equity investors and M&A lawyers strongly supported this view with consistent feedback of deal pipelines being at record levels. As illustrated in the chart below, 2021 turned out to be a banner year for Australian M&A and exceeded even our bullish expectations with $450b worth of deals announced over the year, compared with a 10-year average of $206b. With takeover offers (or merger proposals) for Z Energy, Oil Search and Link, the Strategy was a beneficiary of the M&A backdrop given our skew to undervalued companies that have strategic appeal.

We expect this robust environment to continue in 2022 with our market feedback continuing to indicate a very robust environment for deal making supported by improved corporate confidence, cheap debt and equity funding, and a supportive economic backdrop.

Figure 3: Announced M&A activity involving an Australian Company



Source: MST Marquee as at 31 Dec 2021.

Built in flexibility of the Long Short Strategy

In addition to the detailed stock and macro research outlined above, another key factor we believe has enhanced performance is the unique and flexible structure of the Long Short Strategy relative to many other funds.

There are three enduring advantages of the Strategy that have enabled us to deliver strong returns to investors over time. We are able to:

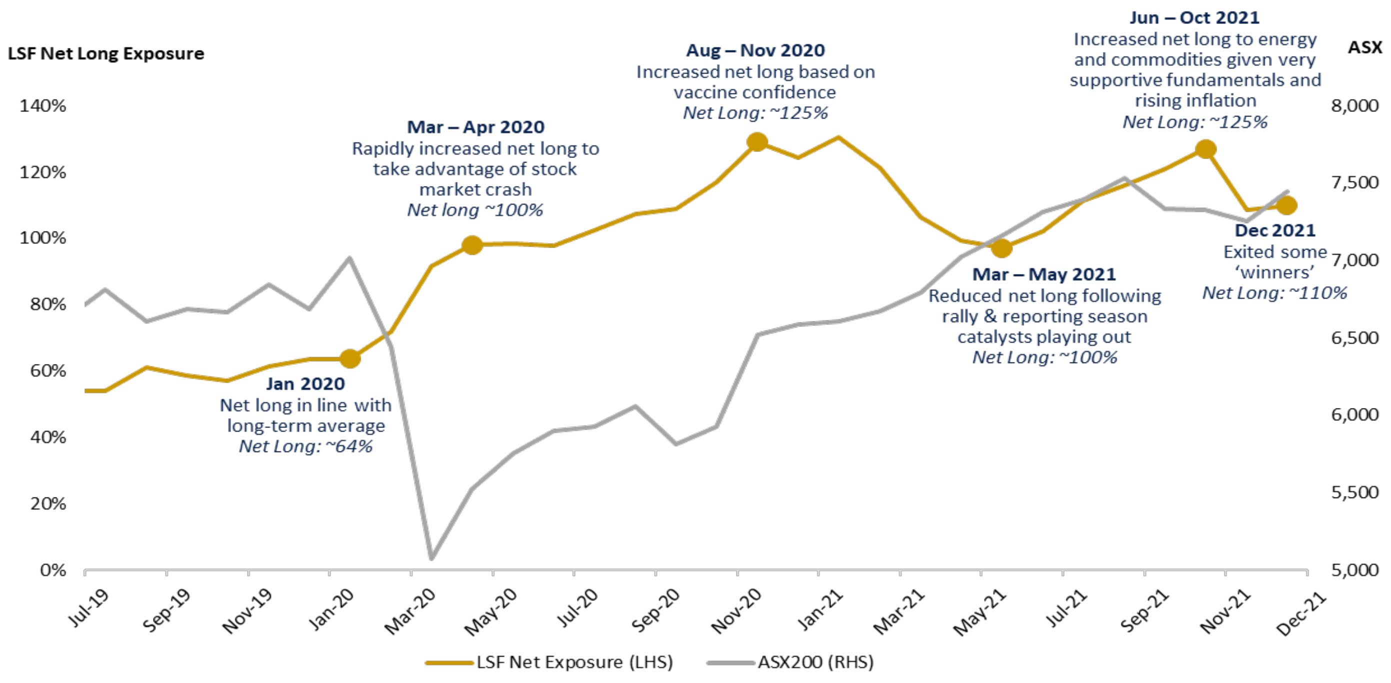
- **Adjust market exposure** – flexibility to adjust our net long to reflect the prevailing risk-reward of the market.
- **Short stocks** – ability to generate returns from both rising and falling share prices (and protect against the downside when markets are falling).
- **Invest globally** – access to a broader set of opportunities outside of Australia to best leverage our research insights.

Market exposure

Figure 4 below outlines the movement in our net long exposure relative to the movement in the ASX 200 index and demonstrates how this flexibility positively contributed to portfolio returns. We typically adjust our net long exposure to capitalise on market dislocations and periods where we see an asymmetric risk/reward profile. With the market crash in March 2020, we significantly stepped up our net long exposure to capitalise on what we saw as a 'once in decade' investment opportunity. We steadily increased this exposure through 2020 as we gained greater confidence on positive vaccine news and improvement in corporate earnings towards the end of the year.

In 2021, we increased our weighting in energy and commodities to provide further insulation to rising inflation risks. We maintained our net exposure above the long-term average with corporate earnings expected to surprise to the upside and further market tailwinds from massive monetary and fiscal stimulus, rising M&A activity and continued economic reopening. With the positive performance over the year, we exited several 'winners' and trimmed our net long exposure in December. Our net long exposure remains higher than its historical average as we continue to have a constructive outlook on markets – valuations of equities remain very compelling compared to bonds, M&A activity is likely to remain robust and 'reopening stocks' should gradually recover back towards their pre-COVID levels.

Figure 4: LSF Net Long Exposure vs ASX 200



Source: L1 Capital. Index is shown on total return basis in AUD.

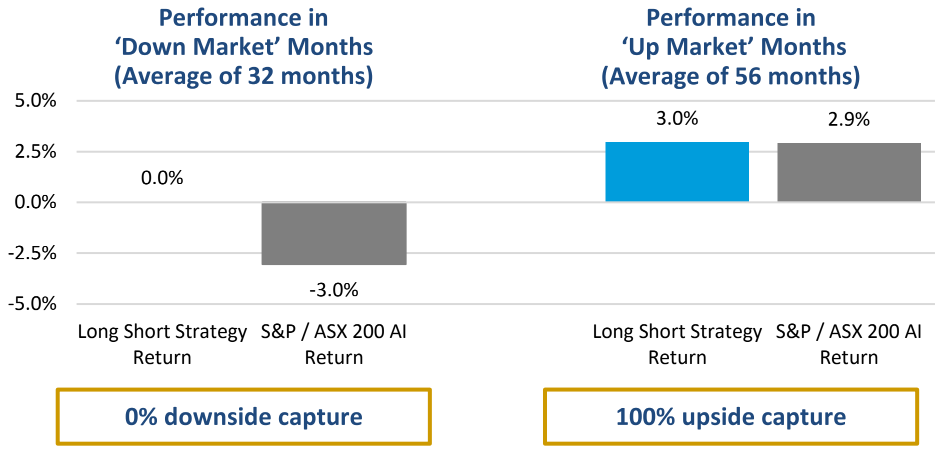
Shorting

The last few years have been arguably the most difficult market for shorting in the past decade with the market rallying strongly, share prices being dominated by themes and momentum rather than valuation and the growth of speculative retail traders causing extreme prices moves and numerous short squeezes. Despite this backdrop, the portfolio has been able to generate strong performance from its short book. We believe we would be one of few hedge funds to have delivered a positive return from shorting in recent times.

This performance has been underpinned by careful stock picking and exiting several short positions near the market lows. Top contributing shorts in recent years include AGL Energy (shares fell 57% during the time were short between April 2019 and June 2021), Peloton (fell 55% between August and November 2021) and Williams Sonoma (down 19% between November and December 2021).

Both stock and index shorts also play a fundamental role in protecting against the downside during market sell-offs. While we will not fully protect the downside in every single down month, nor will we fully capture the upside in every single up month, Figure 5 demonstrates that on average since inception, the portfolio has a record of 0% downside capture in falling markets and ~100% upside capture in rising markets.

Figure 5: Strong performance in both rising and falling markets



Source: L1 Capital. All figures are net returns as at 30 Nov 2021. Indices are shown on total return basis in AUD. Based on portfolio exposures of the L1 Capital Long Short Fund – Monthly Class (inception 1 Sep 2014). Past performance should not be taken as an indicator of future performance.

International equities

The ability to invest offshore allows us the flexibility to capitalise on key research insights by buying (or shorting) the most compelling opportunities globally and avoiding the limitations of a narrower domestic investment universe. We are often able to find international equities trading at a significant discount to their ASX counterparts, which offer exposure to a similar sector theme (e.g. Teck for copper exposure, Entain for online gaming exposure and Cenovus Energy for oil exposure). In many instances, the detailed research carried out on international peers also provides the team with a more holistic industry view and helps better inform our domestic stock selection. In aggregate, our international stocks have delivered more than half of portfolio performance over the past year.

In summary, we believe the depth of research of the investment team together with the unique structure of the Long Short Strategy is a powerful combination that has underpinned strong returns for the Strategy and should continue to drive long-term performance for investors going forward.

Key Stock Contributors for the Quarter

Imdex (Long +27%) shares rallied after its AGM update where the company disclosed Q1 revenue which was well above market estimates and provided a robust outlook on exploration spending and medium-term growth. Imdex is the global leader in exploration drilling technology for the mining sector, with 80% of the business exposed to gold, copper and iron ore. The company has spent significantly on R&D over the past five years (fully expensed through its P&L) and is now in the early stages of launching the industry's best suite of new and improved products. We expect earnings growth of more than 20% p.a. for many years to come. Despite the strong share price rally, we believe Imdex remains undervalued, trading on only ~10.3x consensus FY23 EV/EBITDA. Finally, we believe Imdex's secure, cloud-based portal for providing access to validated field data (IMDEXHUB-IQ), will become a major contributor to client retention, will increase product penetration per site and is being quickly adopted across the client base.

Mineral Resources (Long +25%) shares rallied strongly in December, driven by a recovery in iron ore prices and continued increases in lithium prices. We believe all key areas of the business (iron ore, lithium and mining services) have favourable medium-term tailwinds. In particular, the company expects to increase its iron ore production from around 20mt p.a. to over 80mt p.a. in the coming years and is in the process of restarting Wodgina (one of the top three largest hard-rock lithium mines in the world) at a time when the lithium market is exceptionally tight. We believe Mineral Resources is a very compelling investment, offering a rare combination of attractive valuation, high quality management, supportive industry tailwinds, strong long-term earnings growth and a rock-solid balance sheet. Refer to page 9 where we have included an overview of our Mineral Resources investment thesis.

Peloton (Short -59%) shares collapsed in November after announcing a large reduction in its June FY22 revenue guidance as part of its first quarter trading update. This was the second consecutive downgrade after the company's below-consensus update with its FY21 results. Peloton is a connected exercise equipment manufacturer with a cult following in the U.S. The company has been a significant COVID-19 beneficiary with stay-at-home orders dramatically increasing the demand for at-home exercise bikes. We began shorting the company in August 2021 (before the above-mentioned downgrades), when it was trading at ~US$110-120. Our view was that the U.S. was poised to reopen and interest in at-home fitness was diminishing. We saw competitors aggressively enter the market with new offerings at the same time as Peloton's new treadmill product was marred by significant product issues. We also thought Peloton's aggressive revenue recognition policies would exacerbate a potential demand slowdown, with small changes in subscriptions having a large impact on upfront revenue and profit generation. The softer demand outlook played out as we expected and the stock price collapsed, which enabled us to cover our short around US$52 per share.

Link (Long +27%) rallied after it signed a binding Scheme Implementation Deed with Dye and Durham at ~$5.50 per share. Link is an outsourced administrative services provider primarily to super funds, asset managers and trustees. Link also holds a 44% interest in PEXA, the primary provider of digital property settlements in Australia. The binding offer excludes the Banking and Credit Management ('BCM') business that Link is currently exploring a sale for and could result in an additional $0.15 per share in proceeds. The offer represents a premium of 27.7% to the unaffected share price and a ~31.2% premium including the potential BCM proceeds and proposed interim dividend declaration. We invested in Link in the first quarter of 2021 as we thought the business was materially undervalued and had a high likelihood of being taken over given the history of both strategic and private equity interest. Whilst the strategic interest has subsequently eventuated, we believe there is potential for further upside from a counter-bid as Link was in an active diligence process with the Carlyle Group at the same time as the Dye and Durham bid was formalised and has received prior non-binding offers from other private equity companies.

Key Stock Detractors for the Quarter

Qantas (Long -12%) pulled back during the quarter due to concerns around the spread of the Omicron variant. While this is likely to delay the recovery in international travel, we believe the outlook for domestic travel continues to look solid. We believe the severe impact of the pandemic will prove to be a one-off and consumers will learn to live with COVID-19. We believe Qantas will re-emerge from the pandemic even stronger than before, given its $1b cost out program, improved market position and the massive pent-up demand for leisure travel. We have long viewed Qantas as one of the world's highest quality airlines, with its dominant industry position, high-growth loyalty (frequent flyer) division and outstanding management team.

Flutter (Long -20%) shares fell due to a combination of concerns around the impact of the upcoming U.K. gambling regulatory review and intense competition in the U.S. sports betting and gaming market. The review of the U.K. Gambling Act was initiated in 2019 and has been delayed on several occasions with the proposals for reform now expected to be released in Q1 2022. We already factor in a significant earnings hit into our base case estimates for potential regulatory changes and expect that clarity on the outcome will remove a key overhang on the stock.

On the U.S. sports betting and gaming side, there were numerous comments across the industry on the ramp up in competitive intensity and increase in acquisition costs for customers over the key NFL season. Flutter's U.S. operations, comprising FanDuel and FOX Bet, are set to generate ~50% more revenue in FY21 than its nearest competitor but at half the estimated EBITDA losses (Flutter incurs temporary losses due to ramp up investment in newly opened states). As part of its FY21 results, the company outlined a blended U.S. customer acquisition cost ('CAC') of ~US$291 per customer and a payback period of 1.2x by the end of year 1. This gives us confidence that despite strong competition, Flutter remains best-placed to achieve profitability ahead of competitors and will continue to consolidate its leading position in the U.S. sports betting market. Trading on only 22x consensus FY23 P/E, we have confidence that Flutter remains significantly undervalued given the decade of strong growth the company has ahead of it. We have used the recent pull-back to add to our position.

Star Entertainment (Long -18%) sold off in October after negative media coverage on anti-money laundering (AML) controls. The negative media coverage complicated a scheduled license review for the Sydney Casino that was due to conclude by year-end and will now extend to June 2022. We viewed the market reaction as excessive and used the share price fall as an opportunity to add to our position. Star had delivered a robust FY21 result with good cost control and exceptional performance from the Queensland gaming assets. Star also announced it is exploring the sale of up to 49% of its Sydney property portfolio, which has the potential to release significant capital, and had completed a sale and leaseback of its Treasury Buildings and Car Park for $248m at an attractive capitalisation rate. We continue to believe the scarcity value of its casino licenses and the transformative impact of the Queen's Wharf development in Brisbane are not fully appreciated at the current valuation. While the market is very focused on the short-term risks around COVID-19 disruption and the Star Sydney license review, we believe the medium-term outlook for the company looks very attractive.

Aurizon (Long -8%) shares fell in October after announcing the purchase of One Rail Australia for $2.3b. Aurizon is Australia's largest rail freight operator, with its main asset comprising the 2,670km Central Queensland Coal Network. We initially invested in Aurizon as we were attracted to its dominant rail infrastructure assets, conservative capital structure and strong dividend yield of ~7.5%. We were disappointed by the acquisition, given it reduces the company's dividend for the next 1-2 years, uses up the company's balance sheet capacity, was agreed at a premium multiple to comparable transactions and introduces substantial deal risk, with the requirement to divest the coal division (which comprises two thirds of the acquired asset base). We exited Aurizon during the quarter.

Outlook: Market returns likely to moderate. Alpha will become increasingly important.

2021 has been a very positive year for markets both in Australia and offshore, with the ASX 200 returning 17.2% over the year (well above the ~30 year average return of ~11%) and the S&P500 and Dow Jones returning 29% and 21%, respectively, both ending close to all-time highs. Over the last decade, the continued decline in interest rates and the significant easing in fiscal and monetary policy have supported a bull market that has 'front-loaded' returns and catapulted gains in growth stocks, bonds and property. This has also resulted in a 'melt-up' in equity indices, which has supported passive/index investment performance.

We believe these market tailwinds peaked in 2021 with interest rates now near zero in most developed economies and extreme fiscal and monetary stimulus starting to moderate.

While our outlook for markets remains constructive in the near term, we expect index returns to moderate over the next few years as we enter a central bank tightening cycle. Accordingly, we think bottom-up stock picking will become an even more important driver of returns going forward making our in-depth, company research a key advantage. When paired with the portfolio's ability to use that stock-selection on both the long and the short sides, as well as its access to international exposure, we believe we are well-positioned to capture opportunities against this market backdrop.

We remain very positive about the medium-term outlook for the portfolio and continue to identify exciting stock opportunities given the extreme stock dispersion across the market.

Company deep dive | Mineral Resources

Mineral Resources (ASX:MIN) is a diversified mining services company that generated $3.7b revenue and $1.9b EBITDA in FY21. Mineral Resources has three key divisions operating primarily out of Western Australia:

1. **Mining services** – Operates crushing and processing plants on behalf of external and company-owned mines.
2. **Iron ore** – The iron ore business today is small and high-cost but is in transition to becoming a low-cost producer.
3. **Lithium** – Has economic interests in two lithium mines and a lithium hydroxide processing facility, making it one of the world's top five lithium producers.

Figure 14: Mineral Resources (ASX:MIN)

Market cap as at 31 Dec 2021	$10.6b
FY21 Net cash	$280m
FY22F Enterprise Value (EV)	$10.3b
FY22F EBITDA	$1.1b
FY22F EV/ EBITDA	9.4x

Based on consensus estimates. Company financial year-end is 30 June.

Figure 15: FY22F Revenue

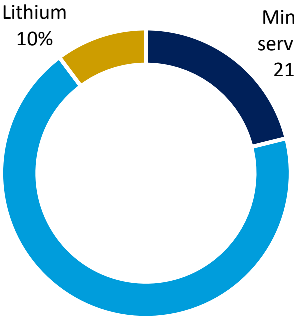
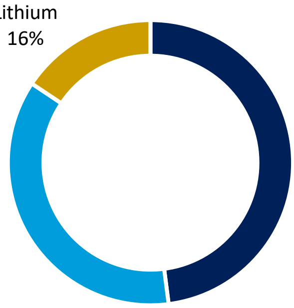


Figure 16: FY22F EBITDA (operating)



Source: Company reports (30 Jun 21 financial year end) and L1 Capital.

Summary investment case

We believe all key areas of the Mineral Resources business have favourable medium-term tailwinds. We see mining services volumes increasing from circa 250 million tonnes in FY21 through external project wins and the build and servicing of its Ashburton mine. In addition, the company expects to increase its iron ore production from around 20mt p.a. to over 80mt p.a. in the coming years. The ~$2.5b development at Ashburton will also transition the iron ore division to a lower cost, higher volume iron ore miner. The company's lithium operations are very high quality, with low-cost, long-life assets and strong joint venture partners. It is also in the process of restarting Wodgina (one of the top three largest hard-rock lithium mines in the world) at a time when the lithium market is exceptionally tight, given high demand from the growing electric vehicle market and from applications such as energy storage systems.

We believe Mineral Resources is a highly compelling investment with strong upside potential in each of its key divisions, supportive industry tailwinds and a strong and experienced CEO in Chris Ellison, leading the execution. Chris Ellison has an exceptional track record of delivering returns from prior growth projects and with an 11% shareholding in the company remains well-aligned with shareholders.

Segment overview

Mining services (21% of FY22F revenue and 48% of FY22F EBITDA)

The mining services segment is responsible for operating 26 crushing and processing plants for both external and company-owned mines. It has long-term contracts with external blue chip mining companies and also services its own internal projects resulting in an annuity-style revenue stream that underpins group profitability. The two key businesses within this segment are CSI Mining Services and Process Minerals International (PMI), which provide open pit mining, crushing, processing, supply chain services, marketing and shipping, port operations and site services. Approximately 75% of revenue is generated from contracts with a tenure of over five years with further growth from a strong pipeline of new contracts over the next few years, including its own Ashburton iron ore mine operation. The mining services operation has relatively high barriers to entry with its high quality, sticky customer base and its leading crushing technology and operational know-how.

Iron ore (69% of FY22F Revenue and 36% of FY22F EBITDA)

The iron ore segment consists of two 100% owned projects – Koolyanobbing and Iron Valley/Wonmunna – and a development at Ashburton, all located in Western Australia. In addition, we await further information from the company on its proposed Southwest Creek project. The operations at present are small and high-cost, shipping circa 17 million tonnes in FY21 at an average cost of A$81 per tonne and A$99 per tonne, respectively. Despite this, given favourable iron ore prices in FY21 (reaching over $200 per tonne), the iron ore segment generated $1.5b EBITDA. Going forward, through the $2.5b development at Ashburton, the operations will transition to a lower cost, higher volume iron ore miner. Ashburton is expected to be significantly lower cost (between A$30-35 cost per tonne) and will increase iron ore volumes by circa 1.7x (an incremental 30 million tonnes p.a.). The completion of Ashburton will also help provide additional volumes to Mineral Resources' mining services segment. Management's guidance has been that the development of Ashburton will be completed by 2024. In terms of risks, Mineral Resources needs to finalise project and Joint Venture contractual terms and gain outstanding regulatory approvals to formally approve the project. We will also continue to be mindful of potential cost over-runs at Ashburton and of changes to the iron ore price outlook.

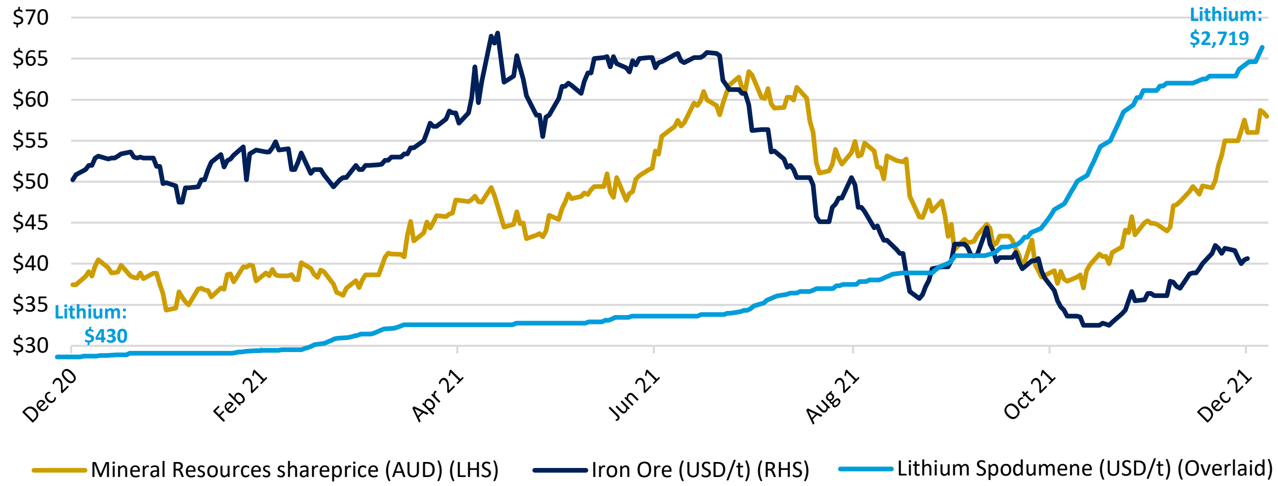
Lithium (10% of FY22F Revenue and 16% of FY22F EBITDA)

Mineral Resources' economic interests are spread across Western Australia through two lithium mines, Wodgina (40% interest – Albermarle JV) and Mt Marion (50% interest – Ganfeng JV), as well as a lithium hydroxide processing facility at Kemerton (40% interest). Together, these will make Mineral Resources' one of the top five lithium producers in the world. Going forward, we believe Mineral Resources' lithium segment is very high quality, with low-cost, long-life assets and strong joint venture partners. As illustrated in Figure 17, starting in early 2021 lithium prices have surged driven by very high demand with the growing electric vehicle market and increasing usage in applications such as energy storage systems. We believe there is opportunity for Mineral Resources' lithium segment to continue to re-rate as it restarts its Wodgina mine (scheduled to happen by 30 September 2022), Kemerton starts operations and the company provides greater clarity on further downstream hydroxide processing capacity.

Summary

Our investment in Mineral Resources is an example of how our commitment to detailed analysis and staying the course when the fundamentals (management team, industry structure, operating trends and balance sheet) are all strong, has benefited investors. In 2018, we held a large investment in Mineral Resources when the shares fell from ~$22 to ~$13 and maintained our conviction to benefit as the stock recovered to around $17 in 2019. Again, in the October 2021 sell-off, where the shares fell to $38, we added to our holding, with the shares subsequently surging to over $60 as of early January 2022.

Figure 17: Mineral Resources share price vs. iron ore and lithium prices



Source: Bloomberg, Morgan Stanley and L1 Capital as at 31 Dec 2021. Shareprice returns are shown on total return basis. Iron ore data is for iron ore fines 62% in USD/t. Lithium spodumene data is Spodumene 6% (ex. VAT) - China (US$/t).

L1 CAPITAL

L1 Long Short Fund Limited

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Strategy Returns (Net)[5] (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	-	-	-	-	-	-	-	-	(2.42)	3.03	2.85	1.61	**5.17**
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.62	**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)	(1.32)[5]	(4.05)	(5.96)	1.01	(5.34)	(2.06)	(3.90)	(2.60)	(5.95)	**(27.74)**
2019	4.26	5.11	0.16	3.05	(2.73)	3.87	0.63	0.40	2.54	3.46	0.36	2.06	**25.46**
2020	(7.75)	(6.85)	(22.93)	23.16	10.94	(2.12)	(1.69)	9.99	0.63	(2.37)	31.94	4.29	**29.50**
2021	(0.17)	9.00	(0.14)	5.11	4.07	(0.52)	1.75	5.10	4.86	2.32	(7.36)	3.66	**30.29**

Portfolio Positions

Number of total positions	85
Number of long positions	70
Number of short positions	15
Number of international positions	31

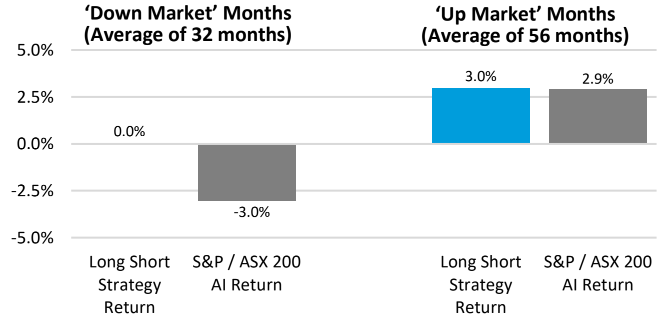
Share Price & NTA per share as at 31 December 2021[6]

Share Price	$2.74
NTA before tax	$2.97
NTA after tax	$2.78

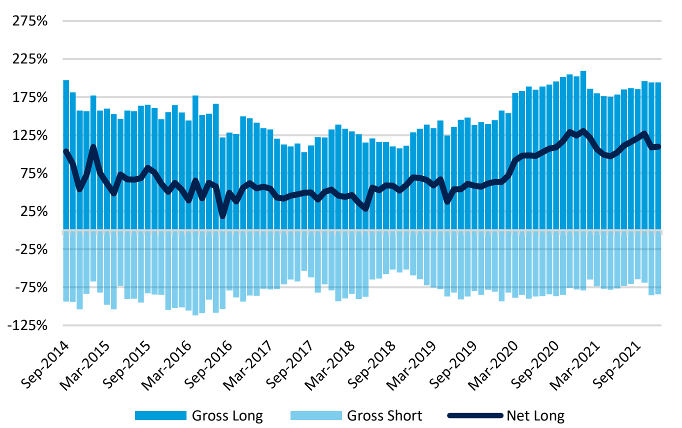
Net & Gross Exposure by Region[5] (%)

Geography	Gross Long	Gross Short	Net Exposure
Australia / NZ	122	74	48
North America	42	8	34
Europe	24	3	21
Asia	7	0	7
Total	**195**	**84**	**110**

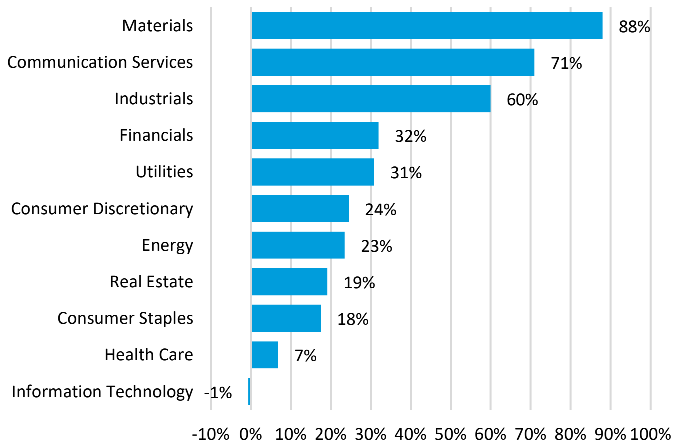
Strategy Performance Since Inception[5] (Net)



Historical Strategy Exposures[5]



Sector Contribution Since Strategy Inception[5] (Net)



5 All performance numbers are quoted net of fees. Net returns are calculated based on the movement of the underlying investment portfolio. Indices are shown on total return basis in AUD. Figures may not sum exactly due to rounding. Past performance should not be taken as an indicator of future performance. Strategy performance and exposure history is for the L1 Long Short Fund Limited (ASX:LSF) since inception on 24 Apr 2018. Prior to this date, data is that of the L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014). 6 The NTA before tax is calculated before the provision for deferred tax on unrealised gains and losses on the investment portfolio. The NTA after tax is calculated after all taxes.

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Investment Guidelines

Geographic exposures	Max 30% gross outside of Aust/NZ
Net exposure limits	Max 150% of NAV; typically 30-100%
Gross exposure limits	Max 300% of NAV; typically 150-300%
Typical no. of positions	50-100 securities

Board of Directors

Andrew Larke	Independent Chair
John Macfarlane	Independent Director
Harry Kingsley	Independent Director
Raphael Lamm	Non-Independent Director
Mark Landau	Non-Independent Director

Key Contacts

Company Secretary Mark Licciardo

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L1 Capital (Investment Manager) Overview

L1 Capital is a global investment manager with offices in Melbourne, Sydney, New York, Miami and London. The business was established in 2007 and is 100% 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 only Australian equities, long short 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 versus both benchmarks and peers. 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.

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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. Indices in this document are shown on total return basis in AUD unless otherwise noted.