



L1 Long Short Fund Limited

(ASX Code: LSF)

Key Details

ASX code	LSF
Share price	\$1.40
Market capitalisation	\$934.1m
Shares on issue	664,839,144
Listing date	24 April 2018

Net Tangible Assets Per Share (as at 28 June 2019)

NTA pre-tax	\$1.6773
NTA post-tax	\$1.7771

Source: Link Fund Solutions. The NTA pre-tax is calculated before the provision for deferred tax on unrealised gains and losses on the investment portfolio. The NTA post-tax is calculated after all taxes.

Commentary

The L1 Long Short Fund strategy returned 3.8% in June. For the calendar year to date, the Fund has returned 14.3%.

Global stock markets recovered after a major sell-off in May. The ASX200 rose 3.5%, with Materials (+6.3%), Industrials (+5.3%) and Property Trusts (+4.2%) the strongest performers. The Australian stock market continues to be led higher by yield stocks (benefitting from the sudden drop in bond yields), iron ore (Vale's production issues) and growth stocks (lower discount rates leading to higher P/Es). Considering the Fund has had a modest net long and has not benefitted from any of these trends, we are pleased to have returned 14.3% so far this year. Some of the Fund's best performers in June were:

News Corporation (long) rallied 14% after announcing an intention "to simplify the company's structure and enhance shareholder value", with an initial step of potentially selling one of its non-core assets. NWS shares are extremely undervalued and we would like to see the board consider a spin out of the digital real estate assets (REA, Move) and/or WSJ, which would go a long way to highlighting the inherent value in the company.

Worley (long) rose 12% after management increased cost synergies from their recent Jacobs ECR acquisition from \$130m to \$150m and signalled optimism about the revenue opportunities emerging from their combined capabilities. We believe consensus earnings expectations over the next few years remain too low. Worley has an exciting outlook, given it is a global leader in a growing industry, with a well-regarded and focused management team. It currently trades at a P/E of only 12x (FY21), which is a sizeable discount to the market and its historical average.

Tempur Sealy (long) is the world's largest bedding company (NYSE listed 'TPX'). TPX is set to win considerable global market share after investing heavily in R&D, rolling out its own retail store footprint and dramatically improving its distribution strategy with 3rd party retailers. We believe the market is underestimating the tailwinds for TPX, given the prospect of large market share gains, rising product prices, easing input cost pressures and a huge increase in its retail footprint globally. Despite rallying 15% in June, the shares remain very undervalued, trading on a P/E of only 14.5x (FY20) with the potential for buybacks to commence in 6-12 months.

While the stock market appears fully valued, we believe it should continue to find support, given investors are struggling to find attractive alternate asset classes to invest in. Furthermore, we expect M&A activity to continue rising, given slowing organic corporate profit growth, low interest rates and vast firepower yet to be deployed by private equity.

Overview and Investment Philosophy

L1 Long Short Fund Limited 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. The portfolio is managed by L1 Capital Pty Ltd, which has established a reputation for offering clients best of breed investment products. L1 Capital manages money for a range of clients including large superannuation funds, endowment funds, financial planning groups, asset consultants, family offices, high net worth individuals and retail investors.

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Portfolio Exposures (month end)

Number of positions	88
Number of long positions	53
Number of short positions	35
Gross long exposure (%)	138%
Gross short exposure (%)	82%
Gross exposure (%)	220%
Net exposure (%)	55%

Investment Guidelines

Typical number of positions	50-100 securities
Geographic exposures	Max 30% gross outside of Aust/NZ
Net exposure limits	Max 150% of NAV; typically 30-90%
Gross exposure limits	Max 300% of NAV; typically 150%-300%

Net Performance

One month	3.8%
Three months	4.1%
Calendar year to date	14.3%
One Year	(5.8%)
Total return since inception	(16.1%)

Source: Link Fund Solutions. Net performance is defined as the movement in NTA pre-tax. Performance is shown after all applicable fees and charges.

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

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