



L1 Long Short Fund Limited

(ASX Code: LSF)

Key Details

ASX code	LSF
Share price	\$1.42
Market capitalisation	\$944m
Shares on issue	664,839,144
Listing date	24 April 2018

Net Tangible Assets Per Share (as at 30 August 2019)

NTA pre-tax	\$1.6950
NTA post-tax	\$1.7921

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 0.4% in August. For the calendar year to date, the Fund has returned 15.5%.

The Fund returned 0.4% in August, despite falls in the ASX200AI (-2.4%), along with all major stock markets globally (S&P500 -1.8%, NASDAQ -2.6%, Eurostoxx -1.3%, FTSE -5.0%, Nikkei -3.8% and Hang Seng -7.4%). Across the ASX, most sectors fell with Resources (-7.5%), Materials (-7.5%), Energy (-5.6%) and Communications (-3.1%) the hardest hit.

Qantas (long) delivered a strong profit result, with excellent free cash flow generation and the announcement of an off-market buyback. Qantas is performing considerably better than Virgin, due to the superiority of its product offering, network and loyalty program.

News Corp (long) continued to perform well given the rally in REA shares (NWS owns 61.6% of REA) along with management reiterating that it remains "acutely focused on simplifying the structure... (and achieving) full value for the sum of our parts".

Downer (long) delivered a strong profit result (+15%) and guided to 7% profit growth in FY20. Downer trades on a P/E of 13x with above market earnings growth and a focused management team. The likely sale of its mining services business should act as a positive catalyst.

Canopy Growth (short) fell 27% in August as the market become concerned about weak cannabis sales, large ongoing losses and the risk of a looming industry oversupply. In 2018, the Fund suffered from Canopy shares rallying strongly on the excessive hype in the sector.

Boral (long) – The Fund significantly reduced its long position in Boral around \$5.50 given a deteriorating Australian housing outlook and also added portfolio hedges via a short position in a domestic housing stock (which also protected the portfolio). After Boral's post-result sell-off, the Fund increased its position around \$4.30. Boral trades on 12x P/E at a cyclical low point in the Australian housing cycle.

Key detractors in August were **Worley**, **Chorus** and **Mineral Resources**. Each of these stocks are trading far below our assessment of fair value and we remain positive on their outlook.

Pleasingly, the Fund has delivered positive returns in 7 of 8 months during 2019. The portfolio remains conservatively positioned, with a 60% net long and a diversified exposure by stock, sector and geography.

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	87
Number of long positions	54
Number of short positions	33
Gross long exposure (%)	150%
Gross short exposure (%)	87%
Gross exposure (%)	237%
Net exposure (%)	62%

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	0.4%
Three months	4.9%
Calendar year to date	15.5%
One Year	(0.5%)
Total return since inception	(15.3%)

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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