



Key Details

ASX code	LSF
Share price	\$1.28
Market capitalisation	\$826m
Shares on issue	645,098,364
Listing date	24 April 2018

The L1 Long Short Fund returned -1.7% in July (ASX200AI 0.5%).

After a strong June quarter, the Fund retreated modestly as investors focused on the COVID-19 case numbers in Victoria and potential policy responses.

The Fund continues to be well positioned to benefit from a recovery in many oversold stocks over the coming year.

A detailed presentation on LSF was lodged with the ASX on July 27. This presentation and a recorded investor conference call can be accessed by [clicking here](#).

Global markets were mixed in July (S&P500 5.6%, FTSE100 -4.2%, Nikkei -2.6%) as participants balanced the varying responses to lockdown restrictions in Europe and the U.S., while domestically the resurgence of COVID-19 cases in Victoria impacted markets. The ASX200 Accumulation Index gained 0.5%, underperforming the MSCI World Developed Markets Index (+3.4%). The best performing sectors in Australia were Materials (+5.8%), Information Technology (+4.6%) and Communication Services (+3.4%) while Energy (-6.6%), Healthcare (-3.9%) and Industrials (-3.9%) lagged.

While the Victorian outbreak is concerning, it has not changed our medium-term view on the timing and likelihood of a safe and effective vaccine. We continue to expect that by year end, we will have a safe and effective vaccine that can be produced and supplied at scale in 2021. We believe the first vaccines will be available for Emergency Use Authorisation from October-December of this year. Please refer to our July Investor Presentation [[click here to open](#)] and June Quarterly Report [[click here to open](#)] for further detail on our views on COVID-19 and portfolio positioning.

Some of the key contributors to Fund performance in July were:

ALS Limited (long +25%) provides analytical testing services across the commodities, life sciences and industrial segments. ALS shares rose strongly as the company provided a positive update at its AGM, noting that revenue for the June quarter was down only -10% and margins had remained in line with the prior period. ALS has managed the COVID-19 disruption extremely well, with its life sciences business demonstrating resilience and significant cost cutting measures allowing the company to maintain margins. We believe ALS is well positioned to generate strong sample flow growth going forward from a recovery in general economic activity (as lockdown restrictions ease), as well as from an increase in gold exploration globally. About half of ALS earnings are generated from the commodities segment, with its primary exposure relating to geochemistry and gold sample testing. With the gold price at record levels (over US\$2,000/oz) we have seen a significant uptick in capital raisings from junior gold miners for exploration purposes and expect this to flow through to ALS's high-margin geochemistry business over the next 3-6 months. The Fund also holds a long position in **Imdex**, which is another company set to benefit from the improved outlook for drilling in the gold sector. Imdex is by far the global leader in drilling technology for the mining sector and has recently launched a raft of new products that have received very strong early feedback from customers.

Net Performance*

	NTA pre-tax
One month	(1.69%)
Three months	6.76%
One Year	(5.00%)
Two Years (p.a.)	(5.57%)
Total return since inception	(19.81%)

*Source: Mainstream Fund Services. Net performance is defined as the movement in NTA pre-tax. Performance is shown after all applicable fees and charges. Past performance should not be taken as an indicator of future performance.

We believe Imdex is one of the most exciting small cap stocks in Australia and is set to deliver earnings growth of more than 20% p.a. (well above consensus estimates) for many years to come.

Charter Communications (long +9%) is a US-based cable services provider that offers broadband, pay TV, voice and mobile services to residential and commercial customers. Most of Charter's footprint competes with legacy telco infrastructure that is unable to match Charter's speed or reliability. The company was winning market share in its higher margin broadband and growing average revenue per user (ARPU) prior to COVID-19. The pandemic has led to an acceleration in Charter's market share gains as the need for better quality home internet has grown, with ~1.4m new customers added in the past 6 months alone. We believe Charter has a long runway of broadband growth that will continue to drive strong EBITDA growth and margin improvement and, together with declining capital intensity, this will underpin strong cash flows and ongoing buybacks.

Karoon Energy (long +18%) is an oil and gas company that has been focused on acquiring producing assets in Brazil. We previously wrote about Karoon in March when the shares were trading around 40c/share, noting that the Fund had significantly increased its position as we believed the shares were dramatically oversold, given the company had cash backing of approximately 75c/share. Karoon agreed to buy an oil asset in Brazil, however our view was the deal would not complete on the current terms given the dramatic fall in the oil price. In July, Karoon shares rallied after the company announced a repriced deal for the Brazilian oil asset, with ~40% of the purchase price now linked to contingent payments dependent on oil price thresholds of US\$50-US\$70/bbl over 2022-2026. Karoon also structured the upfront purchase consideration on a staggered basis, preserving ~US\$130m in net cash post transaction completion, to enable the funding of capex at the field which will significantly boost production. We believe Karoon has negotiated a very attractive transaction and is well placed to transition from a "cash box" to a major Australian oil producer with upside from strong expected cashflow and opportunities for bolt-on deals.

Some of the key detractors to Fund performance in July were:

Qantas (long -15%) shares fell on concerns regarding the COVID-19 outbreak in Victoria and further restrictions on interstate travel that are likely to prolong the recovery of domestic air traffic. Qantas announced a ~\$1.9b capital raising in late June together with a significant restructuring and right-sizing program that will see the company deliver \$1b in ongoing cost benefits from FY23. We believe Qantas has sufficient capital to weather the current subdued travel conditions and the restructuring process will see the company retain its dominant competitive position in a post-COVID world. With ~80% of its earnings generated from domestic travel and the loyalty program, we see Qantas as well placed to recover strongly as progress towards a vaccine is confirmed and interstate travel restrictions are relaxed.

Star Entertainment (long -10%) is the owner of casinos in Sydney, Brisbane and Gold Coast. Star shares fell on concerns regarding the COVID-19 outbreak in Victoria and concerns that COVID-19 may soon increase its spread in New South Wales or Queensland. During July, Star put in place a delineation of separate areas within the Sydney casino to maintain social distancing regulations. Star's management team have done an impressive job of navigating the crisis thus far, with a significant program of cost out, structured shut-downs and staff furloughs, allowing for minimal cash burn while the main gaming operations were closed. Star's Sydney casino opened in mid-June and its Brisbane and Gold Coast casinos opened in early July. Based on the experience of casinos offshore, we would expect Star to enjoy a stronger than expected recovery, despite COVID-19 restrictions, as pent-up demand from its customers delivers a much-needed boost to operating performance. While the market is very focused on the short-term risks around COVID-19 case numbers, we believe the medium-term outlook for Star looks exceptional and we have been significantly adding to our position around \$2.60-2.80.

We are extremely positive about the medium-term outlook for the portfolio, given the unusually large number of stocks in the Fund that presently have more than 50% upside to valuation. As the market becomes more confident that an effective COVID-19 vaccine or treatment is coming, we expect to see a large share price recovery in many of these oversold companies, along with a major rotation into value and cyclical stocks that would act as a further tailwind to performance.

Portfolio Exposures (month end)

Number of positions	89
Number of long positions	65
Number of short positions	24
Gross long exposure (%)	193%
Gross short exposure (%)	88%
Gross exposure (%)	281%
Net exposure (%)	105%

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 Tangible Assets Per Share (as at 31 July 2020)*

NTA pre-tax	\$1.6038
NTA post-tax	\$1.7413

*Source: Mainstream Fund Services. 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.

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
Investor relations	Wayne Murray WMurray@L1.com.au
Manager	L1 Capital Pty Ltd +61 3 9286 7000 info@L1LongShort.com
Registry	Link Market Services Limited 1300 554 474 registrars@linkmarketservices.com.au

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.

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.