



# L1 Long Short Fund Limited

(ASX Code: LSF)

## Key Details

ASX code	LSF
Share price	\$0.865
Market capitalisation	\$575.1m
Shares on issue	664,839,144
Listing date	24 April 2018

**The L1 Long Short Fund returned -22.9% in March (ASX200 -21.2%).**

**The Fund underperformed the market in March, largely due to a net long position in energy.**

**Energy stocks collapsed in March as a result of a 54% price fall in oil (the largest monthly fall on record).**

**A detailed presentation on LSF was lodged with the ASX on March 24. This presentation and a recorded investor conference call are both available at [L1 Long Short Fund Limited – Call Replay](#)**

The global coronavirus pandemic caused the worst month for the ASX200 since the '87 crash and rounded out the worst first quarter ever for the ASX200.

The ASX200 suffered its fastest bear market fall on record, plunging 37% between February 20<sup>th</sup> and March 23<sup>rd</sup>. For the month of March, the market fell 21.2%, with energy (-38%), REITs (-35%) and Banks (-29%) the hardest hit. The oil price fell 54% in March, due to the shock news of Russia not agreeing to production cuts and Saudi Arabia then electing to increase production. The results of these decisions triggered the largest monthly fall in oil prices and oil stocks on record.

**Meg Energy** (long) (-73%) shares collapsed as a result of the oil price fall in March. The Fund bought MEG around \$4.50 in mid-2019 and we had reduced a third of our position in early January at \$7.50-8.00. MEG shares fell 55% immediately after the OPEC+ news came out, which meant there was no opportunity to rebalance our energy positioning. We have been using a \$50/barrel long term Brent oil price (compared to consensus estimates of \$55-60/barrel and a 5 year average of more than \$60/barrel). We believe current oil prices of around \$20-25 per barrel are not sustainable given much of the world's production requires \$40-45/barrel to be viable on a cash basis. Over the next year, we would expect to see a combination of improving demand from a recovery in auto and aviation usage, along with high cost producers reducing production which will bring the oil market closer to equilibrium. We would also expect to see self-interest and rationality return to OPEC+ negotiations, which would further curb excess production.

**Karoon Energy** (long) (-47%) also fell on the back of the lower oil price. We believe Karoon is dramatically oversold, as the company has cash backing of approximately 75c/share, compared to a share price of 44c at month end. The Fund significantly increased its position in Karoon during March at between 35-40c/share. Karoon agreed to buy an oil asset in Brazil, however we do not expect this deal to complete given the dramatically weaker outlook for oil. On that basis, we see a scenario where the Fund will make a 100% return on the shares we were buying in March, assuming the deal is not completed and the board elects to return the cash on the balance sheet to shareholders.

**Star Entertainment** (long) (-41%) is the owner of the casinos in Sydney, Brisbane and Gold Coast. The forced closure of public venues, including casinos, announced by the Government in March resulted in concerns

## Net Performance\*

## NTA pre-tax

One month	(22.94%)
Three months	(33.77%)
Six months	(29.82%)
One Year	(24.31%)
Total return since inception	(39.02%)

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

over the earnings and balance sheet impact for Star. We believe Star will be able to manage for a prolonged period of closure without the need to raise equity. Star's current market cap of \$1.8b is a small fraction of the underlying value of Star's casinos, hotels and licenses and we have been adding to our holding recently at around \$2.00/share.

**CK Hutchison** (long) (-23%) shares fell given the broad sell-off in global markets. CK Hutchison delivered a solid earnings result in March and flagged their appetite for acquisitions given their very undergeared balance sheet and a raft of undervalued assets on offer. CK Hutchison is currently trading on a P/E of 5x, with a 7% dividend yield and a free cash flow of over 20% p.a. We see a major positive catalyst for the shares in June, when the firm is set to sell down its €5b telco towers assets, which can be redeployed for highly accretive deals/buybacks. We are also encouraged by the large scale share buying by the CEO in recent weeks.

Long positions that managed to eek out positive returns despite the market sell-off in March included Chorus (+3%), Coles (+7%) and NIB Holdings (+11%).

In the past two weeks, the Fund has been taking advantage of the enormous sell-off by buying positions in high quality businesses, such as Transurban (owner of Australia's best monopoly toll road network), Atlas Arteria (highly cash generative, monopoly toll road network in France) and Qantas (Australia's dominant airline and fast growing loyalty program). We bought each of these stocks at 30-70% below the levels they were trading at only 1-2 months ago.

Given the market sell-off, shorts across the portfolio performed strongly, with a number of short positions falling by 30-80% (in addition, one of our shorts has been suspended for more than a month and we believe the company will enter administration shortly).

Our team has been through similar extreme market sell-offs, such as during the GFC and Euro-crisis. While it can be difficult to perform well during the crisis (given the wave of indiscriminate and non-fundamental selling), these periods have typically enabled us to get set in numerous great investment opportunities at incredibly attractive prices, which positions the Fund well for a period of strong returns over the next 2-3 years. In our long-only strategy, the best years the team has had on record have been in 2009 (coming out of the GFC) and 2013-2015 (on the back of recovery out of the Eurocrisis). We believe this extreme sell-off has similar attributes and we are methodically adding to oversold positions and closing a number of successful shorts, where the share prices have fallen dramatically in recent weeks.

Thank you for your continued support. We are working incredibly hard to ensure performance bounces back strongly.

## Portfolio Exposures (month end)

Number of positions	90
Number of long positions	64
Number of short positions	26
Gross long exposure (%)	180%
Gross short exposure (%)	87%
Gross exposure (%)	267%
Net exposure (%)	92%

## 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 March 2020)\*

NTA pre-tax	\$1.2197
NTA post-tax	\$1.4624

\*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.

## 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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## 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

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