



October 2019

L1 Long Short Fund Limited

(ASX Code: LSF)

Key Details

ASX code	LSF
Share price	\$1.60
Market capitalisation	\$1,063m
Shares on issue	664,839,144
Listing date	24 April 2018

Net Tangible Assets Per Share (as at 31 October 2019)

NTA pre-tax	\$1.7980
NTA post-tax	\$1.8667

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 returned 3.5% in October. For the calendar year to date, the Fund has returned 22.5%.

The ASX200 Accumulation Index fell 0.4% in October. Banks (-4.1%), Technology (-3.9%) and Consumer Staples (-2.2%) were the weakest sectors, while Healthcare (+7.6%) and Industrials (+3.0%) were the main areas of strength. The Fund had a strong month with positive catalysts generated from favourable trading updates or company specific newsflow. Some of the key contributors are outlined below:

Tempur Sealy (TPX US) (long) has been a high conviction position in the Fund since April 2019 when we invested at US\$64. TPX is the world's leading mattress company that has been gaining large amounts of market share on the back of a superior product range, improved retailer relationships and execution of its direct sales model. In late October, TPX delivered another exceptionally strong earnings result, comfortably exceeding analyst forecasts for sales, gross margins and earnings and upgrading its full year earnings forecast again. TPX delivered 27% EPS growth, with strong momentum likely to continue into 2020. The shares trade on a FY20 P/E of 15x, which we believe undervalues the medium-term upside in the business. The shares closed the month at US\$91.

Iluka (long) rallied 18% for the month after the company announced a potential demerger of its Mining Area C royalty. Iluka owns the tenement of one of BHP's main iron ore mines and receives a royalty linked to BHP's production and iron ore prices. As we outlined in our September quarterly report, we have been actively involved in highlighting the hidden value in Iluka and have made the case for a demerger. Despite the recent rally, we believe Iluka has further upside as the company enacts a demerger and the full valuation uplift in the MAC asset becomes apparent.

Star Entertainment (long) rallied strongly in October (from \$4.36 to \$4.70) after management delivered an upbeat trading update. Management provided EBITDA guidance of \$300-310m for the first half, which was ahead of consensus estimates. Management have made quick progress on enacting a \$45m cost reduction program, which provides an important offset given the weaker consumer and VIP gaming backdrop.

Chorus (long) recovered some of its recent underperformance (+5.4%) after delivering a strong update on quarterly fibre connections. The market remains focused on the Commerce Commission's draft input methodologies paper, which is set to be released on November 19, 2019.

The key detractor in October was the Fund's long exposure to some energy stocks listed overseas, which fell due to the pullback in the oil price.

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	53
Number of short positions	34
Gross long exposure (%)	144%
Gross short exposure (%)	85%
Gross exposure (%)	229%
Net exposure (%)	58%

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	3.46%
Three months	6.50%
Calendar year to date	22.49%
One Year	12.20%
Total return since inception	(10.10%)

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

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