FINANCIAL REVIEW

L1 Capital hands back 'material' amount of capital to wholesale clients

L1 Capital's Rafi Lamm (left) and Mark Landau have new money to put to work. But not before they return some old money. **Kate Geraghty**

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Melbourne-based equities investor L1 Capital is set to return hundreds of millions of dollars to clients.

Street Talk understands L1 Capital has started notifying some of its institutional clients that they should expect a cheque in the mail, in an effort to keep funds under management at less than $4 billion.

While L1 Capital has not said how much money will be returned, it did tell clients it was a "material" amount.

Street Talk understands it is worth hundreds of millions of dollars.

All of the money returned will be to institutional clients.

"For client confidentiality reasons, we are not disclosing the size or timing of these offsetting outflows, other than to say they are material and will enable us to stay below $4 billion in FUM," the manager told clients this week.

Returning capital is a rare move by an investment manager. It's also likely to create some tough conversations.

However, L1 Capital has already lined up new investors to take their place.

L1 Capital's outgoing clients will be replaced by a new batch of retail and high net worth investors, who together tipped in $1.33 billion for the firm's new listed investment company, L1 Capital Long Short Fund Ltd.

The listed company was initially seeking to raise up to $600 million before it was upsized to up to $1.35 billion. More than two-thirds of the firm's capital is now expected to be from retail and high net worth investors, who typically pay higher fees to an investment manager than wholesale clients.

It will also be skewed towards L1 Capital's long/short strategy, which has returned 34.9 per cent a year after fees since inception.

It looks like a business decision for L1 Capital and its employee shareholders, headed by founders and co-CIOs Rafi Lamm and Mark Landau. Managing retail and high net worth money is more lucrative and less likely to head out the door in a hurry.

If there is a redemption, or a handful of redemptions, it is unlikely to cause big disruptions for the manager. That's not always the case when it comes to wholesale money. And, in turn, they will be better able to focus on three-to-five year performance, and less on the short term.

It is not known which of L1 Capital's clients will be handed back their money.

Its biggest fund is a long-only Australian equities fund, which predominantly manages money for big domestic and offshore institutions such as Catholic Super, Sunsuper and HOSTPLUS, and recently opened to retail investors.