L1 CAPITAL

L1 Long Short Fund Limited

May 2019

Performance Track Record

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Launched Sep 2014

L1 Capital Long Short Fund (unlisted fund since inception)

- 139.1% net return since inception; 20.5% net return p.a. since inception
- 70 individual positions added +1% to performance
- Positive performance from every sector
- Sharpe Ratio 1.7, Sortino Ratio 3.4

Listed April 2018

L1 Long Short Fund Limited (LSF)

- L1 Long Short Fund Limited listed on 24 April 2018 (LSF:ASX)
- LSF post-tax NTA $1.73, pre-tax NTA $1.60, share price $1.50 (20 May 2019)
- Pre-tax NTA -19.8% since listing (20 May 2019)

Launched Aug 2007

L1 Capital Australian Equities Fund (Long only)

- Since fund launch in 2007, gross alpha of 5.4% p.a. (ASX200AI)
- One of the best performing large cap, long only funds in Australia

Launched June 2015

L1 Capital Global Opportunities Fund – New York

- Convertibles and deal structuring fund
- 27.6% net return p.a. since inception

ZENITH AWARD

Best 'Australian Equities – Alternative Strategies' 2017.

HSBC SURVEY

'Best Performing Hedge Fund Globally' in 2015 and 'Top 20 Hedge Fund Globally' in 2016, 2017

EUREKAHEDGE

Winner 'Best Asian Long/Short Equity Fund' in 2017

Note: Unlisted fund performance data current as at 30 April, 2019. Based on net returns achieved by the L1 Capital Long Short Fund - Monthly Class since inception (1 Sep 2014). Fund ranking based on HSBC Global Hedge Fund Performance Survey (December 2017)

Reporting Season Observations

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Key points:

- Profit results and outlooks were weaker than consensus expectations.

  Largest negative EPS revisions since the GFC.

- Sharp market rally was not a function of strong earnings.

  Most of the move in February was from a relief rally in banks (Royal Commission fears overblown) and higher iron ore prices (from Vale supply issues) causing BHP, RIO & FMG to rally.

- Overall, earnings quality and cashflow conversion has deteriorated.

  Greater use of provisions, one-offs, restructuring charges, capitalisation of expenses, etc. Investment community has become somewhat complacent about accounting shenanigans.

- Earnings growth has slowed across most industrial and financial sectors.

  Early signs of slowing already apparent in many sectors – banks, supermarkets, telcos, consumer discretionary, property, etc.

- Large sections of the market are now finding earnings growth difficult.

- Healthcare stocks generally missed consensus earnings estimates. Shares remained surprisingly resilient despite trading on very high earnings multiples.

Reporting Season Observations

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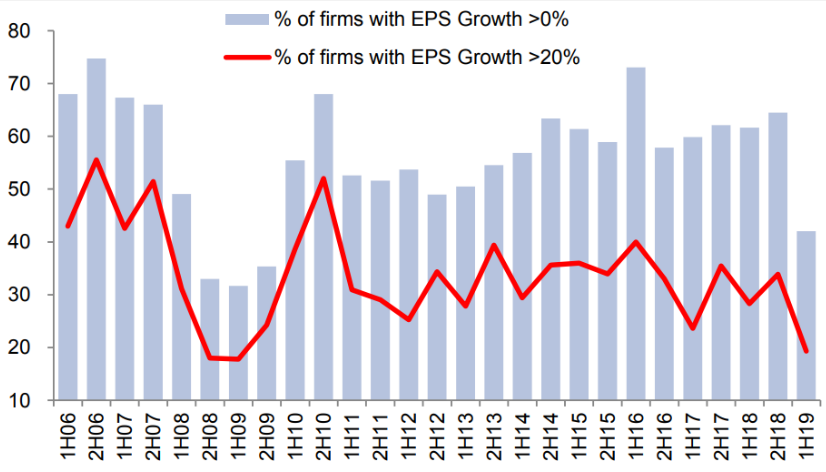
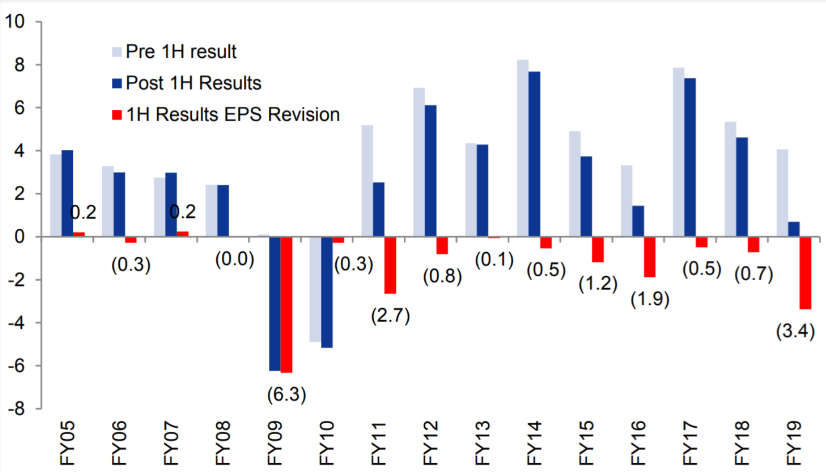
Only ~40% of ASX200 firms grew EPS in 1H19, the weakest period since 2009



EPS growth for the ASX200 was cut by 3.4%, the largest downgrade to full-year growth forecasts since the GFC.

Revision to full-year consensus EPS growth post 1H results announcements



Sources: Factset, Goldman Sachs

Fund Performance (2019)

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- The Fund has had a strong start to 2019 (up 9.3% so far this year).
- The Fund delivered positive net returns in January, February, March and April, which is a pleasing trend after a difficult 2018. Performance has largely been driven by stock picking during reporting season and a recovery in some stocks that were oversold during the broad market sell off in December.
- Importantly, much of the ASX200's rally in 2019 has been driven by iron ore stocks (BHP, RIO, FMG) and bank shares (rally post Royal Commission and again post Federal election). The Fund did not benefit at all from those two factors.
- Key long positions that have been major contributors include:
  - Chorus (+30% in past quarter)
  - HeidelbergCement (+30% off December lows)
  - Worley (+25% off recent lows)
- Despite the market rally, our short positions have generally performed well - many sold off on the back of weak results/outlooks that highlighted fundamental issues with the business. Very pleasing outcome considering strong market backdrop, particularly in Australia.
- Almost every long position in the fund performed better or in-line with consensus expectations during reporting season.

Note: Performance data current as at May 20, 2019

Portfolio Positioning

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- Markets remain fully valued, with numerous macro risks.
  – U.S./China Trade War, Australian housing market stress, U.S. economic slowdown & rising wages, Brexit, fragile European banking system, China structural imbalances.
- M&A activity likely to pick up which provides a positive buffer to market sell-offs (private equity becoming increasingly active).
- The Fund does not have a large net long to any geography, reflecting risk from valuations (Australia & U.S.) or risk from structural imbalances (such as Europe & HK/China).
- Long portfolio continues to have a value bias, but not in businesses with structural headwinds. Growth stocks generally remain expensive versus history and on a PEG basis.
- Increased exposure to high quality, offshore growth stocks during the market sell off in Dec.
- Maintain shorts in market segments with extreme multiples (e.g. U.S. tech stocks / concept stocks with negative catalysts, Tesla). Numerous shorts in companies with aggressive accounts. Bubble valuations consistent with late stage bull market and higher retail shareholder participation.
- Positive view on gold stocks, given favourable supply/demand dynamics and the potential for the US dollar bull market to end (Fed likely finished hiking rates, U.S. Govt has huge & growing budget deficits).

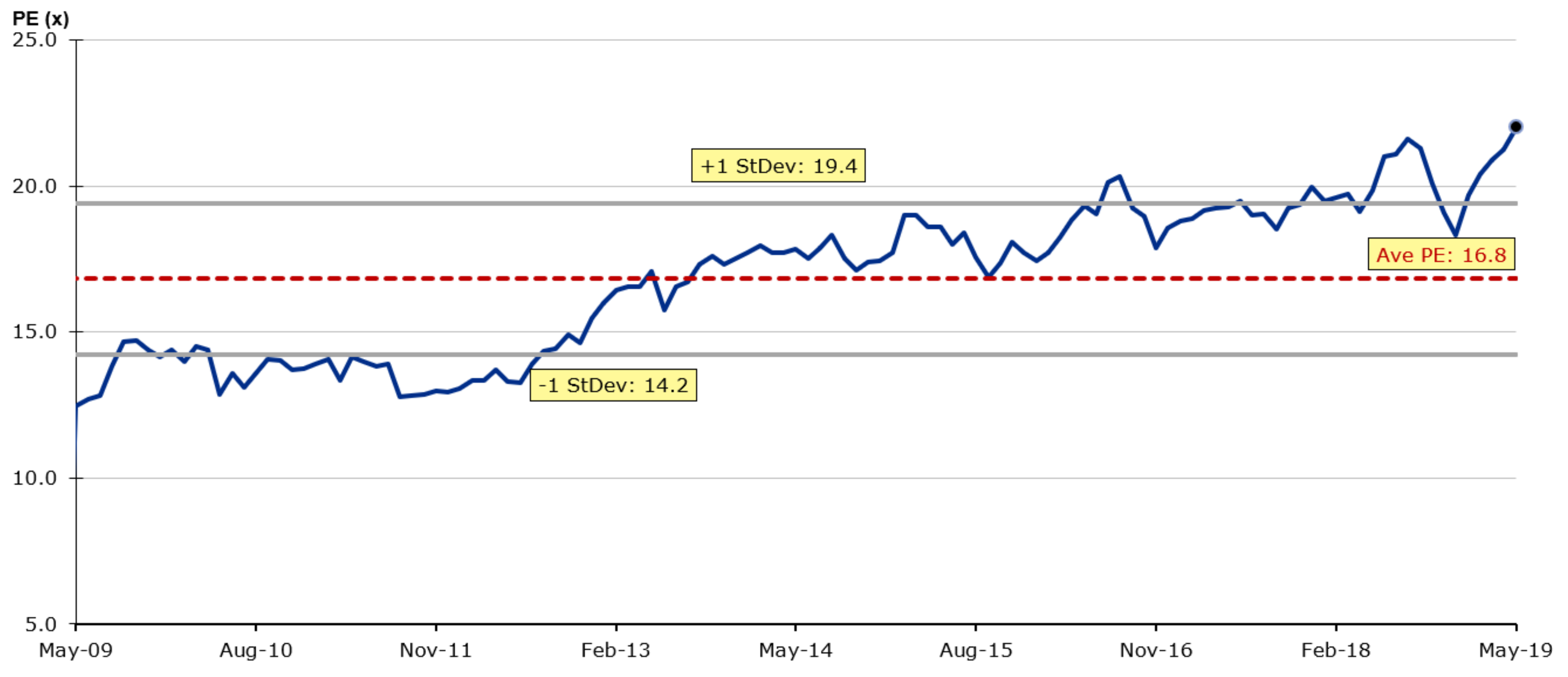
Portfolio Positioning

	Net Exposure	Gross Exposure
Australia/New Zealand	**8%**	**162%**
North America	**12%**	**35%**
Europe	**15%**	**15%**
Asia	**5%**	**9%**
Total	**40%**	**222%**

All data current as at 20 May, 2019.

Market Outlook

1YR Forward P/E for the ASX200 Industrials is 22.0x versus 10 year average of 16.8x



Source: CLSA, Datastream, as at 22 May 2019

Market Outlook

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- Australian equities look fully priced – industrials are trading at a forward P/E of 22.0x versus long run average of 16.8x.
- However, compared to other asset classes (eg. bonds, cash, property) equities still look relatively attractive.
- After a 10 year bull market, U.S. equities look more stretched than other stockmarkets.
- Europe screens as cheap, but structural vulnerabilities mean we remain cautious. Stock selection and risk management is critical (eg. avoiding stocks with a reliance on the European consumer or European banking system).
- Chinese stimulus and a potential trade deal mean better opportunities in HK versus recent history.
- Dominant, high quality American & Chinese growth stocks were trading at similar multiples to low growth Australian industrials in December. This provided an outstanding buying opportunity.

M&A activity likely to pick up in 2019

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- After a relatively quiet period in terms of M&A activity, we believe activity is about to surge.
- Private equity firms in Australia and Asia have recently raised tens of billions of dollars.
- Debt markets are very conducive to deals – debt is cheap, easy to access, covenant-lite and gearing being offered is very high.
- Symptom of low government bond yields. Debt investors are looking for yield pick-up and are keen to deploy money into anything that offers relatively stable cashflows.
- Recent deals include Healthscope, Navitas, MYOB, Greencross, Trade Me.
- Most corporates in Australia operate with Debt/EBITDA of 1x to 2x.
  Private equity have structured their bids using extreme gearing:
  - MYOB deal had a capital structure of around 11x Debt/EBITDA [1].
  - Trade Me takeover used a capital structure of 8x Debt/EBITDA [1].
- Therefore, private equity has even more firepower than people realise (less equity being used per deal).
- Large industry funds are now teaming up with private equity to buy assets outright.
- Corporates are getting more desperate for deals to prop up slowing organic earnings growth.

1 Source: AFR February 27, 2019; The Australian December 13, 2018

New Position – WorleyParsons (WOR)

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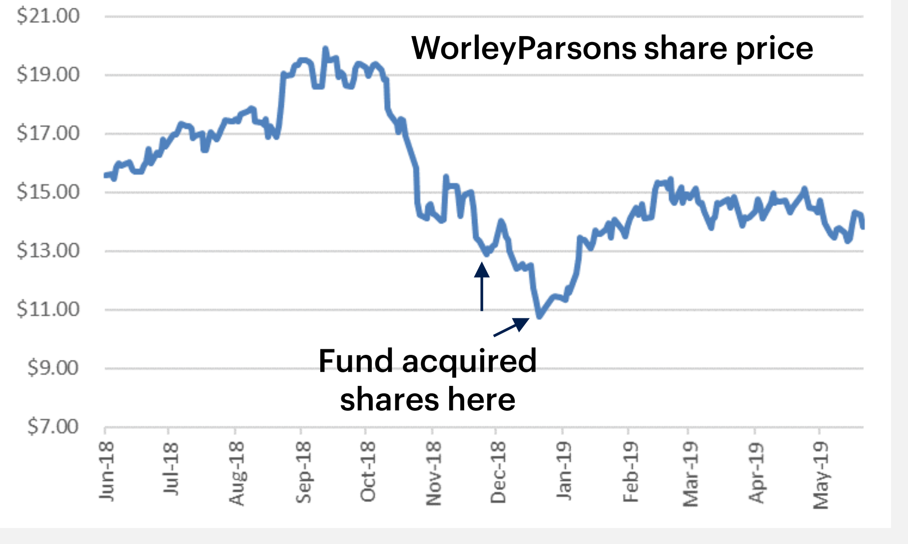
- WorleyParsons is one of the world's leading oil services companies. It recently acquired the Energy, Chemicals & Resources division of U.S. peer Jacobs.
- The shares had fallen from around $19 to $11 between October and December last year due to concerns about falling demand for new energy and chemicals projects, along with indigestion from the Jacobs deal capital raising.
- We used the extreme sell-off to build a position in November at around $13.
- On our forecasts, Worley is trading on a P/E of only 11x FY21 (once the synergies from the Jacobs acquisition flow through).
- We believe the shares deserve to trade at a much higher multiple, given the structural growth in demand for their services (due to rising long term demand for resources from Asia) and capital light business model.
- Management is well regarded and the shares had been trading on 20x P/E in September 2018 (prior to the oil price fall).



Source: Bloomberg

New Position – Vivendi (VIV)

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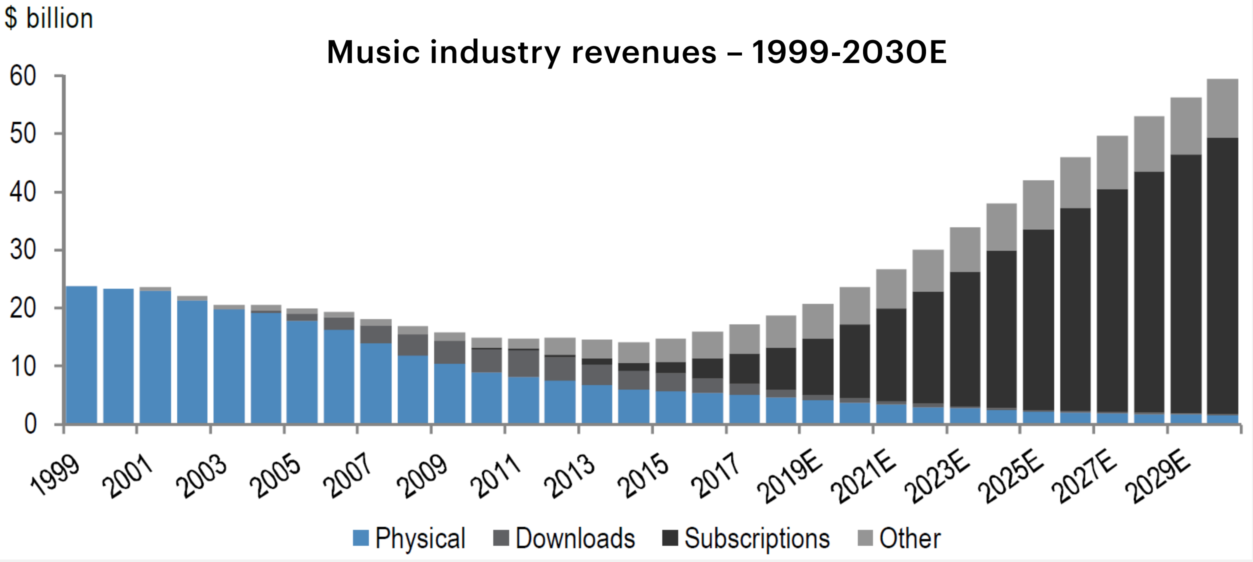
- French music and media conglomerate whose main asset is the world's number 1 music label, Universal (UMG).
- UMG has a 30% market share of global recorded music, which gives it enormous market power.
- Revenue & earnings are accelerating on the back of huge demand globally for streaming services such as Spotify, Apple Music and Amazon Music.
- Very high incremental profit margins and many years of strong growth ahead, given low penetration rates for music streaming in most parts of the world.
- **Vivendi has started a process to sell up to 50% of UMG and has indicated an intention to conduct a large stock buyback with at least half of the UMG sale proceeds.** UMG likely transaction price suggests large upside compared to brokers' sum of parts valuations.
- **We believe Vivendi is a high quality business that offers a compelling valuation and growth outlook as well as major positive catalysts.**



Sources: JP Morgan estimates

Key Portfolio Position – Chorus (CNU)

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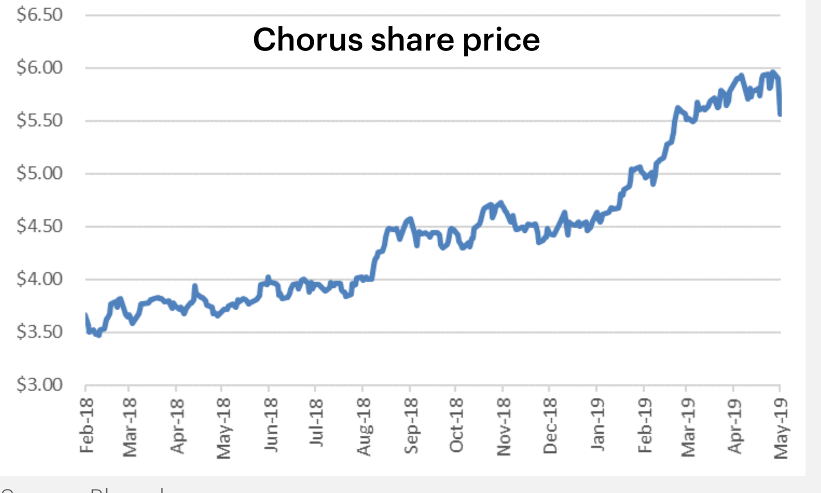
Chorus has been one of the largest positions in the Fund since inception in Sept 2014 ($1.60/share v today at $5.41)

- Chorus is the monopoly owner of the new fibre network across most of New Zealand (81%) and also owns 100% of the monopoly copper network. **Chorus has spent 10 years and NZ$6b building one of the world's best & fastest fibre networks (up to 10 times faster than Australia's NBN).**
- Capex for the fibre rollout peaks this year and we believe free cashflow available for dividends will soon surge.

Chorus share price rallied 60% in the past year due to:

- **New legislation that will see Chorus' fibre assets form a regulated asset base (RAB) = more stable earnings & enables higher gearing.**
- As part of that process, Lev Margolin (L1 portfolio manager) presented in NZ parliament as part of our stakeholder engagement.
- Chorus raised a NZ$500m retail bond at a 4.3% interest rate which significantly de-risks the balance sheet.
- Moody's placed Chorus on credit rating upgrade watch given numerous positive corporate developments.
- **We believe the shares remain extremely undervalued and expect dividends to accelerate over the next 5 years.**



Source: Bloomberg

Key Portfolio Position – CK Hutchison (1.HK)

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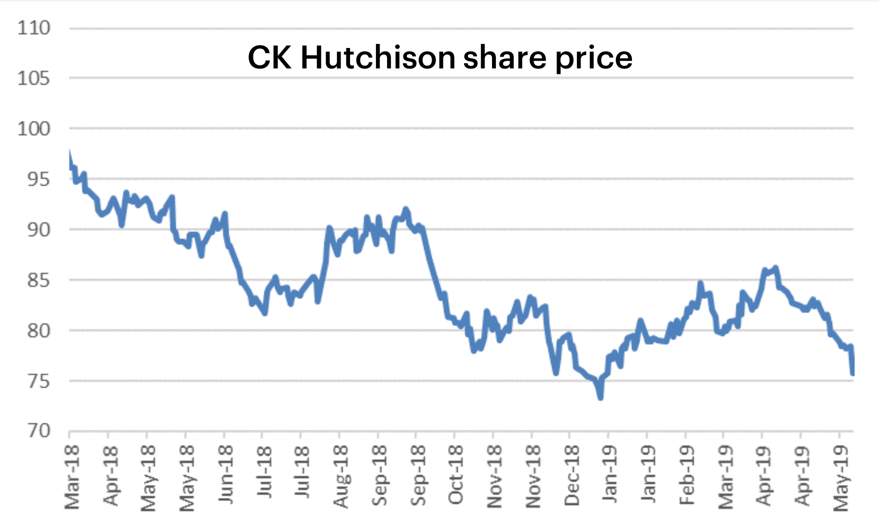
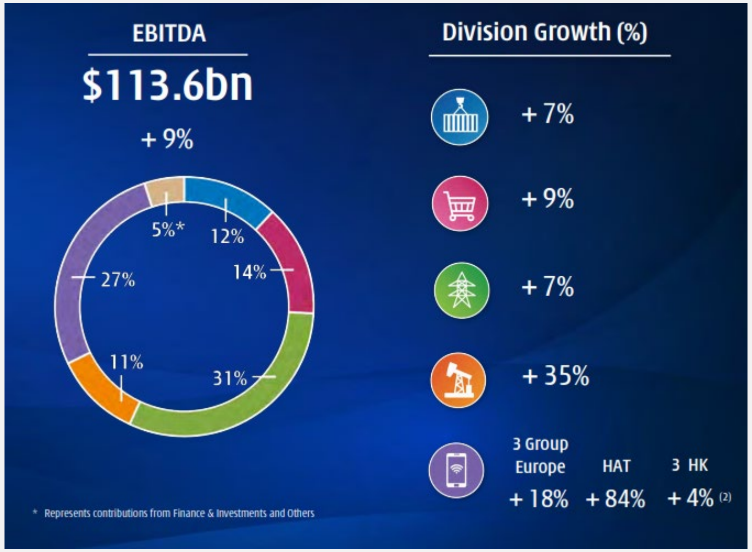
- Extremely high quality asset base - US$40b+ of infrastructure assets, 51 major ports, largest and fastest growing pharmacy chain in China, large European telco business, global energy assets.
- Key assets have very attractive industry structures, high barriers to entry and excellent cashflow generation.
- Our sum of the parts valuation is approximately double the current shareprice.
- One of CKH's "smaller" assets is Watsons (largest & fastest growing pharmacy chain in China). Media speculation is that Tencent is about to buy a 10% stake in Watsons for US$3b = implies a US$22.5b valuation for CKH's 75% stake in that asset[1].
  Entire CK Hutchison market cap is US$41b (ie. Watsons value is >50% of current market cap).
- The shares trade on a P/E of 6.8x (FY20), 15% free cash flow yield, with 9% EPS growth.
- CK Hutchison will generate roughly half its market cap in free cash flow in the next 3 years.
- Furthermore, the balance sheet is undergeared which provides flexibility for EPS accretive acquisitions or capital management.





Sources: 1. Bloomberg March 20, 2019, Bloomberg, CK Hutchison results presentation

Key Portfolio Position – HeidelbergCement (HEI)

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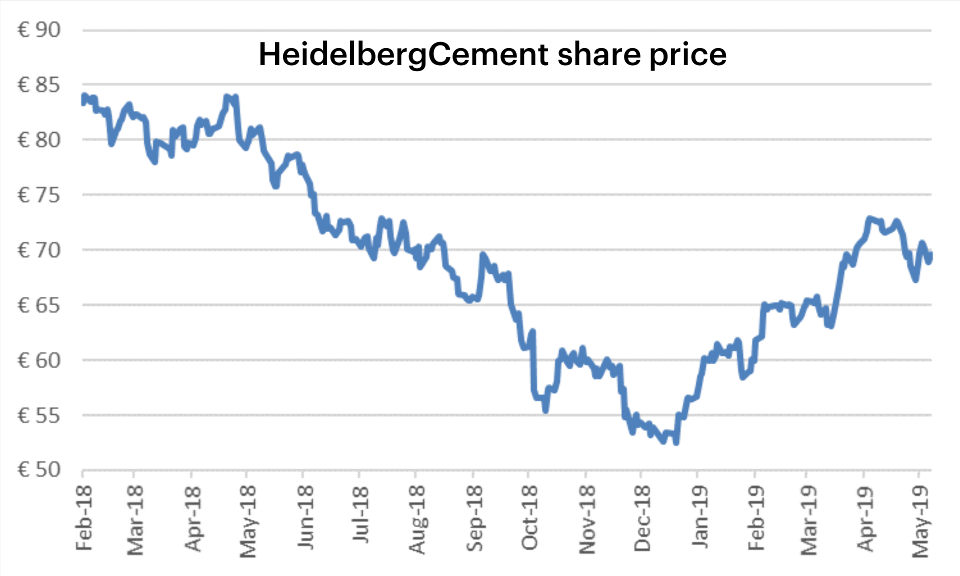
- HeidelbergCement is a high quality, global construction materials business listed in Germany and operating in 55 different countries globally.
- HEI shares performed poorly in 2018 given general weakness in the German stock market, concerns over a slowdown in global construction activity and rising energy costs.
- The shares remain extremely attractive, given the business largely operates in high returning duopoly/oligopoly markets with large barriers to entry.
- Furthermore, the shares trade on a P/E of only 9.5x, despite our expectation of 10% EPS growth p.a. over the next 3 years.
- The business generates more than a 10% free cash yield (after all capex), which enables additional growth from re-investment or bolt-on acquisitions.



Source: Bloomberg

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