



May 31, 2018

# L1 Long Short Fund Limited

(ASX Code: LSF)

## Key Details

ASX code	LSF
Share price	\$2.03
Market capitalisation	\$1.350b
Shares on issue	664,839,144
Listing date	24 April 2018

## Net Tangible Assets Per Share (As at 31 May 2018)

NTA pre-tax	\$1.8936
NTA post-tax	\$1.9283

Source: Link Fund Solutions. NTA Pre-Tax is calculated before all taxes. NTA Post-Tax is calculated after tax of realised and unrealised gains/losses, deferred tax assets, and deferred tax liabilities.

## Commentary

May proved to be a disappointing month for the Company, returning -4.1%. The L1 Long Short strategy had its first month of falling more than 2% since September 2014.

There were three main drags on performance:

**Long European Stocks** - The Italian election caused European stocks, particularly European financials, to sell off heavily in May. European banks were down 10-20%, even those less exposed to Italy. We exited some positions that would be more susceptible from a broader European crisis but have maintained our core positions that are lower risk. These financials trade on single digit P/Es, at less than book value, 5-6% dividend yields and offer an asymmetric payoff as European bond yields rise from all-time lows. Our other stocks that are listed in Europe also got sold off despite being truly global businesses with a minority of their earnings coming from Europe (e.g. HeidelbergCement). We believe this sell off is an overreaction and have maintained our positions in these stocks.

**Long Value, Short Growth/Momentum** - Markets are at an extreme in terms of the relative valuation of growth/momentum versus value stocks, both in Australia and globally. The valuation differential is at multi-decade highs and we believe this will normalise over time. We believe this is the right positioning in a medium-term sense but accept it may cost us performance in the short term. We typically have a modest value bias in the portfolio, but that is more pronounced at the moment given how extreme the relative valuations are for growth versus value.

**Stock-Specific News** - The smallest impact on performance was stock specific news, such as Boral falling after a weak quarterly update. We have used the weakness to top up as we believe the medium-term upside is compelling. Boral trades on 13.5x P/E (FY19), with double digit earnings growth likely for the next few years.

**We have made good progress on getting the portfolio set, with the Company now more than 90% invested.**

## 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	84
Number of long positions	45
Number of short positions	39
Gross long exposure (%)	111%
Gross short exposure (%)	82%
Gross exposure (%)	193%
Net exposure (%)	28%

## Investment Guidelines

Typical number of positions	50-100 securities
Geographic exposures	Max 30% 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

1 month	(4.1%)
Total return since inception	(5.3%)

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

## Key Contacts

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