



June 30, 2018

L1 Long Short Fund Limited

(ASX Code: LSF)

Key Details

ASX code	LSF
Share price	\$1.88
Market capitalisation	\$1.25b
Shares on issue	664,839,144
Listing date	24 April 2018

Net Tangible Assets Per Share (As at 30 June 2018)

NTA pre-tax	\$1.7805
NTA post-tax	\$1.8476

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

The L1 Long Short Fund Limited had a weak month as speculative stocks continued to rally globally on little fundamental news, while value stocks continued to drift lower.

The ASX200AI defied flat global markets to rise 3.3% in June compared to the MSCI World -0.2%. The Company generated small positive returns from Energy, Financials and Telcos, while Consumer Discretionary, Healthcare and Materials were the key detractors in June. Brent oil rose 2.6% to US\$79/barrel, benefiting long positions in BP and Shell. Mineral Resources fell 13% as the company flagged its direct shipping ore operation would end 1-2 years earlier than expected. While this reduces near-term earnings, the valuation impact is immaterial, and we believe the shares have been significantly oversold. The Company added to its holding in the recent sell off.

Interestingly, the seven largest detractors in June (apart from Mineral Resources) were shorts in highly priced, speculative 'momentum' stocks, whose shares rose sharply despite little meaningful positive news. The electric car company, Tesla, remains a small short position in the portfolio. The shares rose 23% in June due to increasing expectations around Model 3 car production. Tesla has a market cap of ~US\$60b, despite having huge and growing losses, high levels of senior executive resignations and a raft of strong competitors about to enter the electric car industry.

Across each of these shorts, we have conducted detailed bottom-up fundamental research that has identified major structural problems in the business. We remain confident that the share prices of our shorts will reverse course as our negative catalysts play out. The relative valuation of growth/momentum stocks versus value stocks has now reached a 20-year extreme – a level not seen since the peak of the dot com bubble. The average long position in our portfolio now trades on a FY19 P/E of only 13x, compared to our shorts, which are trading on close to 30x. Furthermore, the earnings growth of our long portfolio is higher than that of our shorts. We believe the current market backdrop will prove to be an ideal hunting ground for generating alpha over the coming years and we are very excited about the valuation anomalies currently on offer.

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	79
Number of long positions	42
Number of short positions	37
Gross long exposure (%)	122%
Gross short exposure (%)	66%
Gross exposure (%)	188%
Net exposure (%)	56%

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	(6.0%)
Total return since inception	(11.0%)

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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