



August 31, 2018

L1 Long Short Fund Limited

(ASX Code: LSF)

Key Details

ASX code	LSF
Share price	\$1.81
Market capitalisation	\$1.20b
Shares on issue	664,839,144
Listing date	24 April 2018

Net Tangible Assets Per Share (as at 31 August 2018)

NTA pre-tax	\$1.7027
NTA post-tax	\$1.7879

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 Limited returned -5.3% in August. ASX200 momentum stocks outperformed value stocks by 8% in August, marking a dramatic acceleration vs an average 1.4% move per month over 5 years (UBS data).

Surprisingly, results season exacerbated this trend. The top quintile of high P/E stocks rallied 15% on average for the month, despite forward EPS consensus forecasts being revised down by an average of 3% (JP Morgan data).

The Company's performance was adversely impacted by a high number of left-field stock events during August, most of which we expect to reverse course:

Nufarm (Long) – A Brazilian judge announced a ban on the sale of glyphosate (generic Roundup) following a Californian court case against Monsanto. This ban was overturned after month end.

Sims Metal (Long) – Shares fell largely due to Trump's announcement of steel tariffs on Turkey and some uncertainty around Chinese scrap import regulations. Management has stated they have seen limited earnings impact on their business to date.

Offshore Short – Spiked 70% post a change of control transaction, just as the industry was beginning to face pressure from falling product prices.

Tesla (Short) – Shares spiked on a bogus \$420/share privatisation plan. The shares have subsequently sold off and SEC is investigating the CEO.

Venator Materials (Long) – Company shocked the market by revealing insurance coverage (from a fire at its Pori plant 2 years ago) would fall significantly short of the rebuild costs. We believe the shares are heavily oversold, even allowing for the higher cost of rebuild or remediation and no future production from Pori.

News Corp (Long) – Confusion around the consolidation of Foxtel/Fox Sports non-recourse debt into NWS accounts resulted in several brokers lowering their sum-of-the-parts valuations by 15%. News Corp's numerous global media assets (excl REA/Move/cash) are currently ascribed zero value by the market, despite delivering more than \$1.2b earnings p.a.

Mineral Resources (Long) – Remained weak post its June update of the earlier end to DSO operations (~2% valuation impact). A major positive near-term catalyst is the 49% sale of Wodgina (world's largest hard rock lithium mine). The CEO recently purchased \$5.5m stock on market.

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	73
Number of long positions	40
Number of short positions	33
Gross long exposure (%)	118%
Gross short exposure (%)	58%
Gross exposure (%)	176%
Net exposure (%)	60%

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	(5.3%)
Total return since inception	(14.9%)

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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