



L1 Long Short Fund Limited

(ASX Code: LSF)

Key Details

ASX code	LSF
Share price	\$1.52
Market capitalisation	\$1.01b
Shares on issue	664,839,144
Listing date	24 April 2018

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

NTA pre-tax	\$1.6025
NTA post-tax	\$1.7191

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 -3.9% in October. Rising U.S. bond yields and ongoing geopolitical tensions caused stock markets around the world to endure one of their worst months of the past decade - MSCI World Index (-7.4%), ASX200 AI (-6.1%) and S&P500 (-6.8%). The China/U.S. trade war, Brexit uncertainty and rising Italian bond yields all contributed to market volatility. All sectors in Australia fell in October, with the hardest hit being Energy (-11.0%) and IT (-9.4%).

Themes from October:

Momentum stocks under pressure – The US 10-year bond yield has had a more pronounced impact on long duration growth assets such as U.S. tech stocks and other high P/E stocks. Pleasingly, several of our short positions fell by more than 20% in October.

Value stocks remain under pressure – Several high conviction long positions fell by more than their respective indices in October. These include Mineral Resources, CK Hutchison, Nufarm and Alcoa.

M&A activity pickup – We believe an increase in M&A could help normalise the current valuation dispersion in the market. Recent takeover targets include Navitas, MYOB, Healthscope and Greencross.

Stock specific commentary:

Lynas (Long: +30%) – Shares have begun to recover from oversold levels due to incrementally positive news regarding the Malaysian Government's environmental review of Lynas' plant and the release of a strong operational update. We believe Lynas is strategically well placed for long-term structural growth, given the growing demand for rare earths and the proposed curtailment of supply out of China due to environmental concerns.

Boral (Long: -19%) / HeidelbergCement (Long: -11%) – Shares in both stocks reacted negatively to updates that unfavourable weather in parts of the U.S. and NSW would impact earnings. The update from HeidelbergCement was largely in-line with already pessimistic consensus earnings expectations. Boral's guidance was only slightly modified but increased the reliance on second half earnings for FY19, making the 19% fall in the shares appear excessive.

Investors should expect higher volatility in both equities and bonds due to the unwind of quantitative easing and rising geopolitical uncertainty.

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	71
Number of long positions	41
Number of short positions	30
Gross long exposure (%)	108%
Gross short exposure (%)	55%
Gross exposure (%)	163%
Net exposure (%)	53%

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	(3.9%)
Total return since inception	(19.9%)

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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