



L1 Long Short Fund Limited

(ASX Code: LSF)

Key Details

ASX code	LSF
Share price	\$1.35
Market capitalisation	\$897.5m
Shares on issue	664,839,144
Listing date	24 April 2018

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

NTA pre-tax	\$1.4679
NTA post-tax	\$1.6251

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 -6.0% in December. Global equity markets collapsed in December (MSCI World -7.7%), with the S&P500 (-9.0%) having its worst December since 1931 and its biggest monthly loss since February 2009. The market was highly volatile during December, having a -14.8% intra month drawdown. The Fed elected to increase rates by 25bps in December and flag another two rate rises for 2019. Fed Governor Powell also stated that quantitative tightening is now on "autopilot", which suggested the 'Fed put' was no longer in place. Australian markets continue to benefit in times of global panic as Australia is viewed as a safe haven market. We expect this outperformance to reverse as markets stabilise.

The Fund had a weak month, with many of our cyclical stocks falling 5-20%. We believe many of the price moves in December were not justified by fundamentals and were driven by other technical factors (quant/ETF selling, margin calls, transition portfolios). December's lower liquidity only served to exacerbate these moves.

One of the weakest parts of the portfolio was the Fund's long exposure to energy:

Worley (-14%) – Shares fell due to the continued collapse in oil prices (-40%) from US\$75 to US\$45 in the quarter. Worley is one of the world's leading oil services companies and it recently acquired the Energy, Chemicals, & Resources division of U.S. peer Jacobs. We believe Worley is extremely oversold, with the shares now trading 40% lower than only 4 months ago. The Fund bought the stock in November at around \$13. On our forecasts, the shares trade on a P/E of only 9x FY21 once the synergies from combining the two businesses have been achieved.

Oil ETF – The Fund holds a long position in an oil ETF as we believe the current WTI oil price of ~US\$45/barrel is unsustainably low. U.S. shale production is loss making at current levels and budgetary pressures on key oil producing countries, such as Saudi Arabia, Russia and Iran, mean they need to manage supply for their own self-interest/political survival.

Alcoa and Newscorp were also significant detractors despite no company specific news.

We have used the market sell-off to increase our net exposure and re-introduce some U.S longs. We believe many of our cyclical stocks are now pricing a prolonged global recession, which provides large, asymmetric upside if the global economy achieves even modest growth.

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	45
Number of short positions	28
Gross long exposure (%)	129%
Gross short exposure (%)	58%
Gross exposure (%)	187%
Net exposure (%)	71%

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

One month	(6.0%)
Three months	(12.0%)
Total return since inception	(26.6%)

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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