



# L1 Long Short Fund Limited

(ASX Code: LSF)

## Key Details

ASX code	LSF
Share price	\$1.475
Market capitalisation	\$980.6m
Shares on issue	664,839,144
Listing date	24 April 2018

## Net Tangible Assets Per Share (as at 31 July 2019)

NTA pre-tax	\$1.6882
NTA post-tax	\$1.7857

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 strategy returned 0.7% in July. For the calendar year to date, the Fund has returned 15.0%.**

Equity markets continued their rally in July, despite a deteriorating macro backdrop and rising geopolitical risks (ASX200AI +2.9%, S&P500 +1.1% and MSCI World ex-Aust +0.4%). The relentless fall in global bond yields has been the driving force behind this equity rally, with yield stocks and high P/E growth stocks propelling the market higher. Company and industry fundamentals have recently taken a back seat in investors' minds, but we expect this will soon reassert itself once bond yields stabilise.

The Fund has maintained a small net long to gold over the past year given the backdrop of enormous central bank liquidity injections and competitive currency depreciations.

**Alacer Gold +19% (long)** and **Resolute Mining +33% (long)** have both benefitted from new mines ramping up successfully this year, after many years of major capex investment. We believe both of these long-life, low cost miners will continue to outperform their Australian gold peers going forward.

**Tempur Sealy +9% (long)** delivered a strong earnings result, upgraded full year profit guidance and announced an on-market share buyback. Tempur Sealy is exceptionally well placed to grow market share and margins over the coming years on the back of its superior product range, new retail partners and direct distribution model. The shares trade at a P/E of only 14x FY20, despite continued strong double-digit earnings growth.

Long standing short positions in **Celltrion Inc (-19%)** and **Celltrion Healthcare (-20%)** were also strong performers for the Fund again in July. Celltrion is a Korean manufacturer and distributor of biosimilar drugs. The company faces collapsing product prices, excessive inventory levels, major corporate governance issues and ongoing insider selling. Despite numerous operational headwinds, both companies were trading on over 100x P/E on our earnings forecasts at the time of initially shorting the stock. The largest detractors in July were short positions in two global consumer goods companies. Both of these companies face a difficult period ahead due to elevated P/E multiples, slowing demand for their products, overstocked wholesale/distributor channels and large-scale insider selling. We have retained our short position as our research suggests the earnings outlook is deteriorating and market expectations are overly optimistic.

## 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.

**DISCLAIMER:** This communication has been prepared for L1 Long Short Fund Limited (ACN 623 418 539) by its investment manager, L1 Capital Pty Ltd (ABN 21 125 378 145 and AFS Licence 314302). L1 Capital Pty Ltd has prepared this publication without consideration of the investment objectives, financial situation or particular needs of any individual investor, and you should not rely on the opinions, advice, recommendations and other information contained in this publication alone. This publication has been prepared to provide you with general information only. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. We do not express any view about the accuracy or completeness of information that is not prepared by us and no liability is accepted for any errors it may contain. Past performance is not a reliable indicator of future performance.

## Portfolio Exposures (month end)

Number of positions	88
Number of long positions	54
Number of short positions	34
Gross long exposure (%)	147%
Gross short exposure (%)	92%
Gross exposure (%)	239%
Net exposure (%)	55%

## Investment Guidelines

Typical number of positions	50-100 securities
Geographic exposures	Max 30% gross 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	0.7%
Three months	1.7%
Calendar year to date	15.0%
One Year	(6.1%)
Total return since inception	(15.6%)

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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