



L1 Long Short Fund Limited

(ASX Code: LSF)

Key Details

ASX code	LSF
Share price	\$1.28
Market capitalisation	\$850.9m
Shares on issue	664,839,144
Listing date	24 April 2018

Net Performance*

	NTA pre-tax
One month	(6.83%)
Three months	(12.30%)
Six months	(6.62%)
One Year	(1.62%)
Total return since inception	(20.87%)

The L1 Long Short Fund returned -6.8% in February.

Global equity markets collapsed in February as a result of the global spread of the coronavirus. The ASX200 fell 7.7%, with Information Technology (-17.3%), Energy (-17.2%) and Materials (-11.7%) the hardest hit. The oil price fell 13.4% (WTI), while iron ore retreated 10.4%. Stock markets around the world suffered one of the sharpest weekly declines on record, due to fears regarding the spread of the coronavirus. For the month, all major stock markets fell (S&P 500 -8.2%, Nikkei 225 -8.8% MSCI World (Developed) -8.1% and FTSE100 -9.0%). Volatility spiked to the highest levels since the GFC and the AUD/USD fell to 64.5c. U.S 10 Year bond yields continued their abrupt fall from 1.92% at the start of the year to 1.15% by the end of February.

In the early stages of news regarding the coronavirus outbreak, we made a number of changes to the portfolio. We fully exited our long position in Qantas at close to \$7.00/share. While we are very positive on the medium-term outlook for Qantas, we believed that the sharp downturn in business and leisure travel habits was not being reflected in the share price. We have recently begun buying back a small portion of our position given the huge fall in the share price in the last few weeks. We also placed a number of new stock shorts, where the business faces a large and unavoidable issue from the coronavirus outbreak. These moves proved helpful in offsetting the negative impact from longs in economically sensitive sectors, such as energy.

Some of the Fund's key stock detractors in February were:

Downer (long -21%) shares fell in February due to concerns that they may be unable to complete the sale of their mining services division, along with commentary from BHP suggesting they are looking to use external service providers (like Downer) less going forward. The share price reaction was amplified by the rotation away from materials stocks during the month on coronavirus concerns. We believe the risks from these two events are being overstated and that delivery of the full year guidance and the expected divestment of the mining services and laundries assets will lead to a re-rating of Downer as a capital-light (and lower risk) services business exposed to growing, annuity-style contracts.

CIMIC (long -19%) shares fell despite reporting solid FY19 results with operating cash flows materially ahead of consensus expectations. CIMIC provided FY20 NPAT guidance -3% above consensus expectations with the company closing up 10% post the results release. However, as coronavirus fears increased, the share price was impacted by the rotation away from cyclical to defensive stocks. We continue to believe CIMIC is materially undervalued, trading on a P/E of 8.7x FY20 (consensus) which is its largest discount to the market over the past ten years.

Safran (long -10%) is one of the world's leading jet engine manufacturers with strong and growing market share globally (used in both Airbus and Boeing planes). We trimmed our position in Safran around €140 given the likely reduction in global air traffic and negative sentiment to the sector from coronavirus. Safran's earnings are incredibly resilient given they make the majority of their earnings from required airplane engine maintenance and parts, which is a highly predictable, recurring revenue stream

Even in this current airline crisis, Safran has guided to continued modest earnings growth, with a likely return to 10-15% EPS growth thereafter. The shares trade on a P/E of only 16x (FY20) which we believe represents outstanding value for a high quality business with enormous barriers to entry.

Other portfolio positions that sold off in February on no company specific news included **News Corporation** and **Iluka**.

While the current volatility and uncertainty can be distressing for investors, these periods typically prove to be the best times to make investments at exceptionally attractive prices. We have identified a large number of stocks with enormous upside once the crisis passes and are methodically positioning the portfolio to rebound strongly as conditions gradually stabilize.

*Source: Mainstream Fund Services. Net performance is defined as the movement in NTA pre-tax. Performance is shown after all applicable fees and charges.

Portfolio Exposures (month end)

Number of positions	86
Number of long positions	58
Number of short positions	28
Gross long exposure (%)	154%
Gross short exposure (%)	81%
Gross exposure (%)	236%
Net exposure (%)	73%

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 Tangible Assets Per Share (as at 28 February 2020)

NTA pre-tax	\$1.5827
NTA post-tax	\$1.7139

Source: Mainstream Fund Services. 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.

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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Board of Directors

Andrew Larke	Independent Chair
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Harry Kingsley	Independent Director
Raphael Lamm	Non-Independent Director
Mark Landau	Non-Independent Director

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