



L1 Long Short Fund Limited

(ASX Code: LSF)

Key Details

ASX code	LSF
Share price	\$2.14
Market capitalisation	\$1,315m
Shares on issue	614,339,144
Listing date	24 April 2018

The NTA of L1 Long Short Fund Limited (“the Company”) increased by 9.0% in February (ASX200AI +1.5%).

Over the past year, the Company’s NTA increased 64.0% (ASX200AI 6.5%).

The Company’s robust February return was driven by strong stock performance during reporting season with further support from the early stages of a rotation towards cyclical and value stocks.

Performance was broad-based, with 18 individual stock positions contributing 0.4% or more to returns, while only two stocks detracted 0.4% or more.

Global markets continued to be volatile in February. After reaching intra-month highs, most markets partially retracted during the final week of the month due to a spike in bond yields as investors increasingly priced in a sharp rebound in inflation. The US 10 year bond yield rose 37bps to 1.46% and the Australian 10 year bond yield rose 79bps to 1.88%. We see this rise in bond yields as a validation of our portfolio positioning for strongly rising nominal GDP. This should be supportive of a major rotation into value and cyclical stocks, which typically outperform growth/momentum stocks in an economic recovery and are less sensitive to increases in rates.

The S&P/ ASX 200 Accumulation Index returned 1.5% in February, underperforming global markets (MSCI World 2.5%, S&P500 2.8%, FTSE100 1.6%). The strongest sectors were Materials (+7.3%), Financials (+5.2%) and Energy (+2.4%) while Technology (-8.9%), Utilities (-8.0%) and Consumer Staples (-4.6%) lagged.

The ongoing elevated market volatility provides diverse and attractive stock-picking opportunities for the Company. Our outlook for equities (and especially cyclicals) remains positive given the combination of central bank and fiscal stimulus, defensive investor sector positioning and the likelihood of positive vaccine progress.

We believe the “vaccine trade” has further to run with many investors yet to re-position their portfolios to fully reflect a much-improved outlook for COVID-19 and global GDP. As such, we expect the recovery in many oversold value and cyclical sectors (such as travel, energy, mining and industrials) to continue to strengthen, with the Company well placed to benefit from this.

NTA Performance*

NTA PRE-TAX

One month	9.02%
Three months	13.52%
One Year	64.02%
Two Years (p.a.)	27.03%
Total return since inception (24 April 2018)	29.80%

* Source: Mainstream Fund Services and L1 Capital. Net performance is calculated using the movement in NTA pre-tax. Performance is shown net of all applicable fees and charges. Past performance should not be taken as an indicator of future performance.

Some of the key contributors to Company performance during the month of February were:

News Corp (long +18%) shares continued their strong momentum following the release of the company’s second quarter results which were materially ahead of market expectations. A key driver of the result was the Dow Jones division, which grew subscriptions by over 18% versus the prior year. Digital-only subscriptions at the Wall Street Journal grew by over 29% and now comprise over 76% of total Wall Street Journal subscriptions, demonstrating the significant transformation of the business. Even following the recent increase in the News Corp share price, we believe the Dow Jones asset remains significantly undervalued by investors. Applying the same valuation multiple to the Dow Jones segment as is being ascribed to the New York Times would imply a value for the Dow Jones asset alone in excess of ~US\$8b, which equates to over half the current News Corp share price. Furthermore, the recent proposed sale of Simon & Schuster (a key competitor to News Corp’s book publishing business) for ~15x EV/EBITDA to Penguin Random House should draw more attention to the latent value embedded in the company’s publishing assets. News Corp management is taking progressive steps to better highlight the underlying value of its assets and to simplify its corporate structure, which we expect will continue to unlock value going forward.

Teck Resources (long +13%) shares continued to trend higher driven both by strong rises in copper and zinc prices and by continued tightness in the domestic Chinese coking coal market. Teck is one of the world’s highest quality mining companies with very low-cost operations in coking coal, copper and zinc. Teck continues to make good progress on the construction of one of the world’s largest copper mines (QB2). This comes at a time when the world is gradually becoming short copper due to ongoing grade declines combined with solid current demand growth and medium term demand support from rapid electrification. We established our position with the view that Teck was well placed to benefit from a recovery in copper and coking coal prices over the medium term, as spot prices were close to marginal cash cost for many mines and incremental supply has proven difficult to bring on in a timely manner. We have already started to see early signs of this recovery. Despite the strong performance to date, Teck continues to be materially undervalued, trading on an FY21 P/E of only 9.8x (consensus earnings). With the benefits of QB2 earnings and a large cost out program still to come over the next few years, we continue to believe Teck is exceptionally well-positioned.

Tabcorp (long +13%) shares rallied from a combination of very strong half-yearly results showing both lotteries and wagering ahead of consensus estimates as well as enhanced corporate interest in its wagering business. Tabcorp provides gambling and entertainment services through a range of brands across three segments: Lotteries and Keno, wagering and media, and gaming services. Lotteries had a particularly strong period with an uplift in digital sales, a significant increase in Keno (reflecting excellent operational execution) and higher long term margins. In the second half of the financial year, lotteries are expected to benefit from a more normal jackpot sequence and a change in lottery game design, and wagering should benefit from retail venues reopening and launch of new wagering products. Following multiple approaches from a range of corporate and financial buyers, the Board is currently considering the future of the wagering business. We believe a demerger or sale of this business could unlock significant value for shareholders. Furthermore, a new \$95m fiscal year 2021 cost out program has been announced which we expect will help accelerate earnings growth in the medium term.

Imdex Limited (long +9%) shares rose following solid half year earnings and cashflow results. This led to double digit upgrades to full year consensus earnings, despite meaningful COVID-related headwinds in some regions. Imdex is by far the global leader in exploration drilling technology for the mining sector, with 80% of the business exposed to gold, copper and iron ore. All three commodities have favourable medium term exploration and production outlooks. In particular, the past year has shown a significant uptick in capital raisings from junior miners for exploration purposes, which we expect to flow through to Imdex gradually over the next few years. The company has spent significantly on R&D over the past five years (fully expensed through its P&L) and is now in the early stages of launching the industry's best suite of new and improved products. Our extensive conversations with mining companies, drilling companies and competitors indicate that the market underestimates the lead Imdex has over its peers. In our view, Imdex is one of the most exciting small cap stocks in Australia. We expect earnings growth of more than 20% p.a. for many years to come, which is not reflected in the current multiple of 8.6x (consensus FY22 EV/EBITDA). Finally, we believe Imdex's secure, cloud-based portal for validating field data, IMDEXHUB-IQ, will become a major contributor to client retention, will increase product penetration per site and is being quickly adopted across the client base.

Lovisa (long +36%) is one of the most exciting retail stocks in Australia, having established itself as a truly global, high growth, fast-fashion business selling affordable jewellery to fashion-conscious young females. We built our position after the shares had collapsed as social events were effectively banned globally due to COVID-19, believing Lovisa was very well placed to survive the crisis. This view was based on its healthy, net cash balance sheet, extremely high operating margins, strong CEO (Brett Blundy, arguably Australia's best retailer) and high quality Chair (Shane Fallscheer), and positive outlook for its competitive position in Australia and in Europe (enhanced by the acquisition of competitor Beeline GmbH for a mere €70). In February, Lovisa delivered an exceptional result and trading update, showing sales metrics rapidly accelerating from -34% same store sales growth in April-June 2020 and -5% from July-Dec 2020 to +12% for the start of 2021 calendar year. This is despite several regions continuing to face headwinds from rising COVID-19 case numbers and social events remaining severely impacted. The company managed to sustain a net cash balance sheet throughout the period (with no capital raising) despite enormous pressure on their categories across every region. We maintain our positive outlook for Lovisa as we expect their end markets to continue to recover while the global vaccine rollout gains further traction. We remain shareholders, however, given the strong share price performance, we have recently reduced our holding in Lovisa (we bought the bulk of our position in mid-2020 between \$4-6/share, compared to a share price of around \$14-15 today).

The investment team continued to add to their position in LSF in January and February, reinforcing our continued positive outlook for the portfolio. Our expectations remain underpinned by the large number of portfolio stocks with significant upside to valuation and the extreme stock dispersion across the market, which provides attractive opportunities for stock picking. We also expect much improved business, consumer and investor confidence as a result of the rollout of vaccines around the world. As people resume a near-normal (pre-COVID-19) way of living, we expect many oversold companies to recover further, along with a continued rotation into value and cyclical stocks, which should be an ongoing tailwind for Company performance.

Portfolio Exposures

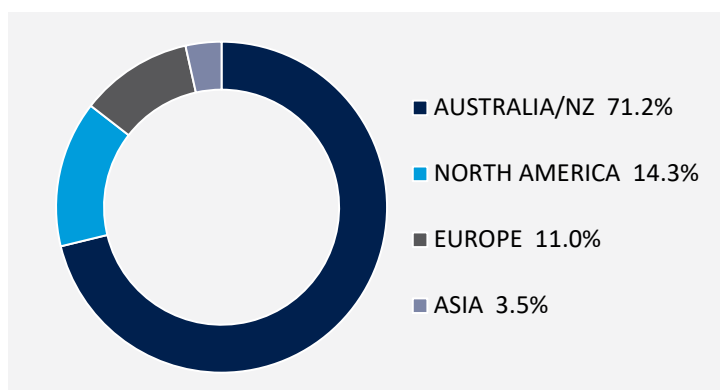
Number of positions	92
Number of long positions	78
Number of short positions	14
Gross long exposure (%)	186%
Gross short exposure (%)	65%
Gross exposure (%)	251%
Net exposure (%)	122%

Net and Gross Exposure by Region*

GEOGRAPHY	GROSS LONG	GROSS SHORT	NET EXP
Australia / NZ	117%	62%	55%
North America	33%	3%	31%
Europe	28%	0%	28%
Asia	9%	0%	9%
Total	186%	65%	122%

* Percentages have been rounded to the nearest whole number.

Gross Exposure as a % of Total Exposure



Investment Guidelines

Typical no. 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 26 February 2021)*

NTA pre-tax	\$2.5956
NTA post-tax	\$2.4454

* 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.

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

Company secretary	Mark Licciardo
Investor relations	Wayne Murray WMurray@L1.com.au
Manager	L1 Capital Pty Ltd +61 3 9286 7000 info@L1LongShort.com
Registry	Link Market Services Limited 1300 554 474 registrars@linkmarketservices.com.au



Level 28, 101 Collins Street
Melbourne VIC 3000 Australia
www.L1LongShort.com

Company and Manager Overview

L1 Long Short Fund Limited (“the Company”) 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, pension 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 in good faith in relation to the facts known to it at the time of preparation. This publication contains general financial product advice only. In preparing this information, we did not consider 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.