



Key Details

ASX code	LSF
Share price	\$1.22
Market capitalisation	\$794m
Shares on issue	650,664,144
Listing date	24 April 2018

The L1 Long Short Fund returned -2.1% in June.

The Fund returned 33.8% for the quarter (ASX200AI 16.5%).

In June, the Fund gave back a small proportion of its recent gains, as COVID-19 cases re-emerged in some parts of the U.S. and Australia.

After a solid recovery in April and May, most major equity markets delivered small positive returns in June. The ASX200 Accumulation Index gained 2.6%, marginally outperforming developed markets - MSCI World 2.4%, S&P500 1.8%, FTSE100 1.5%, Nikkei 1.9%. The best performing sectors in Australia were Information Technology (+6.0%), Consumer Discretionary (+5.4%) and Consumer Staples (+5.1%), while Property (-2.7%), Energy (-2.0%) and Industrials (-1.7%) lagged.

Some of the key contributors to performance in June were:

Vivendi (long) is the owner of UMG, the world's number 1 music label that is the largest provider of music content for Spotify, Apple Music and Amazon Music. Vivendi shares rose in June on the announcement of an expansion to the current buyback authorisation by a further 20 million shares, as well as increased interest in the sector with the IPO of Warner Music Group. Assuming the current buyback program completes, Vivendi will have bought back €1.5bn worth of shares in 2020 (5.6% of shares on issue). We continue to believe Vivendi is very undervalued, trading on a P/E of only 17.5x FY21 (consensus earnings), with the structural shift to music streaming and large buyback program supporting a sustainable 10-15% EPS growth outlook p.a. for many years to come.

Teck Resources (long) is one of the world's highest quality mining companies with very low-cost operations in coking coal, copper and zinc. The shares sold off in January due to falling commodity prices and have been recovering in recent months on stabilising coking coal and copper prices. Even at today's depressed commodity price assumptions, Teck trades on a P/E of only 7.6x FY21 (consensus earnings) and 4.1x EV/EBITDA, with a large cost out program still to come over the next few years. All of Teck's main assets are situated in low risk jurisdictions, such as Canada, U.S. and Chile. Teck is currently building one of the world's largest copper mines (QB2) at a time when the world is gradually becoming short copper due to ongoing grade declines at the world's largest mines. Copper demand continues to enjoy secular growth due to rising living standards across Asia. We believe the medium-term outlook for copper and coking coal is very attractive, given spot prices are close to marginal cash cost for many mines and incremental supply has proven difficult to bring on in a timely manner.

Hotel Property Investments (HPI) (long) is the owner of a strategic pubs/hotels property portfolio that is critical for Coles liquor licensing. HPI shares continued their recovery in June but are still trading on a yield of almost 7% (post trading ex the 9.7c interim half year dividend in June) and at a discount to NTA which has been struck on a conservative 6.1% cap rate. HPI venues have gradually begun reopening, in line with relaxed lockdown restrictions in Queensland, which should continue to

Net Performance*

	NTA pre-tax
One month	(2.12%)
Three months	33.75%
Six months	(11.42%)
One Year	(2.74%)
Total return since inception	(18.44%)

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

improve market confidence in the asset base. We believe the 12 year average lease term with a large skew to high quality tenants, such as Coles, makes HPI one of the most attractive and lowest risk opportunities in the Australian REIT sector.

Some of the key detractors to fund performance in June were:

Oil Search (long) has been a strong performer for the fund since we participated in its equity raise at \$2.10 back in early April and further added to our position around \$2.40-\$2.70 immediately afterwards. After a modest recovery in oil prices in April and May we saw oil prices consolidate in June. Oil Search shares broadly followed moves in energy markets, pulling back from around \$3.50 to circa \$3.20 by quarter end. Oil Search is one of the highest quality energy stocks listed in Australia, given its low cost of production, long life assets, attractive growth options and partnership with a high quality operator (Exxon Mobil). Oil Search has a large stake in two very substantial growth projects in PNG and Alaska and, as oil prices recover, we believe the market will likely reincorporate meaningful value for these projects in group valuations. Furthermore, we believe the more difficult economic backdrop in PNG is likely to incentivise the PNG Government to resolve their differences with the joint venture to enable this project to proceed (subject to market conditions).

SES (long) is a French satellite network provider that supplies data and video connectivity to broadcasters, telecommunications companies, governments and airlines globally. SES also owns 45% economic interest in the 5G spectrum that is critical to the future development of 5G services in the U.S. SES declined in June due to a broad-based sell off in value and COVID-19 affected stocks, with no company specific news of note. We believe SES is extremely undervalued as the market is currently ascribing no value to their 5G spectrum (which our analysis suggests is worth more than the entire market cap of SES). We used the recent sell-off in the shares to significantly add to our position and we believe the risk-reward is exceptional at current prices.

Other detractors in June included Charter Communications and News Corp (neither had any significant company news of note).

While the Fund has performed very strongly over the past the quarter, investors should continue to expect higher than usual Fund volatility in the short term, given elevated market volatility, ongoing news flow regarding COVID-19, changes in economic activity, policy responses and investor sentiment. We recognise the outlook for the global economy is uncertain and market volatility is likely to remain elevated, however, the Fund is well placed to navigate these events. We remain very excited and optimistic about the medium-term outlook for the Fund and are confident the portfolio is well positioned to withstand a wide range of potential economic outcomes.

Portfolio Exposures (month end)

Number of positions	88
Number of long positions	63
Number of short positions	25
Gross long exposure (%)	188%
Gross short exposure (%)	89%
Gross exposure (%)	277%
Net exposure (%)	99%

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 30 June 2020)*

NTA pre-tax	\$1.6313
NTA post-tax	\$1.7552

*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

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 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.