



L1 Long Short Fund Limited

(ASX Code: LSF)

Key Details

| | |
|-----------------------|---------------|
| ASX code | LSF |
| Share price | \$1.56 |
| Market capitalisation | \$1,037m |
| Shares on issue | 664,839,144 |
| Listing date | 24 April 2018 |

Net Tangible Assets Per Share (as at 30 September 2019)

| | |
|--------------|----------|
| NTA pre-tax | \$1.7379 |
| NTA post-tax | \$1.8256 |

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 returned 2.5% in September. For the calendar year to date, the Fund has returned 18.4%.

September proved to be an eventful month for markets, with the Fed and ECB continuing their policy stimulus, while an attack on Saudi Arabia's largest oil facility caused a rally in energy stocks. By sector, Energy (+4.7%), Financials (+4.1%) and Materials (+3.1%) performed best, while Healthcare (-0.1%), Communication Services (+0.2%) and Consumer Staples (+0.7%) lagged. The Fund performed well, with a wide range of contributors both domestically and overseas.

Bellamy's (long) rallied 73% in September on the back of a takeover bid from China Mengniu Dairy Company. The Fund has held a small position in Bellamy's shares since February after buying at around \$8. We believe Bellamy's is a highly attractive asset for China Mengniu given its extensive Chinese retail distribution footprint and the prospect of attaining the long-awaited SAMR registration, which will enable a step-change in the addressable market.

Boral (long) recovered strongly in September (+13.6%) after selling off heavily in August. As discussed previously, the Fund significantly reduced its stake around \$5.50 ahead of their full year result and topped back up into weakness around \$4.20. The shares were bolstered in September by early signs of a recovery in the Australian and U.S housing markets, along with The Australian suggesting private equity was in the early stages of evaluating an acquisition of the company.

Ausdrill (long) has been a stellar performer for the Fund in 2019. Ausdrill (recently renamed Perenti Global) is a large mining services player, specialising in both open pit and underground mines, with a strong skew to gold-related work (~70% of revenues). The shares sold off dramatically at the end of 2018 (falling from \$1.70 to \$1.10 in Nov-Dec). We significantly increased our position at that time, buying shares at a P/E of only 5-6x FY20 earnings. Since that time, the company has delivered very strong earnings results and provided FY20 earnings guidance that was well ahead of consensus expectations. These strong results have seen the share price rise almost 100% in 2019. We remain very positive about the outlook for the business and have been impressed with the progress being made by the newly appointed senior management team.

There were no stocks that detracted more than 0.4% from portfolio performance for the month.

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 | 83 |
| Number of long positions | 52 |
| Number of short positions | 31 |
| Gross long exposure (%) | 139% |
| Gross short exposure (%) | 79% |
| Gross exposure (%) | 218% |
| Net exposure (%) | 60% |

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 | 2.53% |
| Three months | 3.61% |
| Calendar year to date | 18.39% |
| One Year | 4.20% |
| Total return since inception | (13.11%) |

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

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|-----------------|--------------------------|
| 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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