29 November 2018

The Manager
ASX Market Announcements

L1 Long Short Fund Limited – 2018 Annual General Meeting – Investment Manager's Address and Presentation

Thank you very much Andrew and thank you to all our shareholders for your support and to those of you who are in attendance today.

Today I would like to provide a brief overview of L1 Capital the investment manager, provide you with a short summary of our investment process and how this has generated the current portfolio positioning. Our detailed, bottom-up research process has resulted in a portfolio that aligns with both our stock-specific views and our top down macro and market views.

Finally, I will touch on some of the reasons for the disappointing performance to date and why we remain confident in our team, the investment process and our research effort. Our long only fund has been running since 2007 and we have been through periods of weak performance twice before and in both cases, we have bounced back strongly and delivered returns far in excess of our return objectives.

Please refer to Slide 2 of the IM Presentation

- As you can see on slide 2 of the presentation, all L1 Capital funds have delivered very strong returns to our investors since inception. Each has comfortably exceeded its investment objective and each is among the top performers in its space.
- Our Long Short Strategy has delivered a 128.6% net return to investors since inception and has received a wide range of awards both domestically and globally.
- Our Long Only Australian Equities Fund has been among the top performers since it launched in 2007, outperforming the ASX200 by 3.9% p.a. (after fees).
- Lastly, our Global Opportunities Fund, which is run by our team in New York has delivered a 29.7% net return p.a. since inception.
- Our overriding focus is on delivering best in class investment products that we truly believe are differentiated. We back our conviction by co-investing a large proportion of our personal wealth alongside clients.
- We have been able to create a strong culture of investment excellence across our investment teams where staff are highly incentivized to deliver superior long-term returns. We are very proud of the stability of our investment team, where we have had no departures in the 11 years of L1. I think this is a great reflection of the way we treat people, the culture we have built and the genuine team mindset we share.
- We fully appreciate that the returns we have generated over the past 7 months since listing have been well below our usual standards and I will address the reasons for that in detail later in this presentation.

L1 Long Short Fund Limited ACN 623 418 539
Level 28, 101 Collins Street, Melbourne, Victoria 3000
Tel (03) 9286 7000 Fax (03) 9286 7099
www.L1longshort.com.au

Please refer to Slide 3 of the IM Presentation

While market returns for the past year have been heavily influenced by specific factors, such as 'momentum' or 'growth', we have found L1's fund performance long-term has primarily been a factor of stock specific analysis. We have been able to generate positive returns from every sector in the market, which shows the diverse range of stock and sector expertise we have in our team. Pleasingly, we have also been able to generate positive returns from several sectors that have fallen over the past few years, such as Telcos and Banks, where we have been able to identify specific stock shorts to generate returns for our investors. We believe this skill set will prove to be even more valuable going forward given our expectation of rising market volatility and potentially even more extreme sector outcomes.

Please refer to Slide 4 of the IM Presentation

Turning to slide 4. I'll now provide a brief overview of the L1 Capital research process. We believe share price performance is ultimately a function of valuation support and the quality of the company. Like with any investment it matters what you are buying as well as what you are paying. In aggregate, the stocks in our portfolio are trading at the largest discount to our valuation in many years. Our long positions typically have very strong balance sheets, in many cases they are able to announce buybacks or pursue acquisitions without the need to raise equity. Furthermore, the earnings growth of our long portfolio is higher than that of the market, even though the P/E multiple is well below the market average.

Please refer to Slide 5 of the IM Presentation

Turning to slide 5 you can see that at present, growth stocks are trading at the largest premium to the S&P/ASX100 in the last 30 years (apart from a very brief period at the absolute peak of the dot com boom in 1999-2000). At the same time, the discount for value stocks has never been greater in the last 30 years. While we typically only have a modest skew to value stocks over growth stocks, at present this positioning is more pronounced, given the extreme point we are at in relative valuations. We recognize that this process of normalization may take time to revert, but we believe that over the medium term this is the right positioning for our investors. One of the key contributors to the fund's weak performance over the past 6 months has been the continued strong outperformance of high P/E stocks over low P/E stocks, often without any incremental news flow to justify these price moves. In the words of Warren Buffett's mentor, Ben Graham, "in the short run the stockmarket acts as a voting machine, in the long run it is a weighing machine". We believe the weight of cashflows from our longs will ultimately dwarf the distinct lack of cashflows from our shorts. Today, our long portfolio generates almost 3 times the cashflow of our shorts, yet the earnings growth outlook for our long and short portfolios is identical at around 8%.

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Please refer to Slide 6 of the IM Presentation

We believe the Australian stockmarket is expensive by historical standards. As you can see in this chart, the ASX200 Industrials index is trading at an average P/E of around 19.1x, compared to its average over the past decade of 16.4x. We believe the market is underestimating the risks from a weakening housing market, China slowdown, rising input cost pressures and geopolitical/trade tensions. At present, the Fund is sitting at around a 53% net long. We are short a number of expensive industrial, mining and financial stocks, where our outlook for the business is dramatically weaker than the market's expectations.

Please refer to Slide 7 of the IM Presentation

Turning to slide 7. Over the past couple years, both the U.S. stockmarket and other global markets have performed similarly and in a highly correlated fashion. In around May this year, a clear divergence in performance occurred which saw the U.S. continue to rally strongly, while most other major stockmarkets fell dramatically. Over the past few years, the Fund has made a lot of money from being long specific U.S. shares. As these shares reached our valuation, we have been exiting these positions and the incremental opportunity has tended to be a high quality global business that happens to be listed in Europe or Hong Kong. Interestingly, most investors have preferred to be invested in the U.S. than Europe or HK, given the stronger earnings growth outlook for U.S. stocks. As we enter 2019, we expect this differential to close as U.S. companies begin to struggle from a stronger US dollar, rising wage pressures and higher interest rates, while no longer benefiting from the U.S. tax cuts. In Europe and HK, none of these factors are a headwind.

Please refer to Slide 8 of the IM Presentation

Below we list our top 5 portfolio holdings. We believe each of these companies has an extremely high quality business, with large barriers to entry, very conservative balance sheets and a strong earnings growth outlook.

We believe **Chorus** is one of the world's best infrastructure companies. It has spent $6b over a decade building one of the best fibre networks anywhere in the world, with internet speeds of up to 20x that of the NBN. We are excited about the outlook for Chorus as we believe the company will soon be able to get a return on this huge investment. Chorus has only been paying out a small fraction of its underlying free cash flow due to the fibre rollout. Chorus today delivers close to a 5% dividend yield, and we believe it will be able to more than double its dividend over the next few years' time once its huge investment program begins to wind down.

CK Hutchison is one of the largest stocks listed in Hong Kong. It owns more than US$40b of power infrastructure assets, more than 50 ports and one of China's largest and fastest growing pharmacy chains. The company trades on a P/E of only 7.5x and is growing earnings at 11% p.a. We believe CK Hutchison will generate close to half of its market capitalization in free cash flow in the next 3 years and given it is already very under-geared, we expect these cashflows to be used to accelerate earnings growth and for dividends or buybacks.

Mineral Resources owns two substantial lithium mines, including the world's largest hard rock lithium mine, Wodgina. Just this week, management sold a 50% stake in Wodgina to Albemarle for a look through value of $3.2b. This is more than the entire market cap of Mineral Resources. On top of that, MIN owns a mining services business that generates $250m of EBITDA with a strong growth pipeline. Along with some other smaller assets and a healthy net cash balance sheet, this provides almost 100% upside to the current share price of $14.

HeidelbergCement is a German listed company that is one of the world's largest construction materials businesses. It operates in 55 countries, typically in oligopoly markets. Rising spending globally on infrastructure provides a multi-year tailwind for HeidelbergCement and we believe the company can continue to deliver strong growth for many years to come, despite trading on only 9x P/E and generating more than a 10% FCF yield.

NewsCorp is mistakenly viewed as an 'old media' business, when in reality it is primarily a digital real estate business with a 62% stake in Australia's dominant real estate portal (REA) and the #2 player in the U.S. (realtor.com). These two assets, along with a corporate balance sheet with more than $2b of net cash get you to around today's market cap. On top of that, NewsCorp also owns a dozen major media assets that generate more than $1.2b of EBITDA. These assets are conservatively worth $6-7b, which provides potential upside of more than 60% to today's share price. We believe 2019 will prove to be an exciting, transformational year for NewsCorp as the company looks at ways to restructure its assets to highlight the enormous value in the group and to exploit its cash rich balance sheet to accelerate earnings growth.

Looking towards 2019 we see a number of headwinds as well as opportunities across Australian and global equities. In a near term sense, indications by the Fed regarding likely tightening for next year and the potential success of U.S-China trade talks will be key factors determining the market's direction. However, over the medium and longer term we believe our portfolio which is diversified across many companies, sectors and regions will benefit from the stock specific opportunities we uncover, rather than from broader market moves.

As you can see in the table on slide 8, the Fund is conservatively positioned by region and also in aggregate. This reflects our cautious stance, although we have been significantly adding to some of our long positions in recent weeks.

Finally, I would like to thank you for the tremendous support you have shown us, in what has been a difficult year for the Fund. I remain very positive about our team, the investment process and the research effort. We have a passionate, stable and talented team that had delivered great returns over the long term. Rafi and I have the bulk of our personal wealth invested in the Long Short Strategy. We both invested $5m in the IPO and elected to voluntarily escrow that investment for 10 years. We have both subsequently increased our holdings significantly over the last two months. L1 Capital is 100% staff-owned and we are here for the long-term. In short, we are absolutely committed to the long-term success of the Long Short Strategy and we could not be more aligned with shareholders.

Thank you for your attention and I look forward to taking your questions.

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L1 Long Short Fund Limited
Investment Manager's AGM Report

29 November 2018

Investment Excellence Across All Products

L1 CAPITAL

Launched
Sep 2014

L1 Capital Long Short Fund (unlisted fund since inception)

- 128.6% net return since inception; 21.9% net return p.a. since inception
- 68 individual positions added +1% to performance
- Strong positive returns across a wide range of sectors
- Sharpe Ratio 1.9, Sortino Ratio 4.2

Launched
Aug 2007

L1 Capital Australian Equities Fund (Long only)

- Since fund launch in 2007, net return of 8.1% p.a. vs 4.3% p.a. (ASX200AI)
- One of the best performing large cap, long only funds in Australia.

L1 Capital Global Opportunities Fund – New York

Launched
June 2015

- Convertibles and deal structuring fund
- 29.7% net return p.a. since inception
- No negative months since inception

ZENITH AWARD

Best 'Australian Equities – Alternative Strategies' 2017.

HSBC SURVEY

'Best Performing Hedge Fund Globally' in 2015 and 'Top 20 Hedge Fund Globally' in 2016, 2017

EUREKAHEDGE

Winner 'Best Asian Long/Short Equity Fund' in 2017

Note: Performance data current as at 31 October, 2018. Fund ranking based on HSBC Global Hedge Fund Performance Survey (December 2017)

Contribution to return generated by sector (since inception)

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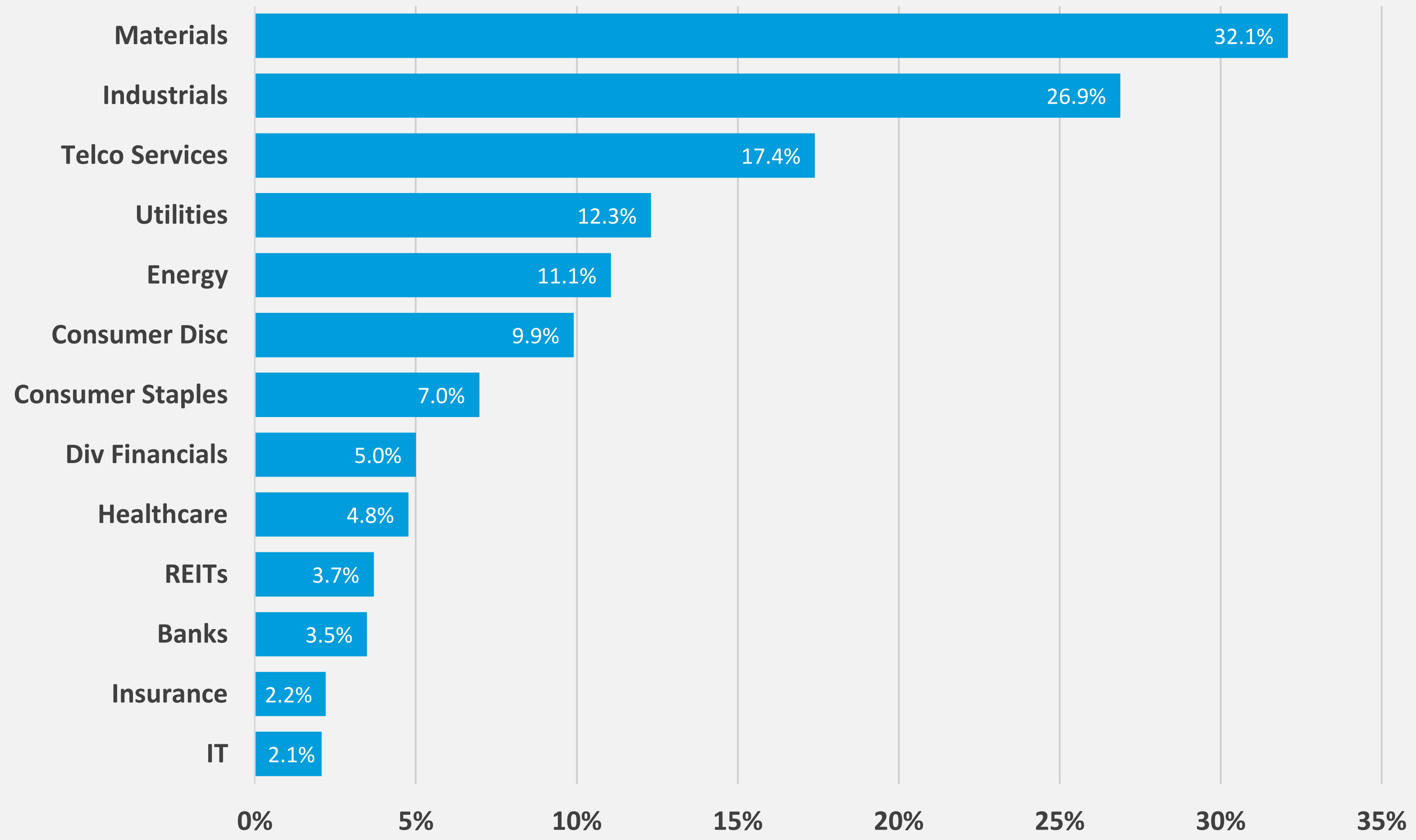
Strong positive returns across every sector



All figures are net returns from September 2014 inception until 31 October, 2018. Data presented above refers to underlying security positions in the portfolio. The portfolio impact of cash and index positions, which are used for hedging purposes, is allocated on a pro rata basis between each category.

L1 Capital Research Process

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We invest in high quality businesses trading well below their valuation:

VALUE
50%

+

QUALITY
50%

Valuation

- DCF, Historical & Peer Multiples, Sum of Parts

Upside / Downside to share price

Management

- Broad evaluation of entire organization – not just CEO/CFO
- Senior management, divisional heads, board, firm culture.
- Incentives structures & capital allocation track record
- Staff must be passionate, capable & honest

Industry Structure

- Growth outlook, barriers to entry, rivals/substitutes, competitive intensity
- Long term ROE & growth outlook

Trends

- Supply/Demand, asset utilisation, regulation, innovation, consolidation
- Counter-cyclical & forward-looking (1-2 year assessment)

Each qualitative factor is equally weighted.

Scored from 1 to 5 (excellent to poor)

Gearing (pass or fail)

- Balance sheet risk posed to equity investors from debt covenants, debt rollovers, etc

High P/E stocks have dramatically outperformed low P/E stocks

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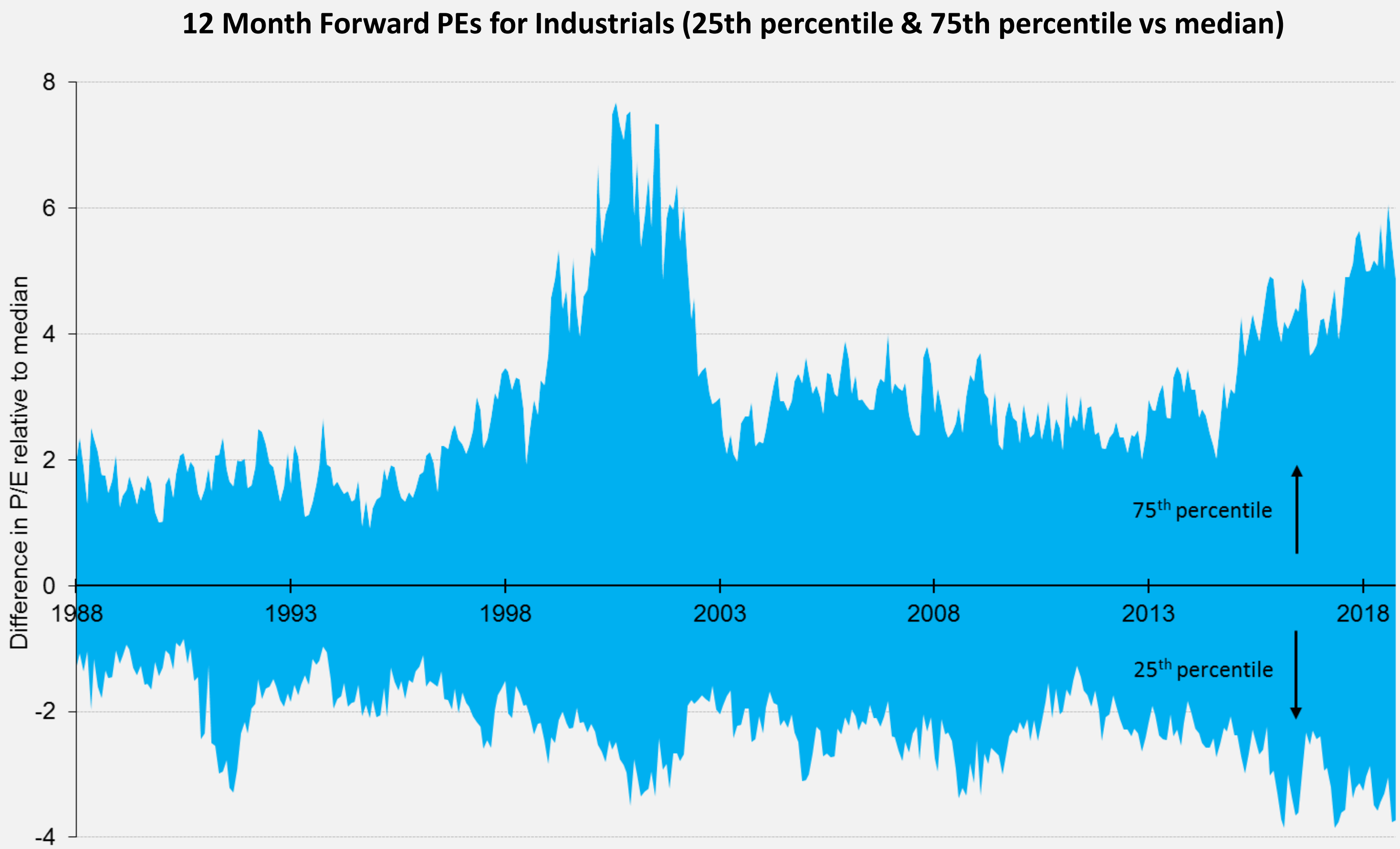
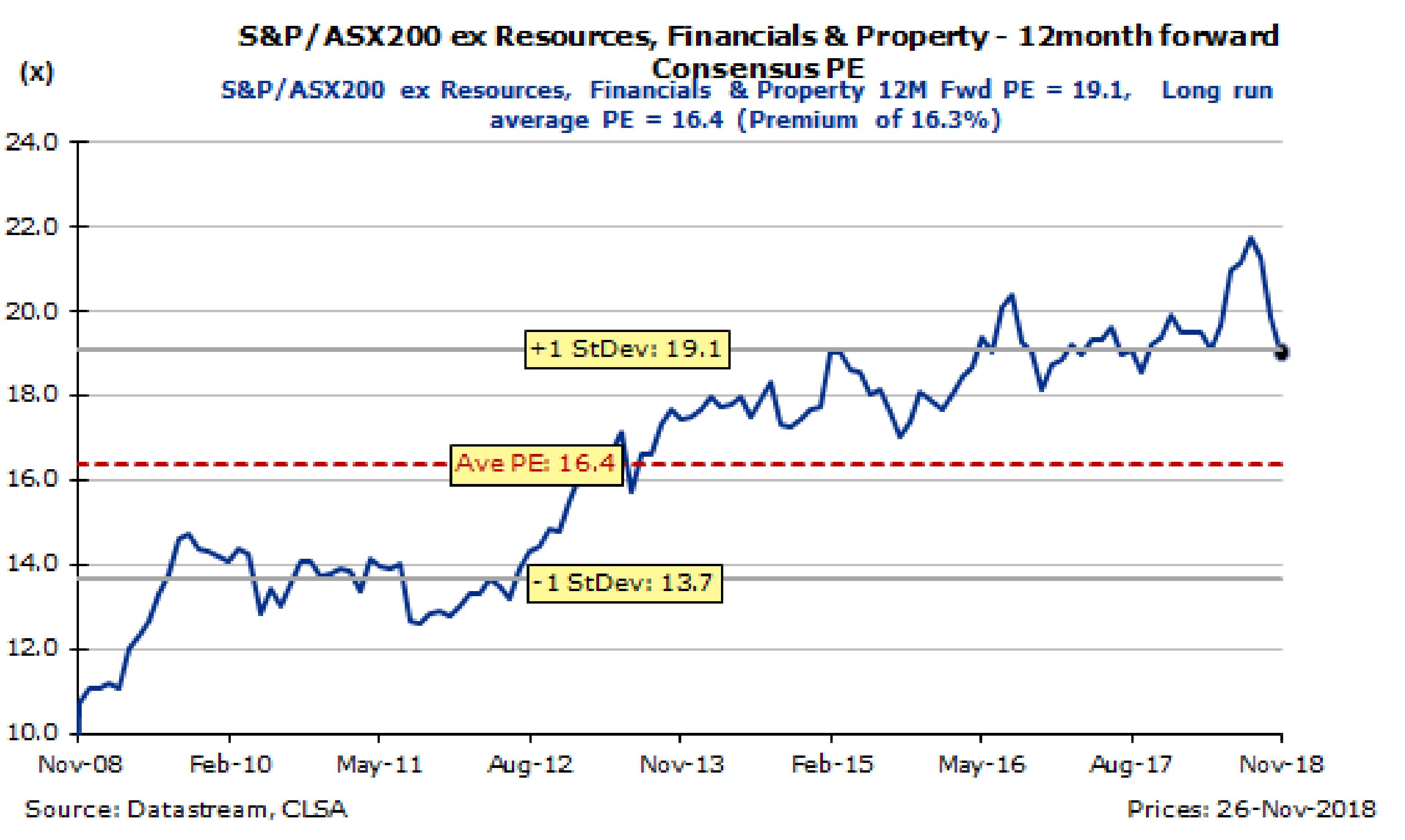
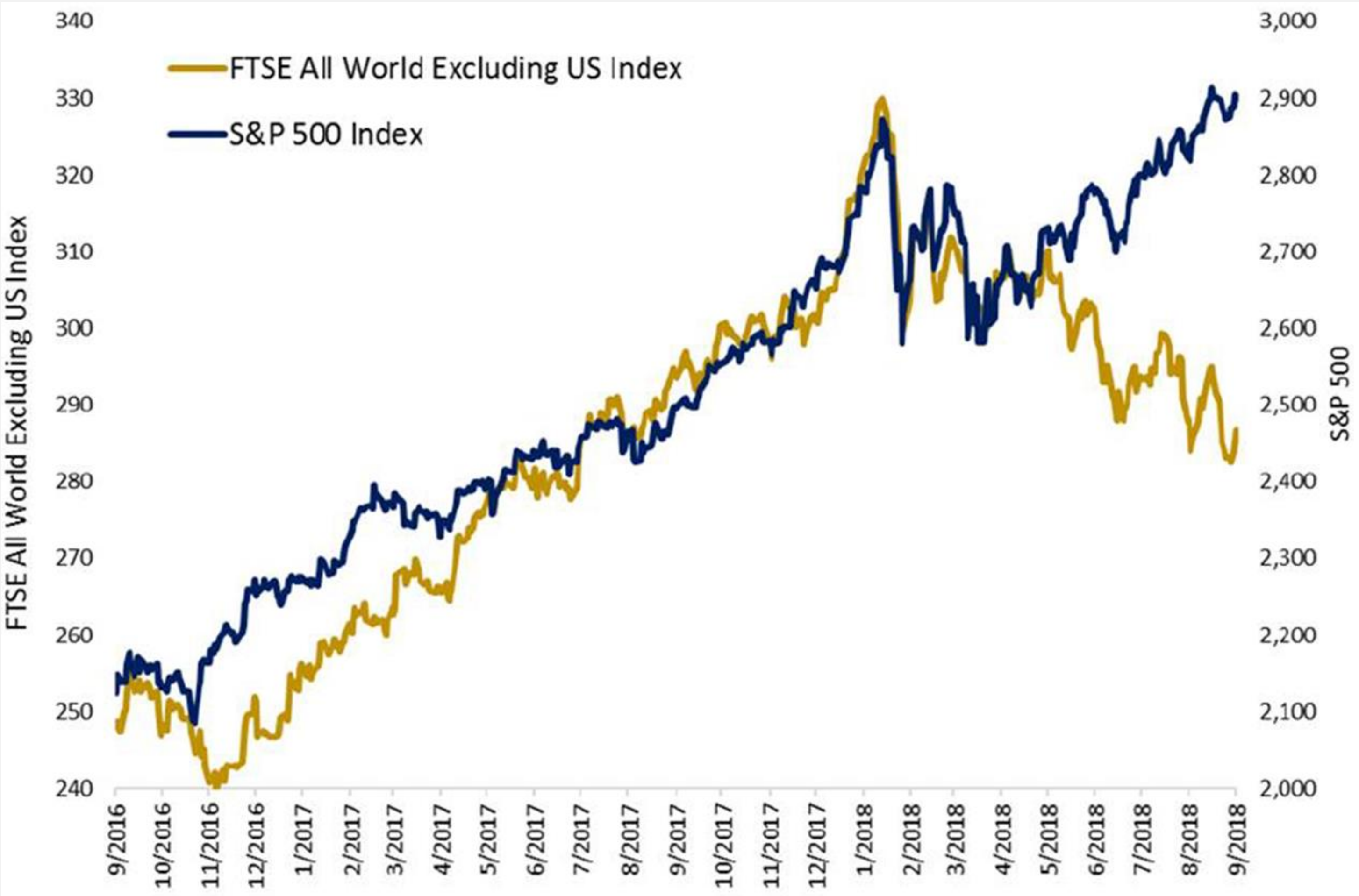


Sources: Thomson Reuters, Macquarie Research, as at 31 October 2018

The ASX200 Industrials Index is trading well above its long term average P/E



Over the past 6 months, the Portfolio has had more of its net exposure in Europe & HK rather than the U.S.



Source: Bloomberg

Portfolio Positioning – Top 5 long holdings & geographic exposure

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Top 5 long holdings:

- Chorus
- CK Hutchison
- Mineral Resources
- HeidelbergCement
- News Corp

	Net Exposure	Gross Exposure
Australia/New Zealand	**26%**	**116%**
North America	**3%**	**15%**
Europe	**17%**	**17%**
Asia	**8%**	**13%**
Total	**53%**	**161%**

All figures as at 26 November 2018.

Legal Disclaimer

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L1 CAPITAL

ABN 21 125 378 145 | AFSL 314 302

Level 28, 101 Collins Street
Melbourne Victoria 3000 Australia

Phone +61 3 9286 7000
Fax +61 3 9286 7099
Web L1.com.au