



December 2019

L1 Long Short Fund Limited

(ASX Code: LSF)

Key Details

ASX code	LSF
Share price	\$1.645
Market capitalisation	\$1,094m
Shares on issue	664,839,144
Listing date	24 April 2018

Net Tangible Assets Per Share (as at 31 December 2019)

NTA pre-tax	\$1.8416
NTA post-tax	\$1.8977

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 2.0% in December. In 2019, the Fund returned 25.5%.

The Fund had a very strong end to the year, returning +2.0%, despite the ASX200 Accumulation Index falling 2.2%. For 2019, the Fund delivered positive returns in 11 of the 12 months, with positive returns in every quarter.

In December, the ASX200 was weak, with notable falls in Consumer Staples (-8.1%), Communication Services (-5.8%), Technology (-4.6%) and REITs (-4.4%). The only sectors able to eek out a gain were Materials (+1.5%) and Utilities (+0.8%). Gold rallied due to the continued large injection of liquidity by the Fed, while oil began to rally on the back of improved global growth sentiment. Boris Johnson's landslide election win improved the prospects for a smooth Brexit, while a stage one trade deal between the U.S. and China provided another boost to global equities and a sell-off in bonds.

MEG Energy (long) rallied 31% driven by an increase in the WTI oil price from -US\$55 to -US\$61/bbl as well as continued balance sheet deleveraging with -C\$500m debt repaid in 2019. Under the leadership of the new CEO, MEG has demonstrated much stricter capital discipline leading to material capex reductions and consistent free cash flow generation, which we expect will support rapid deleveraging over the coming years.

Chorus (long) rose 5% continuing its positive momentum post the Commerce Commission releasing its Draft Fibre Inputs Methodologies Decision. We believe the Draft Decision still does not reflect the risks undertaken by Chorus, but does begin to resolve some of the uncertainty over other regulatory issues that were greatly concerning investors. Chorus has invested for almost a decade to create an exceptionally high-quality fibre asset and we look forward to the company finally generating a fair return on this investment in the years ahead.

Boral (long) fell 13% after announcing that it had identified financial irregularities in its North American Windows business which would result in a one-off impact to EBITDA of US\$20-\$30m (relating to Sept 2018 to Nov 2019). Assuming a permanent re-base of earnings, this would reduce Group earnings by -2-4% compared to the 13% share price decline. We continue to remain optimistic on the outlook for Boral given its strong leverage to the growth in infrastructure construction that is set to occur on the east coast of Australia over the next few years.

Domestic and international short positions were the other key detractor from performance, in part driven by the rally in international markets. There was limited stock specific news that contributed to these price moves.

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	85
Number of long positions	54
Number of short positions	31
Gross long exposure (%)	144%
Gross short exposure (%)	80%
Gross exposure (%)	224%
Net exposure (%)	64%

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	2.04%
Three months	5.97%
Six months	9.80%
One Year	25.46%
Total return since inception	(7.92%)

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

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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