L1 CAPITAL

L1 Long Short Fund Limited

Investor Letter | June 2020

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

The Fund aggressively bought oversold stocks in mid-late March (during the height of investor panic) which was a key driver of performance over the quarter.

The Fund performed very strongly in the June quarter, recovering almost all of the losses incurred during the market collapse in February/March. The decision to aggressively buy stocks that we believed were dramatically oversold near the market low of mid to late March proved instrumental in the Fund's rapid recovery. At the time of our buying, investor sentiment was as bearish and negative as we have ever seen it (very reminiscent of the dark days of the GFC). While it was definitely not an easy decision to turn very positive at that time, we believed that almost every signpost told us that it was a great time to be buying and increasing our market exposure (we ultimately increased our net long to around 100%, which is the highest net long on record since we launched the Long Short Strategy in 2014). Anecdotally, the vast majority of fund managers, brokers or clients we speak with are outright bearish or "still pretty nervous/cautious", which suggests to us that this positioning rotation has much further to go.

So why were we so positive in mid-late March, when virtually every investor/broker/economist had turned maximum bearish?

There were essentially five factors that led us to become very positive on the outlook for equities:

(1) **Valuations**: The extreme sell-off we witnessed between February 20 and March 23 had made valuations the most attractive we had seen since the depths of the GFC (the ASX200 fell 37%, from 7162 to 4546 in only 5 weeks). We found countless stocks with conservative upside of 50-100%+ even allowing for a very weak outlook for the global economy (please refer to slides 7 and 17-19 of our March 24 presentation for a list of some of the stocks we highlighted as dramatically oversold).

(2) **Investor positioning** was extremely bearish and defensive, with record levels of cash holdings and extreme short interest. This tends to be a classic contrarian indicator and aligns with the oft-quoted Buffett expression ("Be fearful when others are greedy and greedy when others are fearful"). We observed hedge fund positioning close to the lowest net long on record, with stock and market short interest at record levels.

(3) **Liquidity & Stimulus**: Central banks (especially the Fed) and governments conducted the most aggressive stimulus and liquidity injection we have ever seen – even more extreme than what was done during the GFC. Furthermore, the liquidity injection was done in one hit, amplifying the impact (during the GFC the stimulus was spread out over almost a year).

(4) **Likely fall in COVID-19 cases**: Our analysis suggested that COVID-19 cases were likely to begin falling in April given the extreme lockdown and quarantining measures that had finally taken effect as a result of surging case numbers. We had observed in China and other regions where restrictions had taken place that there was typically a 2-4 week lag between the time measures were enacted and a clear decline in infection rates beginning to be evident.

(5) **'Non-fundamental' selling** of stocks was extreme – margin calls, retail investor panic, fund redemptions, ETF selling and quantitative/systematic selling (such as volatility targeting strategies), were all driving share prices far below what fundamental analysis suggested was warranted. Each of these sell orders was emotional (based on fear) or systematic (based on rising market volatility or negative price momentum), rather than an objective assessment of a business' future cashflows and prospects. Over time, buying during these periods has tended to be incredibly rewarding for investors who can withstand the short-term volatility.

While Australian equities have recovered around half of their February/March losses, we believe the outlook for equities remains positive, albeit we continue to expect elevated volatility over the next 1-2 quarters, as incremental news flow comes through on COVID-19 spread, policy responses, vaccine progress and real-time economic data. We believe the vast majority of this "information" is actually "noise" in that it does not provide additional insight into the medium-term outlook for equities but may lead to large swings in share prices in the near-term.

On a medium-term basis, some of the reasons for our continued optimism about equities, particularly value and cyclical stocks, are that valuations remain attractive, especially compared to other asset classes like cash and bonds (which continue to enjoy record inflows as investors continue to be very risk averse) and expectations for the global economy remain overly negative (the outlook is soft, but not as weak as the consensus expects given our views on government stimulus measures and COVID-19 vaccine efficacy).

From a government stimulus standpoint, there was growing concern that stimulus measures such as the CARES Act in the U.S. and JobKeeper in Australia will end abruptly in July and September respectively and create a fiscal cliff. We do not believe this will occur and expect there will be continued government payments to support certain subsectors that remain deeply impacted by COVID-19. We believe it would be politically unpalatable to totally withdraw government assistance which would lead to a clear spike in unemployment and countless small businesses collapsing. In an Australian context, we expect a moderation in the JobKeeper stimulus from September (which would achieve the Government's aim of fiscal restraint, while still supporting the sectors that remain badly impacted, such as tourism, hospitality and education).

From a COVID-19 standpoint, we have conducted an enormous amount of detailed research on the prospects for a vaccine and have come away more positive than the consensus view. We are more positive than the market on both the likelihood of a safe and efficacious vaccine and also about the likely timeframe. Our head of healthcare research at L1 Capital is Dr. Andrew Lin, who is a medical doctor as well as being fluent in Mandarin. We have been in direct contact with most of the leading vaccine companies, such as Pfizer/BioNTech, Moderna, AstraZeneca, Inovio, Novavax, Sinovac, CanSino Biologics and numerous other promising biotech companies both in the Western world and China. We believe that by Q4 of 2020, we will have Phase 3 data available from Sinovac (China's most advanced vaccine player), Moderna, Pfizer/BioNTech and AstraZeneca/Oxford University, which should give equity markets comfort that there is some light at the end of the tunnel. The typical narrative we hear that a vaccine will take 3-5 years to come to market (because that has always been the case historically), is simply not recognising that this is the first time in a century that we have had a full-blown global crisis that has induced every government, regulator and vaccine company to expedite the entire vaccine development process, with unlimited global resources being thrown at it. Importantly, in the leading group of vaccine companies alone, there are a wide range of strategies being pursued (such as mRNA, Adenovirus, Inactivated virus, DNA plasmid, glycoprotein, etc) which provides numerous "shots on goal" for success. While there is still uncertainty as to the exact percentage efficacy that will be achieved (and the durability of any vaccine), we believe it will be enough to enable people to resume near-normal activities, such as visiting a shopping centre, going to a café, working from the office, taking a flight, etc.

At present, a significant proportion of the stocks globally are trading at deeply discounted levels because of the fear and uncertainty that the normal (pre-COVID) way of living may never return. We believe this set-up has created one of the greatest investment opportunities of our careers.

Portfolio Positioning

While we build our portfolio "bottom-up" from our stock research (selecting stocks that represent the best combination of value and quality), when we step back and look at the major themes and opportunity sets we see at present, they broadly fall into four buckets.

Long Short Fund – Key Themes:

(1) Monopoly Real Assets – companies such as Chorus, Atlas Arteria, Aurizon, Hotel Property Investments.

These companies look incredibly attractive at present. In general, these companies own monopoly or privileged assets that cannot easily be replaced or substituted. They are expected to generate dividend yields (or free cash flow yield) of at least 6-7% p.a. in coming years with continued growth in dividends beyond that. Some also offer the potential for additional capital management given they currently have under-geared balance sheets. In a world where long-term bond yields continue trading at 0-1%, we believe these stocks represent an extremely attractive alternative for investors seeking safe yield.

(2) COVID-hit Stocks – companies such as Star Entertainment, Safran, Scentre Group, Downer.

These companies have had a major hit to their earnings or business models due to COVID-19, yet the shares are now pricing in a much worse long-term outlook than we believe is likely. These are the companies that would most likely benefit most from signs of vaccine progress. In most cases, the shares are trading 30-50% below the levels they traded at in January (i.e. 40-100% upside if shares were to recover to January levels), yet the business is resilient and is likely to re-emerge "post-COVID" with only modest lasting damage to their earnings or cashflow. In our forecasts, we allow for weaker earnings (and in some cases a potential capital raising) and we still see very significant upside on a 1-2 year view.

(3) Resource-related stocks at a cyclical low point – companies such as Teck Resources, Warrior Met Coal, Oil Search, Worley.

We are contrarian investors and like to buy high quality cyclical stocks at a low point in their cycle (and equally, we look to short stocks at a cyclical peak). Commodities such as oil, coking coal and to a lesser extent copper have all reached an extreme cyclical low over the past few months and share prices are now reflecting an unsustainable situation, where a large proportion of the world's production is simply not viable at current pricing. In the words of the legendary hedge fund manager, Stanley Druckenmiller, when discussing commodity prices "the cure for low prices is low prices". In other words, the low prices themselves create the remedy by causing production cuts to rebalance the market and send the commodity prices higher.

(4) Conglomerates with high quality assets and a valuation catalyst – companies such as CK Hutchison, News Corporation, Vivendi and Iluka.

This part of our portfolio has tested our patience over the past year, as some of these positions have lagged the market badly, despite the underlying businesses generally performing well and cashflows continuing to be very strong. These share price falls have only exacerbated the upside to fair value. Given that the outlook for the underlying assets has remained favourable, we have retained our holding, and in some cases added during the March sell-off. We believe each of these stocks has major positive catalysts on a 12 month view:

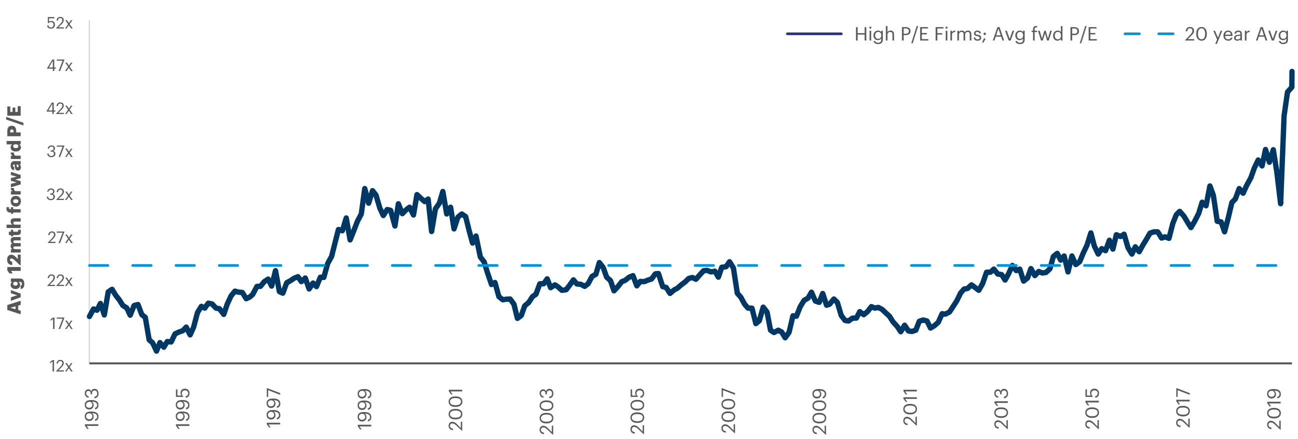
- CK Hutchison – Spin out and sell-down of their strategic portfolio of 28,500 telco towers in Europe that are the enabler of 5G (comparable assets trade at close to 20x EBITDA);
- News Corporation – Potential restructure/demerger of the digital real estate assets (such as REA & Move) or the Wall Street Journal;
- Vivendi – Recent partial sell-down of UMG (world's #1 music content business) and execution of a major on-market buyback program; and
- Iluka – Demerger of Mining Area C Royalty later this year.

Why value and cyclical stocks?

Growth stocks have dramatically and consistently outperformed value stocks going all the way back to 2008. While much of this move has been completely justified by the structural dominance and earnings growth of sectors such as large cap U.S. technology stocks and the structural headwinds that have faced sectors like banks and energy stocks, we believe the most recent "melt-up" has overshot and we are likely to see an inflection point as COVID-19 passes and economic activity recovers from multi-decade lows. We have never seen a more extreme divergence in share price performance between growth and value stocks in our 18 years in the market. For anyone doubting the magnitude of this move, Morgan Stanley's Factor Baskets illustrate the point. So far this calendar year, Morgan Stanley's US Growth Stock Index is up 37%, while its US Value Stock Index is down 53% (as at the time of writing on July 9). That is a 90% difference in performance across a very broad index of stocks in just over six months!

Chart 1 below shows how extreme the rally in high P/E stocks has been in Australia this year. These stocks had already been trading at levels never before seen in the past 20 years and in the space of only 6 months have just added another 10 P/E points to their valuation (with no meaningful change in their outlooks).

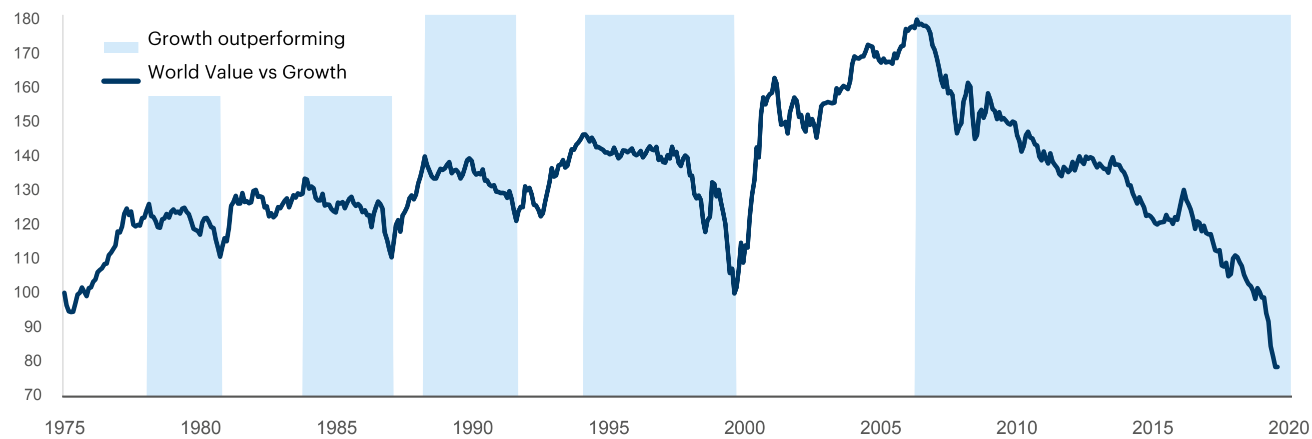
Chart 1: High P/E firms trade an average forward P/E of 46.0x, which is 97% above the 20 year average



Source: FactSet, Goldman Sachs Global Investment Research.

On a global basis, you can see that this period of 'growth stocks' outperforming 'value stocks' has been far longer and larger than any other period on record. While it is difficult to predict the timing of a reversal or normalisation, we believe the odds now clearly favour value stocks.

Chart 2: Growth has outperformed value since the GFC (relative price performance in local currency)



Source: Datastream, Goldman Sachs Global Investment Research.

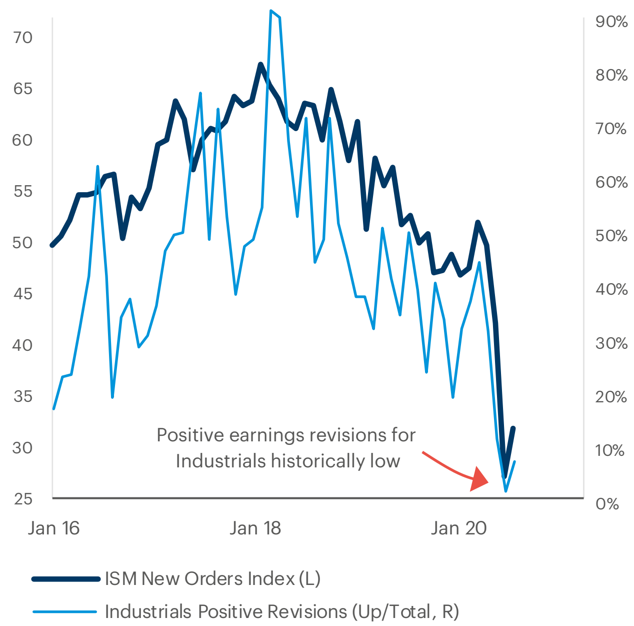
Why do we expect an inflection point over the next 1-2 years?

Historically, one of the best leading indicators of economic activity has been the 'New Orders' component of the ISM index (a closely watched monthly data set). We have seen a clear inflection point higher for the New Orders index over the past couple of months (the latest reading was 56.4 for June, up from 31.8 in May), consistent with the positive inflection in money supply and bond yields. Importantly, during periods of sharply rising New Orders data (as we are now observing), we tend to see strong outperformance from value and cyclical stocks. While this economic cycle is unique in terms of the nature of the crisis (a global pandemic), it is not unusual in terms of how liquidity, stimulus and bond yields are predictive of likely future economic activity. This supports our view that the coming year will see a rotation out of the safe haven stocks, such as technology and healthcare, which have been viewed as the true defensives in this crisis, given they generally have less negative impact from COVID-19, modest economic sensitivity and safe balance sheets. As COVID-19 passes and the impact of massive stimulus takes effect, we would expect to see these sectors become funding sources to enable investors to buy bombed out cyclical stocks, such as energy, miners (excluding iron ore), banks, consumer discretionary and transport stocks that are trading at 10-20 year lows.

Chart 3 shows that expectations for industrial stocks are extremely depressed and have tended to be highly correlated to the ISM New Orders data, which is now trending strongly higher (the latest reading is not included in this chart, as referenced above this has surged to 56.4).

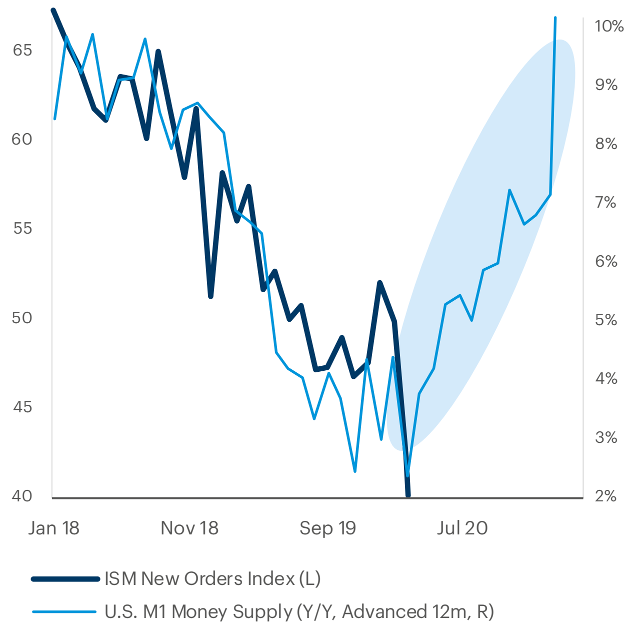
Chart 4 outlines how changes in the Money Supply (M1) tends to lead the ISM New Orders data by around 1 year and suggests a very strong improvement is likely in economic activity over the next 12 months.

Chart 3: Expectations for cyclicality are very low



Source: FactSet, UBS

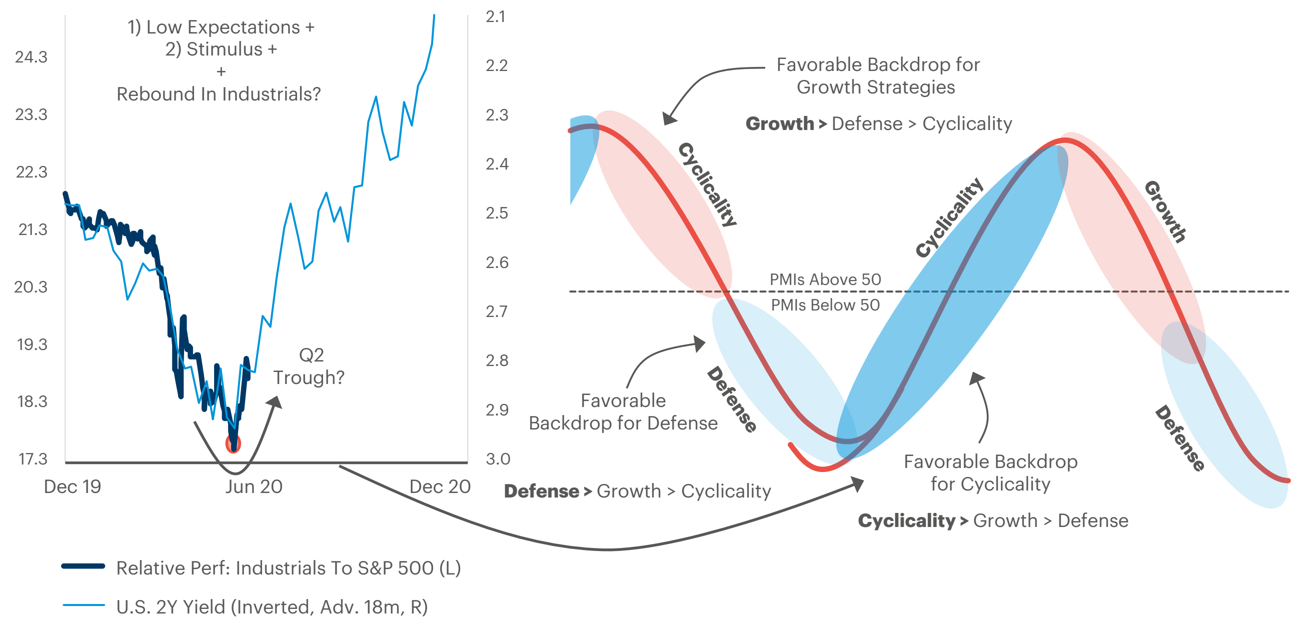
Chart 4: A lot of stimulus in the pipeline



Source: FactSet, UBS

Lastly, Chart 5 illustrates the historic correlation between U.S. 2 year bond yields (advanced 18 months) and the relative performance of Industrials versus the S&P 500. The move in bond yields suggests a period of strong outperformance in Industrials/Cyclicals is likely over the next 12-18 months. The stylised chart on the right hand side also suggests that investors should rotate into defensives as the PMI data falls below 50 (economic contraction), but should move into cyclicals as the PMI recovers past 50 (economic expansion) and look to rotate again into Growth stocks once the PMI peaks (declining rate of economic growth).

Chart 5: A rebound from cycle lows is typically the sweet spot for cyclicals



Source: FactSet, UBS

Key stock contributors

Atlas Arteria (ALX Long +21%) rallied as traffic started to show a meaningful recovery post the easing of COVID-19 restrictions in France. ALX shares had declined by around 50% from February highs of ~$8.50 as French and US lockdowns precipitated traffic declines of up to 90% on company toll roads. We initiated a large position in ALX in March/April, buying the bulk of our position for around ~$5.00. In May, ALX launched a placement and SPP to raise up to $495m to strengthen the balance sheet. This equity injection will enable them to benefit from the likely investment opportunities emerging as the French Government encourages infrastructure stimulus spending to boost economic recovery. We still see further substantial upside in ALX as dividends return in 2021 and 2022 towards our previous expectations.

Star Entertainment Group (SGR Long +31%) was a key contributor for the Fund in the quarter. Star's management team has done an impressive job of navigating the COVID-19 crisis thus far, with a significant program of cost out, structured shut-downs and staff furloughs, allowing for minimal cash burn while the main gaming operations were closed. Star's management team also drew on significant liquidity reserves and obtained covenant relief from lenders during the period in order to withstand a potential prolonged period of disruption without the need to raise equity. Lastly, Star worked with the NSW government to secure an extended tax agreement, whilst also preserving and strengthening its exclusivity on slot casino gaming in NSW. The NSW and QLD properties have reopened with social distancing restrictions from early July. Based on the experience of casinos offshore, we would expect Star to enjoy a stronger than expected recovery, as pent-up demand from its customers delivers a much-needed boost to operating performance.

Alacer Gold (AQG Long +80%) continued to perform strongly on the back of the successful ramp-up of its new sulphide project and supportive gold market dynamics. In early May, Alacer announced a nil premium merger with Canadian listed SSR Mining to create a ~US$4bn combined entity with a more diversified mining portfolio. The Fund exited its investment over April and May at around ~$10.00 / share after initially establishing a position in June 2018 at around ~$2.50 / share. Given Alacer's strong performance over the past two years, we elected to rotate proceeds into other gold stocks that we believe now offer more significant valuation upside.

Oil Search (OSH Long +51%) recovered strongly after a share price fall in the previous quarter where oil prices cratered under the dual impact of dramatically falling demand and a breakdown in the OPEC+ cartel. The company has been a strong performer for the Fund since we participated in its equity raise at $2.10 in early April and further added to our position around $2.40-2.70 immediately afterwards. 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 some 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).

Scentre Group (SCG Long +36%) rallied with the market anticipating a return of foot traffic to shopping centres, given the reduction in COVID-19 restrictions. Scentre is the owner of 7 of Australia's top 10 shopping centres and has achieved more than 99% occupancy continuously for more than 20 years. Shares had fallen by more than 60% (from $4.00 to around $1.50) when we began building a position and it has since rallied more than 40% to $2.17 at quarter end. Scentre's most recent NTA was $4.46 and its distribution in FY19 was 22.6c (15% trailing yield at our purchase price), which highlights how much downside is being factored into forward expectations. We anticipate a large short-term impact from the lockdown and an ongoing impact from a weaker domestic economy. Scentre is unlikely to breach any debt covenants but could elect to sell some assets to avoid equity dilution. The recent surge in COVID-19 cases in Victoria has increased the chance of an equity raise, however this is already factored into our valuation and distribution forecasts.

Downer (DOW Long +47%) recovered strongly post the sell-off in the prior quarter as COVID-19 concerns moderated. Downer shares had fallen in the prior quarter due to concerns that they may be unable to complete the sale of their mining services division and broader COVID-19 disruptions through various business units in Australia and particularly New Zealand. We believe the shorter-term COVID-19 related risks are being overstated and that delivery of a weak (but acceptable) full year result and more constructive FY21 outlook (as well the expected divestment of the mining services and laundries assets over the coming year) will lead to a re-rating of Downer as a capital-light (and lower risk) services business exposed to growing, annuity-style contracts.

Boral (BLD Long +73%) recovered strongly over the quarter after its extreme sell-off in March (the shares had fallen from ~$4.50 in January to ~$2.00 at the end of March). Boral has had a series of earnings downgrades over the last couple years, with the most recent major disappointment being the identification of financial irregularities in its North American Windows business which would result in a one-off impact to EBITDA of US$20-$30m. We significantly reduced our Boral position in mid 2019 (around $5.00-5.50) given the weaker operational outlook. With the large fall in the share price in March, we significantly increased our position at around $2.20 as we believed the shares were extremely oversold and have subsequently taken advantage of the recent rally to crystallise some gains. While the near-term outlook is challenged by lower housing activity in Australia and North America, we continue to remain optimistic on the longer term 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. During the quarter Seven Group became a substantial shareholder and have publicly expressed the need for a fresh approach at Boral.

Resolute Mining (RSG Long +40%) Resolute Mining rallied on the back of a stronger gold price and expectations of a better quarter at Syama (its main gold mine). This follows a weak few months impacted by two production outages, gold price volatility and a mixed first quarter production report. Resolute is trading at a substantial discount to most ASX and Canadian listed peers and we believe the shares will re-rate substantially as Syama fully ramps up in the coming months and as the company rolls out of adverse gold hedges that will enable much stronger cashflow generation.

Key stock detractors

The largest detractors from performance over the quarter were portfolio hedge positions primarily consisting of index shorts. In addition to this, key stock specific detractors are outlined below:

Empire State Realty Trust (ESRT NYS Long –23%) is a new position for the Fund, initiated after a substantial fall in the ESRT share price post the onset of COVID-19. ESRT is a New York-focussed office REIT with approximately half of its portfolio value comprising the iconic Empire State building, arguably the "world's most famous building". Around half the revenue from the Empire State building is derived from the famous observatory, which is due to re-open later this month. Both the observatory and the wider office portfolio have benefited from a huge capex improvement program over the past 5 years and look set to outperform the broader New York City office market over the coming years. We believe the observatory is underappreciated by REIT investors despite a long history of strong compound revenue growth which should continue post recovery. From a balance sheet risk perspective, while many REIT players globally entered the crisis with elevated leverage, ESRT had net debt to EBITDA of around 4x and an LVR of just over 20%, giving it an enviable position to navigate the crisis. ESRT currently trades 65% below its Net Asset Value and while we see a meaningful near-term impact on cashflows from the impact of reduced international tourist arrivals, lower rents, higher vacancies and potentially expanded cap rates, we believe ESRT represents an exciting opportunity to invest in an iconic asset at incredibly depressed pricing.

CK Hutchison (0001 HK Long –12%) was a key detractor for the Fund given the weakness in some of its port and retail operations in the first half of the year and a broader decline in the Hong Kong stock market following an increase in U.S./China tensions and concerns around Hong Kong protests. CK Hutchison is a diversified conglomerate with European and Australian infrastructure and telecom assets comprising the vast majority of its value. Hong Kong assets represent only 1% of group earnings. CK Hutchison is currently trading on a P/E of less than 6x FY21 (consensus earnings), with a 6% dividend yield and a free cash flow yield of over 20%. We see a major positive catalyst for the shares in the coming quarter, as the firm is set to potentially monetise some of its multi billion dollar telco towers portfolio, which can be redeployed for highly accretive deals/buybacks. We are also encouraged by the large scale share buying by the CEO in recent months. We believe CK Hutchison will generate a stronger second half performance as core infrastructure and telecom assets continue to prove resilient and the port and retail pharmacy operations gradually return to growth.

Healthcare & biotech sector review

Over the past year, we have significantly increased our coverage of the global pharmaceuticals and biotech space. Our thesis was that due to the increasing openness of the U.S. FDA to accelerating approvals for diseases of high unmet need and Big Pharma's continued preference for acquisitions over internally developed drugs, we were about to enter a period of unprecedented innovation and disruption in biopharma that should be both exciting for humanity and highly profitable for investors. The arrival of COVID-19 has served as a further accelerant to these innovation efforts, with biotech companies seen as leading the charge in our fight for economic revival. Our healthcare analyst, Dr. Andrew Lin, has invested a huge amount of time and energy into understanding the science, clinical outcomes and current status of a variety of therapies being developed across the world.

In the past six months, he has met with more than 200 biopharma companies, 100+ clinicians and key opinion leaders and attended 10 global healthcare conferences (one of the positives of the COVID-19 crisis is that we have been able to intensify our company visitation schedule without the tyranny of international travel). In this period, we have made a few small investments which we believe could deliver outsized returns over the medium term. In addition, we have come away with some high level insights on the pharmaceutical and biotech landscape, which we further outline below:

1. Since the start of the COVID-19 crisis, we have met with numerous clinicians and most of the prominent companies leading the therapeutics and vaccine charge. These include Moderna, Sinovac, Regeneron, BioNTech, CanSino and many others. The Chinese inactivated virus vaccines by China Biotec and Sinovac are currently leading the vaccine race with Phase 3 trials starting this month in Brazil and the UAE. Their Phase 2 trial showed very strong and convincing outcomes that we believe will offer significant protection against COVID-19. The Moderna and Pfizer/BioNTech mRNA vaccines are not far behind in clinical development and have the potential to offer a similar level of protection to the Chinese vaccines. Overall, we believe this means we will have the first safe and efficacious vaccine around November this year, with more widespread availability in the first half of 2021. In the meantime, until a vaccine becomes available, we believe that a new generation of antibody treatments (from companies such as Regeneron and Celltrion) will become available over the next few months that will significantly reduce the severity and mortality of the disease.
2. Personalised therapies have been talked about for decades, but recent advances in delivery technology and accelerated pathways to approval have given birth to a plethora of therapies that are now at or near commercialisation. These include gene therapies which use harmless viruses to deliver missing genes to cells, mRNA therapies which deliver the instructions to new proteins, RNAi therapies which block 'bad' genes and gene editing which could alter specific genetic mutations back to their normal state. Due to their targeted nature, these therapies have fewer side effects, and can deliver persistent benefits that allow for quarterly, annual or even one-off dosing. For those healthcare companies selling traditional therapies, we believe this looming wave of personalised therapies poses an existential threat, as evidenced by CSL's defensive $2 billion licensing deal with UniQure for their Haemophilia B gene therapy. While Sanofi's Fitusiran (RNAi) and Pfizer's competing gene therapy are vying for the same market, we believe this deal could potentially allow CSL to defend a portion of its $800m Haemophilia B franchise.
3. There has been a lot of recent interest in the FcRn antagonist space, given the recent Phase 3 results from Argenx which showed that in Myasthenia Gravis (MG), their drug was highly effective with very few side effects. We believe these results will allow the drug to be approved in 2021, and it will rapidly displace immunoglobulin ("Ig") use for this indication (~5% of total Ig use). Argenx (and other FcRn companies) are also running trials in similar conditions (such as ITP and CIDP), with these conditions in totality representing close to 50% of Ig use globally. We have been meeting with these FcRn companies regularly over the last 12 months and believe that given the impressive results seen in MG, these other trials have a greater chance of success than the market currently assumes. Ig is the largest part of CSL's earnings today and given CSL is currently trading on a P/E of 39x earnings (FY21), we don't believe these serious competitive threats are being factored into the current share price.
4. Corporate activity remains robust in the biopharma space with a number of blockbuster deals in the last 12 months (including Novartis/Medicines Company, Roche/Spark, Bristol-Myers Squibb/Celgene, etc). We believe these acquisitions bring necessary R&D capabilities and clinical pipelines to acquirers who would otherwise be faced with declining earnings from increased competition or patent expiry. This is evidenced by a clear disparity in P/E multiples between biopharma companies with successfully stabilised earnings across their business (e.g. Roche, Novartis, Merck) which trade on ~15x 2020 P/E and companies which continue to face a declining earnings profile (e.g. Gilead, Abbvie, Biogen, Bristol-Myers Squibb) which trade closer to ~9x 2020 P/E.

5. A majority of biopharma and investor capital in the last decade has been funnelled towards cancer treatments. This has seen rapid advances in medical outcomes and huge profits (e.g. Merck's blockbuster drug Keytruda is forecast to hit $22 billion in sales by 2025). From our numerous meetings and study of the entire field of upcoming clinical developments, we believe that CNS disorders (such as Parkinson's and schizophrenia) and cardiometabolic disorders (such dyslipidaemia and NASH) are poised to see a renaissance in innovative therapies and capital inflows that have been specifically enabled by newer delivery technologies. This is also backed up by the public intentions of many major biopharma firms (such as Roche & Novartis) to expand/rededicate their focus into these fields.

We believe the opportunity set in the pharma and biotech space remains exciting and while it comprises a modest portion of our portfolio, we believe it offers the prospect of outsized returns. We have been careful to only invest in companies that have clearly demonstrated the safety and efficacy of their treatment, offer a genuine best-in-class treatment and whose share price does not reflect close to what we believe is fair value for their future earnings and cashflows.

Thank you for your continued support. We hope you have found this update helpful in understanding our portfolio positioning and thought process. We will be conducting a conference call at 2pm (AEST) on July 27, 2020 and we welcome your questions or feedback.

L1 Long Short Fund Limited

Investor Letter | June 2020

L1 Capital Overview

L1 Capital is a global investment manager with offices in Melbourne, Sydney, New York and London. The business was established in 2007 and is 100% owned by its senior staff, led by founders Raphael Lamm & Mark Landau. The team is committed to offering clients best of breed investment products. L1 Capital manages money for a range of clients including large superannuation, endowment funds, private banks, insurance companies, pension funds, financial planning groups, family offices, high net worth individuals and retail investors.

L1 Capital uses a fundamental, bottom-up research process to identify investments with the potential to provide attractive risk-adjusted returns. The L1 Capital investment approach is largely style-neutral with modest value and contrarian characteristics. The firm launched its flagship L1 Capital Australian Equities Fund in August 2007. Since inception, the L1 Capital Australian Equities Fund has been one of the best performing large cap, long only funds in Australia, outperforming the S&P/ASX200 Accumulation Index by 2.8% (after fees).

Investment Guidelines

Andrew Larke	Independent Chair
John Macfarlane	Independent Director
Harry Kingsley	Independent Director
Raphael Lamm	Non-Independent Director
Mark Landau	Non-Independent Director

Service Providers

Manager	L1 Capital Pty Ltd
Prime Broker	Morgan Stanley, Credit Suisse (Europe)
Administrator	Mainstream Fund Services
Auditor	EY

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Information contained in this publication

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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