JANUARY 2021

L1 Long Short Fund Limited

(ASX Code: LSF)

L1 CAPITAL

Key Details

ASX code	LSF
Share price	$1.975
Market capitalisation	$1,213m
Shares on issue	614,339,144
Listing date	24 April 2018

The NTA of L1 Long Short Fund Limited ("the Company") decreased by 0.2% in January (ASX200AI +0.3%).

Over the past year, the Company's NTA increased 40.2% (ASX200AI -3.1%).

We believe we are at the early stages of a rotation to cyclical and value stocks, which the portfolio is well-positioned to benefit from.

The Manager will give an update on the strategy on Friday 12 February at 11:00 a.m. (AEST). Please click here to register for the webinar.

Global markets started strongly in January but most ended the month in the red, impacted by fears of rising COVID case numbers and concerns over "mutant" virus strains. Our extensive vaccine research suggests that recently approved vaccines are likely to remain efficacious against the "mutant" strains of the virus, supporting our optimistic outlook for recovery. There was also a broad hedge fund de-grossing, caused partly by the significant volatility in a handful of heavily-shorted U.S. small cap stocks which contributed to a broader sell-off across the market (S&P500 -1.0%, FTSE100 -0.8%, Euro Stoxx 50 -1.8%). The S&P/ ASX 200 Accumulation Index returned 0.3% in January, marginally outperforming global markets. The strongest sectors were Consumer Discretionary (+4.7%), Communication Services (+2.7%) and Financials (+2.2%) while Property (-4.1%), Industrials (-3.0%) and Healthcare (-1.8%) lagged.

After very strong performance in the December quarter, the portfolio performed relatively in line with the market in January. This was a pleasing result, as we were able to offset the decline in some cyclical and value names with strong stock picking gains.

Despite the elevated volatility in January, we continue to believe the market environment is very attractive with numerous exciting stock specific opportunities. We remain positive on the outlook for equities (and especially cyclicals) given the combination of massive central bank and fiscal stimulus, defensive investor sector positioning and the likelihood of positive vaccine progress providing an attractive risk-reward.

We believe we are just at the start of the "vaccine trade", given that we expect investors will now accept that they need to re-position their portfolios to reflect a much-improved outlook for COVID-19 and global GDP. As such, we expect a strong recovery in many oversold value and cyclical sectors (such as travel, energy, mining and industrials) with the Company well placed to benefit from this recovery.

NTA Performance*

	NTA PRE-TAX
One month	-0.16%
Three months	37.39%
One Year	40.17%
Two Years (p.a.)	24.73%
Total return since inception (24 April 2018)	19.06%

* *Source: Mainstream Fund Services and L1 Capital. Net performance is calculated using the movement in NTA pre-tax. Performance is shown net of all applicable fees and charges. Past performance should not be taken as an indicator of future performance.*

Some of the key contributors to Company performance during the month of January were:

Bed Bath & Beyond (BBBY) (long +97%) shares rallied strongly as the company was one of a handful of heavily-shorted stocks that were aggressively bought by retail investors over the month. The sharp increase in the share price led to a "short squeeze" as some hedge funds were forced to liquidate their short positions through buying stock on market, further exacerbating the spike in the share price. We took advantage of the share price surge to sell-down our holding over the month and fully exited our position near the intra-month high of ~US$52 / share (average sell price of US$45.31, compared to our entry price is June 2020 of around US$9.00). Whilst price rise has occurred much more quickly than we expected and was largely driven by market volatility, we continue to believe in the medium term turnaround prospects for the company. BBBY remains on our watchlist for a more opportunistic re-entry point when valuations normalise.

News Corp (long +5%) shares continued their strong momentum from the December quarter driven by a number of analyst target price and rating upgrades over the month. Even following more recent increases in the share price, we believe News Corp remains significantly undervalued. On a sum-of-the-parts basis, we believe the current share price implies that investors are effectively getting the Dow Jones business, which includes the Wall Street Journal, for free. In our view this fails to recognise the strong fundamentals and operating momentum for these assets. Applying the same valuation multiple to the Dow Jones segment as is being ascribed to the New York Times would imply a value for the Dow Jones asset alone of ~US$8b, which equates to roughly half the current News Corp share price. Furthermore, the recent proposed sale of Simon & Schuster (a key competitor to News Corp's book publishing business) for ~15x EV/EBITDA to Penguin Random House should draw more attention to the latent value available in the company's publishing assets. News Corp management is taking progressive steps to better highlight the underlying value of its assets and to simplify its corporate structure, which we expect will continue to unlock value going forward.

Health & Happiness (long +32%) is a Chinese health and wellness company listed in Hong Kong. Its key products include premium infant milk formula (IMF), probiotics, vitamins and pet food. In 2015, H&H (then known as Biostime) bought Swisse, one of the leading Australian vitamin and wellness brands for $1.7b. Over the last few years, the company has been struggling with two main issues: 1. Swisse sales outside China have been declining as the Daigou channel has been phased out in favour of direct sales via the company's Chinese online stores (leading to channel destocking over an 18 month period), 2. The Biostime infant milk formula brand has lost market share to competitors who have been more aggressive at distribution and marketing. We initiated our position in early 2020 after gaining confidence in management's plan to reverse these business challenges and with a view that the strong growth of Swisse within China and the strength of the company's dominant probiotics franchise were under-appreciated by the market. Despite the challenges presented by COVID-19 and resulting lockdowns, the company executed well in 2020. The Swisse brand returned to growth in the second half of 2020 and the company implemented a revised distribution strategy that led to an increase in IMF market share (according to the latest Nielsen survey). We continue to believe H&H has significant upside from current share price levels. The company trades on P/E of only ~14x consensus FY21 earnings, with the potential to deliver ~20% EPS growth p.a. for the next few years as management continues to execute their turnaround plan.

Some of the key detractors to Company performance during the month of January were:

Hudbay Minerals (long -19%) is a mid-tier mining company primarily producing copper concentrate (containing copper, gold and silver) and zinc, with its key assets located in Canada and Peru. After performing strongly over the December quarter, the shares fell in January along with many stocks whose prospects are tied to global, and particularly Chinese, growth (there was no company specific news flow). We are attracted to Hudbay due to our positive medium term outlook for copper and with the view that the company was starting to demonstrate an enhanced level of operational and strategic focus under the new leadership of highly regarded CEO Peter Kukielksi following a sustained period of underperformance. We expect solid copper and gold production growth in CY21 and CY22 to result in a substantial lift in free cashflow, with further upside if commodity prices continue to rise. While approval for its flagship development project (Rosemont) had a regulatory setback last year, we still expect Hudbay to deliver strong organic and inorganic production growth over the coming years.

SES (long -9%) is a French satellite network provider that supplies data and video connectivity to broadcasters, telecommunications companies, governments and airlines globally. SES also owns a 45% economic interest in C-Band spectrum that is critical to the development of 5G services in the U.S. SES was impacted in January by fears of rising COVID case numbers, concerns of "mutant" virus strains and the increase in market volatility. We believe SES remains extremely undervalued and we took advantage of the pullback to further add to our position. The market currently ascribes limited value to the company's C-Band spectrum, which is set to deliver ~US$3.2b in cash payments (after tax) over the next 3 years, amounting to ~80% of the current market cap.

Safran (long -11%) shares fell because of renewed COVID-19 related concerns (increasing cases and "mutant" strains of the virus) dampening the expectations around the outlook for air travel. We used the opportunity to increase our position in the company at what we believe are attractive levels. Safran's key business is the sale of jet engines and parts for narrow-body Airbus and Boeing planes. In our view, Safran is the highest quality aerospace business globally, given it controls 60% market share of all jet engine sales for narrow-body aeroplanes and it now has the most reliable and youngest engine fleet, which provides incredible predictability and visibility regarding its long term earnings outlook. Even during the depths of the COVID crisis, while virtually every aerospace competitor and airline was loss-making, Safran continued to generate more than €1b of free cashflow, highlighting the outstanding resilience and quality of its business. We believe Safran is likely to triple its earnings per share over the next few years, based on an anticipated strong recovery in air travel, the benefits of its €2b+ cost out program and a potential re-start of its share buyback program. Safran represents everything we look for in a great long term investment: a highly cash generative business, with huge barriers to entry, best in class management, improving operating trends and an under-geared balance sheet.

The investment team significantly added to their investment in the Long Short strategy during the second half of 2020 and continued to do so in January, reinforcing our very positive outlook for the portfolio. Our expectations are underpinned by the unusually large number of stocks in the portfolio with significant upside to valuation and the extreme stock dispersion across the market, which provides attractive opportunities for stock picking. We also expect much improved business, consumer and investor confidence as a result of the rollout of vaccines around the world. As people resume a near-normal (pre-COVID-19) way of living, we expect many oversold companies to recover further, which, along with a continued rotation into value and cyclical stocks, should be a tailwind for Company performance.

Portfolio Exposures

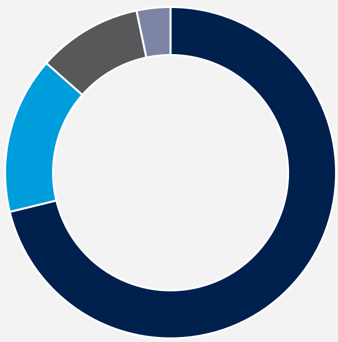
Number of positions	94
Number of long positions	77
Number of short positions	17
Gross long exposure (%)	209%
Gross short exposure (%)	79%
Gross exposure (%)	288%
Net exposure (%)	130%

Net and Gross Exposure by Region*

GEOGRAPHY	GROSS LONG	GROSS SHORT	NET EXP
Australia / NZ	139%	66%	74%
North America	31%	13%	18%
Europe	30%	0%	30%
Asia	9%	0%	9%
Total	209%	79%	130%

* *Percentages have been rounded to the nearest whole number.*

Gross Exposure as a % of Total Exposure



Investment Guidelines

Typical no. 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 29 January 2021)*

NTA pre-tax	$2.3812
NTA post-tax	$2.2939

* *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

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L1 CAPITAL

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Company and Manager Overview

L1 Long Short Fund Limited ("the Company") 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, pension funds, financial planning groups, asset consultants, family offices, high net worth individuals and retail investors.