



L1 CAPITAL

Annual Report

For the year ended 30 June 2021

L1 Long Short Fund Limited

ABN 47 623 418 539

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Corporate Directory

Directors

Andrew Larke (Independent Chairman)
John Macfarlane (Independent Director)
Harry Kingsley (Independent Director)
Raphael Lamm (Non Independent Director)
Mark Landau (Non Independent Director)

Company secretary

Mark Licciardo

Registered office

Mertons Corporate Services
Level 7, 330 Collins Street
Melbourne VIC 3000
Phone: (03) 8689 9997

Investment manager

L1 Capital Pty Limited
Level 28, 101 Collins Street
Melbourne VIC 3000
Phone: (03) 9286 7000

Administrator

Mainstream Fund Services Pty Ltd
Level 1, 51–57 Pitt Street
Sydney NSW 2000
Phone: (02) 8259 8508

Share registrar

Link Market Services Limited
Tower 4, 727 Collins Street
Melbourne VIC 3008
Phone: 1800 129 431

For enquiries relating to shareholdings, dividends and related matters, please contact the share registrar.

Auditors

Ernst & Young
200 George Street
Sydney NSW 2000
Phone: (02) 9248 5555

Securities exchange listing

Australian Securities Exchange (ASX)
The home exchange is Melbourne
ASX code: LSF Ordinary shares

Website

www.L1LongShort.com



Chairman's Letter

Dear fellow shareholders,

I am pleased to provide you with the Annual Report for the L1 Long Short Fund Limited ("LSF" or "Company") for the year ended 30 June 2021.

LSF has delivered excellent results for investors with the portfolio returning 72.9% versus the S&P ASX200AI's return of 27.8% and the Company share price increasing 108.2% (from \$1.22 to \$2.54). Considering the backdrop of extreme market uncertainty and the extended period through which markets continued to be driven by forces other than fundamentals, these results have been a great validation of the Investment Manager's astute portfolio management.

The robust returns over the period were driven by strong stock selection across a wide range of sectors as well as rigorous research on the COVID-19 pandemic. After the extreme sell-off in March 2020 due to the global spread of COVID-19, the Investment Manager demonstrated foresight, conviction and composure by aggressively buying numerous high quality stocks at exceptional prices and closing a substantial number of shorts. As the year progressed, the Manager continued to work intensively, conducting in-depth company-specific and market-leading COVID-19 pandemic research, and decisively increasing the portfolio's net long and international exposure which were instrumental in driving the portfolio's strong performance.

In parallel, the Board continued its sustained efforts to close the discount between the LSF share price and the post-tax NTA, which, alongside the strong portfolio returns, successfully reached the stated goal of a discount of less than 10%. While this is a pleasing result, both the Board and Investment Manager remain fully committed to further narrowing the gap going forward.

The Company's share buybacks for the year totalled approximately 43 million shares (~\$73 million or ~7% of year end issued capital) at an average price of \$1.68 per share. The Board and Manager were also pleased to realise their long term intention of establishing a growing, sustainable dividend profile. The Company declared two dividends, an inaugural fully franked dividend of 1.5 cents per share in February 2021 and a second fully franked dividend of 3.0 cents per share in August 2021.

Senior management of the Investment Manager also continued to demonstrate their alignment with investors by reinvesting the full amount of the after tax proceeds from performance fees, which remain escrowed for 10 years from IPO, and investing more than \$10 million of their own capital during the year.

We remain grateful for the positive feedback we have received from shareholders this year on LSF performance, our buyback activity, the commencement of fully franked dividends, our continued Investment Manager co-investments and our enhanced communication with shareholders. We look forward to speaking with you at the Annual General Meeting at 10am on Thursday 18 November 2021.

Thank you for your continued support of the Company.

Andrew Larke
Chairman,
L1 Long Short Fund Limited



Investment Manager's Report

Dear Shareholders,

On behalf of the investment team at L1 Capital, we are pleased to provide you with our annual letter to shareholders. Over the past year, we have experienced one of the most intensely challenging, yet satisfying, periods of our careers.

We started this financial year against a backdrop of widespread fear and uncertainty that the normal (pre-COVID) way of living may never return and with a portfolio of companies cautiously recovering from the undervalued and oversold positions where we had bought them. We focused on staying composed, staying true to our investment process and not allowing ourselves to be distracted by the short-term “noise” and market volatility. This focus led to our contrarian stance of being very positive on the outlook for equities at the beginning of this financial year, with our in-depth research providing us with confidence that the COVID-19 situation would improve significantly over the next 6-12 months through the development of ground-breaking vaccines.

Many industry and media commentators remained pessimistic on the outlook for COVID-19 and flagged 3 – 5 year timelines for vaccine development. However, our detailed research (which included more than 100 meetings and calls with leading vaccine experts globally, including the leading vaccine and therapeutics companies) indicated a much more positive view on the timing and the likelihood of safe and effective vaccines. As early as July, we began sharing our positive views publicly (advocating that mRNA vaccines were superior, safer, expected sooner and more adaptable to handle mutations) and on the likely timeframe of widespread vaccine availability. We were able to hold our nerve (despite many views to the contrary) to capitalise on the successful efficacy announcements in November 2020.

Over the second half of the financial year we continued to generate excellent returns through strong stock selection across a number of sectors. We expected earnings in the first quarter of 2021 to be far stronger than consensus expectations which was proven correct, with the February 2021 reporting season delivering the highest number of earnings beats in the history of the ASX. By March 2021, a number of catalysts in the portfolio had played out and we began locking in the profits in key sectors and recycling capital into existing high conviction positions and a selection of new ideas.

We also began positioning the portfolio to be more insulated against rising inflationary pressures. Our extensive research and company meetings suggested that broad-based input cost pressures were building quickly and were likely to convert into rapidly rising consumer prices towards over the remainder of 2021 and into 2022.

From an operations standpoint, a key change we made over the year was to build a deep, experienced and highly-regarded Investment Relations and Marketing Team to amplify our shareholder communication beyond the information in our monthly and quarterly reports. We believe effective and regular communication is critically important to ensure our investors are kept well-informed on our latest thoughts and portfolio positioning. Our enhanced team has set in motion a sustainable, long-term strategy designed to make our information more broadly accessible via videos, podcasts, webinars, roadshows, trade press and newspapers, which we hope you will continue to find beneficial.



Investment Manager's Report

Continued

In summary, we are delighted that we were able to deliver strong outcomes for investors in the 2020/21 financial year. While markets are more fully priced relative to 12 months ago, we believe they are shifting towards being driven more by company and industry fundamentals than "top-down" / pandemic related trends. This suits our bottom-up, detailed investment approach, which remains focused on proven and enduring business fundamentals such as cash flow generation, management quality, industry structure, operating trends and balance sheet strength. We continue to find numerous, under-recognised and exciting stock opportunities with our ability to position long and short, and to invest internationally, enabling us to take full advantage of these opportunities.

We have significantly increased our personal investment in LSF over the period and continue to be excited about the outlook for the portfolio.

As always, we sincerely appreciate your continued support and investment in LSF and look forward to updating you over the year ahead.

Mark Landau

Non Independent Director,
L1 Long Short Fund Limited

Joint Managing Director &
Chief Investment Officer, L1 Capital Pty Ltd

Raphael Lamm

Non Independent Director,
L1 Long Short Fund Limited

Joint Managing Director &
Chief Investment Officer, L1 Capital Pty Ltd



Directors' Report

The Directors present their report together with the financial statements of L1 Long Short Fund Limited (the "Company") for the year ended 30 June 2021.

Directors

The following persons held office as Directors during the year and up to the date of this report:

Andrew Larke	(Independent Chairman)
Raphael Lamm	(Non Independent Director)
Mark Landau	(Non Independent Director)
John Macfarlane	(Independent Director)
Harry Kingsley	(Independent Director)

Principal activities

During the year, the principal activity of the Company was to invest (both long and short) in predominantly Australian securities with the remaining exposure to global securities. The Company's investment objective is to deliver positive absolute returns to investors while seeking to preserve capital over the long term.

There were no significant changes in the nature of the activity of the Company during the year.

Dividends

On 11 February 2021, the Directors declared a fully franked interim dividend of 1.5 cents per share with record date of 2 March 2021 and paid to the shareholders on 26 March 2021.

On 25 August 2021, the Directors declared a fully franked final dividend of 3 cents per share with record date of 14 September 2021 and payable to the shareholders on 1 October 2021.

The Dividend Reinvestment Plan (DRP) is in operation under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Participating shareholders will be entitled to be allotted the number of shares (rounded down to the nearest whole number) which the cash dividend would purchase at the relevant allocation price. The relevant allocation price is the arithmetic average of the daily

volume weighted average sale price (calculated to the nearest cent) of shares traded on the ASX over the five trading days commencing on the ex-dividend date for the relevant dividend, without any discount. The last day for the receipt of an election notice for participation in the DRP is 15 September 2021.

Dividend Profit Reserve

The Company may transfer any current year or prior period accumulated profits not distributed as dividends to a Dividend Profit Reserve. Doing so facilitates the payment of future dividends, rather than maintaining these profits within retained earnings.

On 16 December 2020, the Directors resolved to approve the transfer of any resulting net profit after tax for the half-year ended 31 December 2020 to the dividend profit reserve. Accordingly, on 31 December 2020, the transfer of \$325,296,000 was made to the reserve. A further transfer of \$188,896,000 was made to the reserve on 30 June 2021 which is in line with the board resolution dated 29 June 2021.

The balance of the dividend profit reserve as of 30 June 2021 is \$504,977,000.

Review of operations

The operating profit before tax was \$724,909,000 for the year ended 30 June 2021 (2020: loss \$34,850,000). The net result after tax was a profit of \$514,192,000 (2020: loss \$21,650,000).

The net tangible asset backing before tax as at 30 June 2021 was \$2.8038 per share (2020: \$1.6313).

The Company's performance exceeded its high watermark as of the performance calculation year ended 30 June 2021 giving the Investment Manager an entitlement to a performance fee. Please refer to Note 21 for further details.

On 27 February 2020, the Company announced a new on-market buy-back of up to 10% of its shares, commencing 16 March 2020 and continuing for up to 12 months.



Directors' Report

Continued

Review of operations *continued*

The Company announced on 12 February 2021 that it will extend its share buy-back program for a further 12 months from 16 March 2021. A total of 43,059,924 shares (6.48%) had been bought back during the financial period ended 30 June 2021 (2020: 15,775,000 shares (2.37%)). Please refer to Note 15 for further details.

Financial position

The net asset value of the Company for the financial year ended 30 June 2021 was \$1,574,311,000 (2020: \$1,140,530,000).

Significant changes in the state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the year ended 30 June 2021.

Matters subsequent to the end of the financial year

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Likely developments and expected results of operations

In March 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The outbreak and the response of the Governments in dealing with the pandemic saw a corresponding significant increase in financial market volatility and corresponding fluctuations in the fair value of the Company's investment portfolio which persisted throughout the financial year.

The Investment Manager closely monitors any developments and their likely impact on the assets of the Company. The Investment Manager actively manages the financial risks that the Company is exposed to and the net assets of the Company continue to be valued daily, consistently applying valuation policies reflective of prevailing market conditions.

The Company will continue to pursue its investment objectives for the long-term benefit of the members.

Environmental regulation

The Company is not affected by any significant environmental regulation in respect of its operations.

To the extent that any environmental regulations may have an incidental impact on the Company's operations, the Directors of the Company are not aware of any breach by the Company of those regulations.

Information on Directors

Andrew Larke (Independent Chairman)

Experience and expertise

Andrew Larke has over 25 years' experience in mergers, acquisitions, capital markets and senior executive leadership positions.

He was formerly Global Head of Strategy, Planning and Mergers & Acquisitions at Orica Limited, where he was a member of the Group Executive for 9 years. Prior to this, he held senior corporate strategy, business and legal roles at North Ltd and he began his career as a corporate lawyer at Blake Dawson Waldron (now Ashurst).

Other current directorships

Andrew Larke's current directorships in other listed companies include Diversified United Investment Limited.

Former directorships in last 3 years

Andrew Larke's former directorships in other listed companies include DuluxGroup Ltd.

Interests in shares and options

Details of Andrew Larke's interests in shares of the Company are included in Note 18(b).

Interests in contracts

Andrew Larke has no interests in contracts of the Company.

John Macfarlane (Independent Director)

Experience and expertise

John Macfarlane is an experienced international banker. He served as CEO of Bankers Trust New Zealand (1998 - 1999), Chief Country Officer (Japan) and President of Deutsche Securities Japan (1999 - 2006), Executive Chairman of Deutsche Bank Australia and New Zealand (2007 - 2014) and Chairman and CEO of Deutsche Bank Australia (2011 - 2014).

During his 15 years at Deutsche Bank he was a member of the Global Markets, Global Banking and Global Regional Management Executive Committees and he also served as a Co-Chair of the Asia Pacific Executive Committee (2004 - 2006). He has also previously worked for the New Zealand Government Treasury, the Dept of Finance (PNG) and for Bankers Trust Company for 11 years in Australia, New Zealand and the USA.



Information on Directors *continued*

Other current directorships

John Macfarlane's current directorships in other listed companies include ANZ Banking Group Limited.

Former directorships in last 3 years

John Macfarlane has not held any directorships in other listed companies within the last 3 years.

Interests in shares and options

Details of John Macfarlane's interests in shares of the Company are included in Note 18(b).

Interests in contracts

John Macfarlane has no interests in contracts of the Company.

Harry Kingsley (Independent Director)

Experience and expertise

Harry Kingsley is a partner at K&L Gates. He is a senior corporate and commercial lawyer specialising in strategic advice and negotiated transactions. He has extensive legal industry experience working in private practice and organisations in the transport and financial services industries as well as working as an investment banking professional. He is a trusted advisor to private and ASX listed corporations, their directors and management throughout Australasia.

He is highly regarded for his general commercial expertise as well as specialist knowledge around private equity, private and public M&A, IPOs and equity and debt capital markets.

He was formerly a Partner at Holding Redlich (2015 - 2020), the Senior Legal Counsel, Asciano Limited and Chief Legal Counsel, Pacific National (2011 - 2015), Executive Director, Austock Group (2005 - 2011) and a senior associate at Minter Ellison (2001 - 2005).

Other current directorships

Harry Kingsley does not currently hold directorships in other listed companies.

Former directorships in last 3 years

Harry Kingsley has not held any directorships in other listed companies within the last 3 years.

Interests in shares and options

Details of Harry Kingsley's interests in shares of the Company are included in Note 18(b).

Interests in contracts

Harry Kingsley has no interests in contracts of the Company.

Raphael Lamm (Non Independent Director)

Experience and expertise

Raphael Lamm is a co-founder of L1 Capital Pty Limited and has been the Joint Managing Director & Chief Investment Officer since the firm was founded in 2007. Since establishing L1 Capital Pty Limited, he has jointly headed up the L1 Capital Australian Equities Fund and L1 Capital Long Short Fund.

Prior to L1 Capital Pty Limited, he spent more than 5 years at Cooper Investors. During that period, he was a portfolio manager of the flagship Cooper Investors Australian Equities Fund.

He holds a double degree in Law and Commerce from Monash University, with Honours in Law and First Class Honours in Finance.

Other current directorships

Raphael Lamm does not currently hold directorships in other listed companies.

Former directorships in last 3 years

Raphael Lamm has not held any directorships in other listed companies within the last 3 years.

Interests in shares and options

Details of Raphael Lamm's interests in shares of the Company are included in Note 18(b).

Interests in contracts

Details of Raphael Lamm's interests in contracts of the Company are included later in this report.

Mark Landau (Non Independent Director)

Experience and expertise

Mark Landau is a co-founder of L1 Capital Pty Limited and has been the Joint Managing Director & Chief Investment Officer since the firm was founded in 2007. Since establishing L1 Capital Pty Limited, he has jointly headed up the L1 Capital Australian Equities Fund and L1 Capital Long Short Fund.

Prior to establishing L1 Capital Pty Limited, he spent 5 years at Invesco as an Investment Analyst in the Large Cap Australian Equities team and later as an Investment Manager in the Smaller Companies Fund. Prior to Invesco, he was a Senior Strategy Consultant at Accenture, where he provided financial analysis and corporate strategy advice to a range of large Australian companies across many sectors, including banking, insurance, telecommunications and retail.



Directors' Report

Continued

Information on Directors *continued*

He holds a double degree in Commerce and Economics from Monash University, is an active CFA Charterholder and is a Senior Associate of FINSIA.

Other current directorships

Mark Landau does not currently hold directorships in other listed companies.

Former directorships in last 3 years

Mark Landau has not held any directorships in other listed companies within the last 3 years.

Interests in shares and options

Details of Mark Landau's interests in shares of the Company are included in Note 18(b).

Interests in contracts

Details of Mark Landau's interests in contracts of the Company are included later in this report.

Company Secretary

Mark Licciardo

Mark Licciardo is the founder and Managing Director of Mertons Corporate Services Pty Ltd. His expertise includes working with boards of directors in the areas of corporate governance, business management, administration, consulting and company secretarial matters. He is also the former Chairman of the Governance Institute of Australia (Victorian Division) and Melbourne Fringe Festival and is a current non-executive director of a number of public and private companies.

He holds a Bachelor of Business degree (Accounting) from Victoria University and a Graduate Diploma in Company Secretarial Practice, is a Fellow of the Australian Institute of Company Directors, the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2021 and up to the date of this audit report, and the number of meetings attended by each Director were:

	Directors' Meetings		Meetings of committee	
	A	B	Audit, Risk and Compliance	
	A	B	A	B
Andrew Larke	5	5	2	2
Mark Landau	4	5	N/A	N/A
Raphael Lamm	5	5	N/A	N/A
John Macfarlane	5	5	2	2
Harry Kingsley	5	5	2	2

A = Number of meetings attended.

B = Number of meetings held during the time the Director held office or was a member of the committee during the year.

Remuneration report (Audited)

This report details the nature and amount of remuneration for each Director of L1 Long Short Fund Limited in accordance with the *Corporations Act 2001*.

The Independent Directors are entitled to receive Directors' fees up to \$400,000 per annum to be shared among the Directors. Additional remuneration may be paid in accordance with the Company's Constitution.

The remuneration for Directors will be reviewed by the Board on a periodic basis as the Company develops its business and, subject to the Listing Rules, may be increased.

Raphael Lamm and Mark Landau, being Non Independent Directors, are remunerated by the Investment Manager and do not receive Directors' fees from the Company.

Remuneration report (Audited) *continued*

Details of remuneration

The following tables show details of the remuneration paid by the Company to the Directors of the Company for the current financial year and previous period.

2021	Short-term employee benefits	Post- employment benefits	
Name	Salary and fees \$	Superannuation \$	Total \$
Independent Directors			
Andrew Larke	165,000	-	165,000
John Macfarlane	75,342	7,158	82,500
Harry Kingsley	75,342	7,158	82,500
Sub-total Independent Directors	315,684	14,316	330,000
Non Independent Directors			
Raphael Lamm*	-	-	-
Mark Landau*	-	-	-
Sub-total Non Independent Directors	-	-	-
Total key management personnel compensation	315,684	14,316	330,000
2020	Short-term employee benefits	Post- employment benefits	
Name	Salary and fees \$	Superannuation \$	Total \$
Independent Directors			
Andrew Larke	143,493	6,507	150,000
John Macfarlane	68,493	6,507	75,000
Harry Kingsley	68,493	6,507	75,000
Sub-total Independent Directors	280,479	19,521	300,000
Non Independent Directors			
Raphael Lamm*	-	-	-
Mark Landau*	-	-	-
Sub-total Non Independent Directors	-	-	-
Total key management personnel compensation	280,479	19,521	300,000

* Raphael Lamm and Mark Landau are directly paid by L1 Capital Pty Limited. Refer to section Remuneration of Executives.



Directors' Report

Continued

Remuneration report (Audited) continued

Director-Related Entity Remuneration

All transactions with related entities were made under normal commercial terms and conditions.

L1 Capital Pty Limited is a Director-related entity which operates a funds management business and has been appointed to manage the investment portfolio of L1 Long Short Fund Limited. In its capacity as Investment Manager, L1 Capital Pty Limited is entitled to be paid a management fee equal to 1.40% (plus GST) per annum (1.44% inclusive of the net impact of GST and Reduced Input Tax Credit (RITC)) of the value of the portfolio calculated daily. Under the Investment Management Agreement, the Investment Manager will repay the Company all costs and expenses (Offer Costs) incurred in the establishment of the Company and in relation to or as a result of the Company undertaking its initial public offer of shares pursuant to the Prospectus and listing on ASX. The Offer Costs have been repaid to the Company through an offset against management fees that would otherwise have been payable to the Investment Manager.

In 2018, the total Offer Costs paid by the Company amounted to \$38,868,972. As at 30 June 2021, the balance of the Company's Receivable from Manager in relation to the Offer Costs amounted to \$Nil (2020: \$230,000) presented as current assets in the Statement of Financial Position.

Management fees (inclusive of the net impact of GST and RITC) incurred during the year amounted to \$20,639,000 (2020: \$15,640,000) of which \$2,122,000 (2020: \$1,337,000) remained payable as at year end.

In addition, L1 Capital Pty Limited is entitled to be paid by the Company a fee equal to 20.00% (plus GST) (20.50% inclusive of the net impact of GST and RITC of the Portfolio's outperformance, if any, over each performance calculation period, subject to a high watermark mechanism. Further information in respect of the Company's performance fee calculation is contained in Section 9.1 of the Company's Prospectus which was issued on 16 February 2018.

Performance fees (inclusive of the net impact of GST and RITC) incurred during the year amounted to \$128,687,000 (2020: \$Nil) of which \$68,074,000 (2020: \$Nil) remained payable as at year end.

No Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

Remuneration of Executives

There are no executives that are directly paid by the Company. L1 Capital Pty Limited, the Investment Manager of the Company, remunerated Raphael Lamm and Mark Landau as employees and/or as Directors of the Investment Manager during the financial year. The Investment Manager is appointed to provide day-to-day management of the Company and is remunerated as outlined above.



Remuneration report (Audited) *continued*

Equity Instrument Disclosures Relating to Directors

As at the date of the report, the Company's Directors and their related parties held the following interests in the Company:

Ordinary Shares Held

2021		
Director	Position	No. of shares at date of the report
Andrew Larke	Independent Chairman	775,000
John Macfarlane	Independent Director	629,360
Harry Kingsley	Independent Director	25,174
Raphael Lamm*	Non Independent Director	30,213,175
Mark Landau*	Non Independent Director	35,151,496
		66,794,205

2020		
Director	Position	No. of shares at date of the report
Andrew Larke	Independent Chairman	775,000
John Macfarlane	Independent Director	500,000
Harry Kingsley	Independent Director	25,000
Raphael Lamm*	Non Independent Director	14,937,752
Mark Landau*	Non Independent Director	18,689,588
		34,927,340

* Raphael Lamm and Mark Landau have an interest in the shares held by L1 Employees Remuneration Trust and L1 Investment Trust by virtue of s608(1) of the *Corporations Act 2001*.

Ordinary shares held by the following Directors are subject to voluntary escrow for a period which is the earlier of: (a) the period of 10 years from the date that the Company is listed on the exchange or (b) the duration of the Investment Management Agreement:

- Raphael Lamm – 12,603,100 shares (2020: 2,500,000 shares)
- Mark Landau – 12,603,100 shares (2020: 2,500,000 shares)

Directors and Director-related entities disposed of and acquired ordinary shares in the Company on the same terms and conditions available to other shareholders.

Options Held

None of the Directors held options during the period up to the date of the report (2020: nil).

End of remuneration report.



Directors' Report

Continued

Insurance and indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and any related body corporate against liability incurred as such by a Director or Secretary to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Rounding of amounts

In accordance with ASIC *Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the Directors' Report and in the Financial Report have been rounded to the nearest thousand dollars, unless otherwise specified.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

This report is made in accordance with a resolution of Directors.

Andrew Larke
Chairman

Melbourne
25 August 2021

Auditor's Independence Declaration



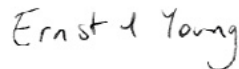
Ernst & Young
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Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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Auditor's independence declaration to the directors of L1 Long Short Fund Limited

As lead auditor for the audit of the financial report of L1 Long Short Fund Limited for the financial year ended 30 June 2021, I declare to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. No contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



Rohit Khanna
Partner
25 August 2021

Statement of Comprehensive Income

For the year ended 30 June 2021

	Notes	Year Ended	
		30 June 2021 \$'000	30 June 2020 \$'000
Income			
Net gains on financial instruments at fair value through profit or loss		838,423	27,732
Dividend income		49,455	39,084
Interest income from financial assets at amortised cost		290	5,196
Trust distributions		3	1,567
Expense reimbursement from Investment Manager	21	616	763
Net foreign exchange gains/(losses)		27,072	(31,346)
Total income		915,859	42,996
Expenses			
Management fees	21	(20,639)	(15,640)
Performance fees	21	(128,687)	-
Brokerage expense		(14,281)	(14,077)
Dividend expense on short positions		(12,534)	(23,626)
Interest expense		(7,190)	(13,972)
Stock loan fees		(3,107)	(6,536)
Administration fees		(233)	(310)
Share registry fees		(165)	(146)
Custody fees		-	(26)
Secretarial fees		(74)	(60)
Legal fees		(117)	(91)
Withholding tax on foreign dividends		(2,568)	(2,139)
Directors' fees	18	(330)	(300)
ASX fees		(139)	(138)
Audit fees	19	(130)	(107)
Other expenses		(756)	(678)
Total operating expenses		(190,950)	(77,846)
Profit/(loss) before income tax attributable to the ordinary equity holders of the Company		724,909	(34,850)
Income tax (expense)/benefit	7	(210,717)	13,200
Profit/(loss) after income tax		514,192	(21,650)
Other comprehensive income, net of tax		-	-
Total comprehensive income/(loss) attributable to the ordinary equity holders of the Company		514,192	(21,650)
		Cents	Cents
Profits/(losses) per share for profit/(loss) attributable to the ordinary equity holders of the Company:			
Basic profits/(losses) per share	24	82.72	(3.27)
Diluted profits/(losses) per share	24	82.72	(3.27)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.



Statement of Financial Position

As at 30 June 2021

	Notes	As at	
		30 June 2021 \$'000	30 June 2020 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	483,995	559,312
Other receivables	9	44,208	54,408
Receivable from Manager	21	49	269
Financial assets at fair value through profit or loss	10	3,032,182	1,815,188
Other current assets		430	344
Total current assets		3,560,864	2,429,521
Non-current assets			
Deferred tax assets	12	-	83,083
Total non-current assets		-	83,083
Total assets		3,560,864	2,512,604
LIABILITIES			
Current liabilities			
Broker advances		1,214,811	733,516
Other payables	13	119,684	22,150
Income tax payable		10,254	-
Financial liabilities at fair value through profit or loss	14	524,424	616,408
Total current liabilities		1,869,173	1,372,074
Non-current liabilities			
Deferred tax liabilities	12	117,380	-
Total non-current liabilities		117,380	-
Total liabilities		1,986,553	1,372,074
Net assets		1,574,311	1,140,530
EQUITY			
Issued capital	15	1,215,825	1,287,021
Dividend profit reserve	17	504,977	-
Accumulated losses		(146,491)	(146,491)
Total equity		1,574,311	1,140,530

The above Statement of Financial Position should be read in conjunction with the accompanying notes.



Statement of Changes in Equity

For the year ended 30 June 2021

	Notes	Issued Capital \$'000	Dividend profit reserve \$'000	Accumulated Losses \$'000	Total \$'000
Balance as at 1 July 2019		1,304,338	-	(124,841)	1,179,497
Loss after income tax		-	-	(21,650)	(21,650)
Other comprehensive income		-	-	-	-
Total comprehensive loss		-	-	(21,650)	(21,650)
Transactions with owners in their capacity as owners:					
Share buyback		(17,317)	-	-	(17,317)
		(17,317)	-	-	(17,317)
Balance as at 30 June 2020		1,287,021	-	(146,491)	1,140,530
Balance as at 1 July 2020		1,287,021	-	(146,491)	1,140,530
Profit after income tax		-	-	514,192	514,192
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	514,192	514,192
Transactions with owners in their capacity as owners:					
Share buyback	15	(72,518)	-	-	(72,518)
Dividend reinvestment	15	1,322	-	-	1,322
Dividend paid	17	-	(9,215)	-	(9,215)
Transfer to dividend profit reserve account	17	-	514,192	(514,192)	-
		(71,196)	504,977	(514,192)	(80,411)
Balance as at 30 June 2021		1,215,825	504,977	(146,491)	1,574,311

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.



Statement of Cash Flows

For the year ended 30 June 2021

	Notes	Year Ended	
		30 June 2021 \$'000	30 June 2020 \$'000
Cash flows from operating activities			
Purchase of financial instruments at fair value through profit or loss		(3,102,100)	(2,594,292)
Proceeds from sale of financial instruments at fair value through profit or loss		2,672,390	2,058,706
Dividends received		46,130	30,204
Trust distributions received		3	1,567
Interest income received from financial assets at amortised cost		235	6,051
Expense reimbursement received		606	801
Brokerage expenses paid		(14,281)	(14,077)
Dividends paid on short positions		(13,775)	(24,589)
Stock loan fees paid		(3,110)	(6,916)
ASX fees paid		(139)	(138)
Net GST received		26	64
Interest paid		(7,120)	(14,619)
Management fee paid		(19,854)	-
Performance fee paid		(60,613)	-
Other expenses paid		(1,670)	(438)
Net cash outflow from operating activities	23	(503,272)	(557,676)
Cash flows from financing activities			
Share buyback		(72,518)	(17,317)
Dividend paid		(7,893)	-
Broker advances received		481,294	76,446
Net cash inflow from financing activities		400,883	59,129
Net decrease in cash and cash equivalents		(102,389)	(498,547)
Cash and cash equivalents at the beginning of the year		559,312	1,089,205
Effects of exchange rate changes on cash and cash equivalents		27,072	(31,346)
Cash and cash equivalents at the end of the year	8	483,995	559,312

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.



Notes to the Financial Statements

For the year ended 30 June 2021

1. GENERAL INFORMATION

L1 Long Short Fund Limited (the “Company”) is a listed public company domiciled in Australia. The Company’s registered address is Mertons Corporate Services, Level 7, 330 Collins Street, Melbourne VIC 3000.

The Company’s investment strategy is to invest in a portfolio of predominantly Australian securities with the remaining exposure to global securities (both long and short). The Company’s investment objectives are to deliver positive absolute returns to investors while seeking to preserve capital over the long term.

The Company was registered with the Australian Securities and Investments Commission (ASIC) on 14 December 2017, commenced operations on 19 April 2018 and was officially admitted to the Official List of the Australian Securities Exchange on 20 April 2018.

The financial statements were authorised for issue by the Board of Directors on 25 August 2021. The Directors have the power to amend and reissue the financial report.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. L1 Long Short Fund Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with International Financial Reporting Standards (IFRS)

The financial statements of L1 Long Short Fund Limited also comply with IFRS as issued by the International Accounting Standards Board.

(ii) New standards and interpretations adopted by the Company

There are no new standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

(iii) Historical cost convention

These financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value.

(iv) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

(v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2021, and have not been early adopted in preparing these financial statements.

None of these are expected to have a material effect on the financial statements of the Company.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in Australian dollars, which is L1 Long Short Fund Limited’s functional and presentation currency.



2. SIGNIFICANT ACCOUNTING POLICIES *continued*

(b) Foreign currency translation *continued*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss in the Statement of Comprehensive Income.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

(i) Investment income

Profits and losses realised from the sale of investments and unrealised gains and losses on securities at fair value are included in the Statement of Comprehensive Income in the period they are earned in accordance with the policies described in Note 2(j).

(ii) Interest income

Interest income from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities.

(iii) Dividend income

Dividend income from financial assets at fair value through profit or loss is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Company currently incurs withholding tax imposed by certain countries on dividend income. Such income is recorded gross of withholding tax in the Statement of Comprehensive Income.

(iv) Other income

The Company recognises other income when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Company.

(d) Expenses

All expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

(e) Income Tax

The income tax (expense)/benefit for the year comprises current income tax (expense)/benefit and deferred tax (expense)/benefit.

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year.

Current and deferred income tax (expense)/benefit is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.



Notes to the Financial Statements

Continued

2. SIGNIFICANT ACCOUNTING POLICIES *continued*

(e) Income Tax *continued*

Deferred tax assets relating to temporary differences are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where:

- (a) a legally enforceable right of set-off exists; and
- (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Uncertain Taxes

AASB Interpretation 23, Uncertainty over Income Tax Treatments requires the evaluation of whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense, including interest and penalties, in the current year in the Statement of Comprehensive Income. The guidance establishes a minimum threshold for financial statement recognition of positions taken in filing tax returns, including whether an entity is taxable in a particular tax jurisdiction, and requires certain expanded tax disclosures.

(f) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Broker advances

Broker advances comprise cash paid by brokers on behalf of the Company under the facility in the prime brokerage agreement for the day-to-day settlement of Company's sales and purchases of financial instruments in foreign currencies.

(h) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. The due from brokers balance is held for collection and are recognised initially at fair value and subsequently measured at amortised cost.

(i) Other receivables

Receivables may include amounts for interest and dividends. Dividends are accrued when the right to receive payment is established. Where applicable, interest is accrued on a daily basis. Amounts are generally received within 30 days of being recorded as receivables.

(j) Financial assets and liabilities

Classification

(i) Financial assets

The Company classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss; and
- those to be measured at amortised cost.



2. SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial assets and liabilities *continued*

(i) Financial assets *continued*

The Company classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Company's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is to evaluate the information about these financial assets on a fair value basis together with other related financial information.

For equity securities and derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

For cash and cash equivalents and receivables, these assets are held in order to collect the contractual cash flows. The contractual terms of these assets give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. Consequently, these are measured at amortised cost.

(ii) Financial liabilities

The Company makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

For financial liabilities that are not classified and measured at fair value through profit or loss, these are classified as financial liabilities at amortised cost (due to brokers, short dividends payable, management fees payable, interest payable and other payables).

Recognition and derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss are recognised on trade date, the date on which the Company commits to purchase or sell the asset or liability. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

Measurement

At initial recognition, the Company measures financial assets and financial liabilities at fair value. Transaction costs of financial assets and financial liabilities at fair value through profit or loss are expensed in the Statement of Comprehensive Income. Financial assets and liabilities (other than those classified at fair value through profit or loss) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

Subsequent to initial recognition, all instruments at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value and foreign currency translation of "financial assets or liabilities at fair value through profit or loss" category are presented in the Statement of Comprehensive Income within "net gains on financial instruments at fair value through profit or loss" in the period in which they arise. Dividends and interest earned or paid on these instruments are recorded separately in dividend and interest income or expense.

Financial liabilities, other than those classified at fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

The effective interest method (EIR) is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense in profit or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instruments, but does not consider expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.



Notes to the Financial Statements

Continued

2. SIGNIFICANT ACCOUNTING POLICIES *continued*

(j) Financial assets and liabilities *continued*

(ii) Financial liabilities *continued*

Measurement continued

When an investment is disposed, the cumulative gain or loss, net of tax thereon, is recognised as net gains on financial instruments at fair value through profit or loss in the Statement of Comprehensive Income.

Impairment

At each reporting date, the Company shall measure the loss allowance on financial assets at amortised cost (e.g. cash, due from broker) at an amount equal to the lifetime expected credit losses (ECL) if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Company shall measure the loss allowance at an amount equal to 12 month expected credit losses. The Company's approach to ECL reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. However, where there has been a significant increase in credit risk since initial recognition, the loss allowance will be based on the lifetime expected credit loss. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that credit risk may have significantly increased. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. Any contractual payment which is more than 90 days past due is considered credit impaired.

(k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Refer to Note 11 to the financial statements for further information.

(l) Other payables

Payables include liabilities and accrued expenses owed by the Company which are unpaid as at the end of the reporting period.

(m) Issued capital

Ordinary shares are classified as equity and presented as Issued Capital within the Statement of Changes in Equity. Incremental costs directly attributable to the issue of new shares or options are recognised in equity as a deduction, net of tax, from the proceeds.

(n) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

In accordance with the *Corporations Act 2001*, the Company may pay a dividend where the Company's assets exceed its liabilities, the payment of the dividend is fair and reasonable to the Company's shareholders as a whole and the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.



2. SIGNIFICANT ACCOUNTING POLICIES *continued*

(o) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Where applicable, the Company qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 75%; hence fees for these services have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(q) Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the Directors' Report and in the Financial Report have been rounded to the nearest thousand dollars, unless otherwise specified.

(r) Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.



Notes to the Financial Statements

Continued

3. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk and price risk), credit risk and liquidity risk. The Board of the Company has implemented a risk management framework to mitigate these risks.

(a) Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Directors believe that there is no significant concentration risk in any particular sector or industry.

(i) Price risk

Exposure

The Company is exposed to equity securities price risk. This arises from investments held by the Company and classified in the Statement of Financial Position as financial assets at fair value through profit or loss.

The Company and the Investment Manager seek to manage the risk that the Portfolio will decrease in value over each financial year.

The Investment Strategy, investment process, investment guidelines and risk measurement tools used by the Investment Manager are directed towards managing the risk that the Portfolio will fall in value whilst targeting an Absolute Return.

Industry/sector limitations will not be applied to the Company's Investment Strategy. This is because the Investment Manager believes that there is a wide variability in risk levels between sectors over time and also some correlation between sector based risks such that limits at a portfolio level are more appropriate to manage portfolio risk.

The portfolio is expected to be diversified across a broad range of sectors and industry groups, thereby reducing the risk that portfolio returns will be dependent on the performance of an individual security, sector or industry.

Sensitivity

The following table illustrates the effect on the Company's equity from possible changes in market risk that were reasonably possible based on the risk the Company was exposed to at reporting date, assuming a flat tax rate of 30%. The analysis is based on the assumption that the net investment portfolio had increased by 5% and 10% or decreased by 5% and 10% with all other variables held constant.

	Impact on post-tax income/loss	
	2021 \$'000	2020 \$'000
Decrease 5%	(87,772)	(41,957)
Increase 5%	87,772	41,957
Decrease 10%	(175,543)	(83,915)
Increase 10%	175,543	83,915

Profit after tax for the year would increase/decrease as a result of gains/(losses) on equity securities classified at fair value through profit or loss.

At balance date, the net position of financial assets and liabilities at fair value through profit or loss was \$2,507,758,000 (2020: \$1,198,780,000).

(ii) Interest rate risk

Exposure

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.



3. FINANCIAL RISK MANAGEMENT *continued*

(a) Market risk *continued*

(ii) Interest rate risk *continued*

Exposure continued

The table below summarises the Company's exposure to interest rate risks. It includes the Company's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

At 30 June 2021	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	483,995	–	–	483,995
Other receivables	–	–	44,208	44,208
Other current assets	–	–	430	430
Financial assets at fair value through profit or loss	–	–	3,032,182	3,032,182
Receivable from Manager	–	–	49	49
	483,995	–	3,076,869	3,560,864
Financial liabilities				
Broker advances	(1,214,811)	–	–	(1,214,811)
Other payables	–	–	(119,684)	(119,684)
Provision for income tax	–	–	(10,254)	(10,254)
Financial liabilities at fair value through profit or loss	–	–	(524,424)	(524,424)
	(1,214,811)	–	(654,362)	(1,869,173)
Net exposure to interest rate risk	(730,816)	–	2,422,507	1,691,691
At 30 June 2020				
Financial assets				
Cash and cash equivalents	559,312	–	–	559,312
Other receivables	–	–	54,408	54,408
Other current assets	–	–	344	344
Financial assets at fair value through profit or loss	–	–	1,815,188	1,815,188
Receivable from Manager	–	–	269	269
	559,312	–	1,870,209	2,429,521
Financial liabilities				
Broker advances	(733,516)	–	–	(733,516)
Other payables	–	–	(22,150)	(22,150)
Financial liabilities at fair value through profit or loss	–	–	(616,408)	(616,408)
	(733,516)	–	(638,558)	(1,372,074)
Net exposure to interest rate risk	(174,204)	–	1,231,651	1,057,447

Notes to the Financial Statements

Continued

3. FINANCIAL RISK MANAGEMENT *continued*

(a) Market risk *continued*

(ii) Interest rate risk *continued*

Sensitivity

At 30 June 2021, if interest rates had increased or decreased by 75 basis points (“bps”) from the year end rates with all other variables held constant, profit after tax for the year would have been \$3,837,000 lower/\$3,837,000 higher (2020: loss \$915,000 higher/\$915,000 lower), mainly as a result of higher/lower interest income from cash and cash equivalents, net of broker advances.

(iii) Foreign exchange risk

Exposure

The Company operates internationally and holds both monetary and non-monetary assets and liabilities denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The Investment Manager monitors this risk on an ongoing basis. The Investment Manager manages risk on an absolute return basis in the reporting currency (i.e. AU dollars), rather than the underlying currencies. Foreign exchange rate risk is managed by depositing surplus foreign currency in a foreign currency account for later use, or by borrowing foreign currency to pay for foreign currency purchases, and then using the foreign currency to repay the borrowing.

The following table summarises the fair value of the Company’s financial assets and liabilities, monetary and non-monetary, which are denominated in a currency other than the Australian dollar.

The Company’s exposure to foreign currency risk at the end of the reporting period, monetary and non-monetary, expressed in Australian dollar, was as follows:

30 June 2021	USD \$'000	EUR \$'000	HKD \$'000	Others \$'000
Monetary				
Cash and cash equivalents	–	–	–	12,141
Other receivables	11,538	16,650	341	5,204
Broker advances	(492,787)	(257,189)	(104,953)	(359,882)
Other payables	(37,037)	–	–	(1,470)
Total Monetary	(518,286)	(240,539)	(104,612)	(344,007)
Non-monetary				
Financial assets at fair value through profit or loss	379,096	257,784	107,096	362,650
Financial liabilities at fair value through profit or loss	(83,778)	–	–	(35,797)
Total Non-monetary	295,318	257,784	107,096	326,853
Net exposure from derivative financial instruments	–	–	–	–
Net exposure	(222,968)	17,245	2,484	(17,154)



3. FINANCIAL RISK MANAGEMENT *continued*

(a) Market risk *continued*

(iii) Foreign exchange risk *continued*

Exposure continued

30 June 2020	USD \$'000	EUR \$'000	HKD \$'000	Others \$'000
Monetary				
Cash and cash equivalents	32,242	–	–	1,108
Other receivables	5,766	3,638	692	9
Broker advances	(117,747)	(336,163)	(163,403)	(110,335)
Other payables	(3,146)	(5,769)	(1,129)	(283)
Total Monetary	(82,885)	(338,294)	(163,840)	(109,501)
Non-monetary				
Financial assets at fair value through profit or loss	259,885	274,869	124,000	34,141
Financial liabilities at fair value through profit or loss	(138,795)	–	–	(28,934)
Total Non-monetary	121,090	274,869	124,000	5,207
Net exposure from derivative financial instruments	–	–	–	–
Net exposure	38,205	(63,425)	(39,840)	(104,294)

Sensitivity

The analysis is based on the assumption that the Australian dollar weakened and strengthened by 10% against the foreign currencies to which the Company's monetary securities are exposed. The impact on post-tax profit/(loss) for the period would be as follows:

	Impact on post-tax income/loss	
	30 June 2021 \$'000	30 June 2020 \$'000
USD/AUD exchange rate – increase 10%	(36,280)	(5,802)
USD/AUD exchange rate – decrease 10%	36,280	5,802
EUR/AUD exchange rate – increase 10%	(16,838)	(23,681)
EUR/AUD exchange rate – decrease 10%	16,838	23,681
HKD/AUD exchange rate – increase 10%	(7,323)	(11,469)
HKD/AUD exchange rate – decrease 10%	7,323	11,469
Others/AUD exchange rate – increase 10%	(24,080)	(7,665)
Others/AUD exchange rate – decrease 10%	24,080	7,665

(b) Credit risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Under the arrangements which the Company has entered into to facilitate stock borrowing for covered short selling, borrowed stock is collateralised by the long stock portfolio. If the stock borrowing counterparty became insolvent, it is possible that the Company may not recover all of the collateral that the Company gave to the counterparty. The collateral on securities sold short is set at 100% of the borrowed stock.



Notes to the Financial Statements

Continued

3. FINANCIAL RISK MANAGEMENT *continued*

(b) Credit risk *continued*

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and Notes to the Financial Statements. The Company is also exposed to counterparty credit risk on cash and cash equivalents, amounts due from brokers and other receivables.

Financial assets subject to AASB 9's impairment requirements

The Company determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2021 and 30 June 2020, all receivables, amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of BBB+ or higher and are either callable on demand or due to be settled within 1 week. Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Company.

In relation to Receivable from Manager, subject to the termination clause under the Investment Management Agreement (IMA), the Investment Manager will be required to pay to the Company within 30 days of the termination all outstanding Offer Costs which have not at the date of the termination otherwise been recouped. The Company is exposed to risk that the Investment Manager will not meet its obligations under the IMA. The Company's maximum exposure is the carrying amount of receivable from manager disclosed in the Statement of Financial Position. The Directors assess that the termination provisions in the IMA are highly unlikely to occur and the exposure to credit risk in relation to the receivable from manager as not significant through review of historical and projected financial condition of the Investment Manager. As required under AASB 9, the ECL model was used to assess any impairment of amounts receivable from manager. The 12 month ECL method was applied and the Directors have assessed any expected credit losses to be immaterial and therefore no impairment was required. The assessment was based on historical performance of the investment team, the Manager's current and forecasted financial position and evaluating a range of possible probability-weighted outcomes. As of 30 June 2021, there were \$Nil (2020: \$230,000) Receivable from Manager related to Offer Cost.

None of these assets are overdue, hence, these assets are not subject to material impairment.

The Company manages credit risk by only entering into agreements with credit worthy parties.

At 30 June 2021, the long-term credit ratings of the Company's bank, prime brokers and debtors as per Standard and Poor's were as follows:

	2021	2020
National Australia Bank	AA-	AA-
Morgan Stanley & Co. International Plc	BBB+	BBB+
Macquarie Bank Limited	A+	A+
Credit Suisse AG	A+	A+
L1 Capital Pty Ltd	N/A	N/A

The Company's cash at bank is held mainly with National Australia Bank. The Company held 48% of cash at broker with Morgan Stanley and the remaining 52% with Credit Suisse (2020: 67% Morgan Stanley, 33% Credit Suisse). The Investment Manager monitors the financial position of the counterparties on a regular basis.

The credit risk factors relating to derivatives have been considered and credit valuation adjustments (CVA) for counterparty credit risk and debit valuation adjustments (DVA) for own credit risk have been assessed to the over-the-counter derivatives to be not significant in the current period.



3. FINANCIAL RISK MANAGEMENT *continued*

(b) Credit risk *continued*

Financial assets subject to AASB 9's impairment requirements continued

The Company is exposed to credit risk on debt instruments and derivative assets. These classes of financial assets are not subject to AASB 9's impairment requirements as they are measured at fair value through profit or loss. The carrying value of these assets represents the Company's maximum exposure to credit risk on financial instruments not subject to the AASB 9 impairment requirements on the respective reporting dates. Hence, no separate maximum exposure to credit risk disclosure is provided for these instruments.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Investment Manager manages liquidity risk by monitoring the asset size of the Company as a whole on executing transactions.

The assets of the Company are largely in the form of readily tradeable securities which can be sold on-market if necessary. Accordingly, the Company is not considered to be exposed to material liquidity risk.

Maturities of financial liabilities

All non-derivative financial liabilities of the Company have maturities of less than 1 month.

Maturities of net settled derivative financial instruments

All net settled derivative financial instruments of the Company have maturities of 1 to 6 months.

4. FAIR VALUE MEASUREMENTS

The Company measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Equity securities
- Derivatives
- Listed unit trusts

The Company has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets (such as listed equity securities) is based on quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

The quoted market price used for financial assets held by the Company is the last sale price. When the Company holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.



Notes to the Financial Statements

Continued

4. FAIR VALUE MEASUREMENTS *continued*

(ii) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, including equity swaps, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

(iii) Recognised fair value measurements

The following table presents the Company's assets and liabilities measured and recognised at fair value:

At 30 June 2021	Level 1 \$'000	Level2 \$'000	Level3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Swaps	-	-	-	-
Australian share price index futures	7,074	-	-	7,074
Australian listed equity securities	1,878,156	-	-	1,878,156
International listed equity securities	1,043,479	-	-	1,043,479
International unlisted equity securities	-	-	63,147	63,147
Australian listed property trusts	40,326	-	-	40,326
Total financial assets at fair value through profit or loss	2,969,035	-	63,147	3,032,182
Financial liabilities at fair value through profit or loss				
Swaps	-	3,313	-	3,313
Australian share price index futures	-	-	-	-
Australian listed equity securities	402,504	-	-	402,504
International listed equity securities	118,607	-	-	118,607
Total financial liabilities at fair value through profit or loss	521,111	3,313	-	524,424



4. FAIR VALUE MEASUREMENTS *continued*

(iii) Recognised fair value measurements *continued*

At 30 June 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Swaps	–	8,650	–	8,650
Australian listed equity securities	1,062,462	–	–	1,062,462
International listed equity securities	692,910	–	–	692,910
Australian listed property trusts	49,372	–	–	49,372
Australian share price index futures	1,794	–	–	1,794
Total financial assets at fair value through profit or loss	1,806,538	8,650	–	1,815,188
Financial liabilities at fair value through profit or loss				
Swaps	–	16	–	16
Australian listed equity securities	430,033	–	4,262	434,295
International listed equity securities	61,928	–	–	61,928
Australian listed property trusts	14,368	–	–	14,368
Exchange traded funds	105,801	–	–	105,801
Total financial liabilities at fair value through profit or loss	612,130	16	4,262	616,408

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels in the fair value hierarchy during the year.

(iv) Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of items categorised within Level 3 between the beginning and the end of the year:

2021	Australian listed equity securities \$'000	International unlisted equity securities \$'000	Total \$'000
Balance as at 1 July 2020	(4,262)	–	(4,262)
Transfers into Level 3	–	–	–
Purchases	–	49,051	49,051
Sales	1,291	–	1,291
Fair value gain	2,971	14,096	17,067
Balance as at 30 June 2021	–	63,147	63,147



Notes to the Financial Statements

Continued

4. FAIR VALUE MEASUREMENTS *continued*

(iv) Level 3 reconciliation *continued*

2020	Australian listed equity securities \$'000	International unlisted equity securities \$'000	Total \$'000
Balance as at 1 July 2019	-	-	-
Transfers into Level 3	(4,502)	-	(4,502)
Purchases	(252)	-	(252)
Sales	-	-	-
Fair value gain	492	-	492
Balance as at 30 June 2020	(4,262)	-	(4,262)

(v) Quantitative information of significant unobservable inputs – Level 3

The following table summarises the valuation technique and significant unobservable input used for the Company's investment that is categorised within Level 3 of the fair value hierarchy as at 30 June 2021.

Description	Valuation technique	Unobservable input	Range (weighted average)	Fair value \$'000
Unlisted equities – private placement	Management appraised valuation using capitalisation of earnings method, independently reviewed by an external valuation specialist	EBITDA multiple	10x	63,147

For the Level 3 securities as at 30 June 2020, the Company considers the most recent available transaction prices as the most material input used in determining the price, as such the Company did not create material alternate quantitative inputs when measuring fair value as it has primarily relied on recent transaction prices.

(vi) Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy

The significant unobservable input used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 30 June 2021 are as shown below:

Description	Input	Sensitivity used	Effect on fair value \$'000
Unlisted equities – private placement	EBITDA multiple	7x – 11x	(21,606)/7,204

(vii) Disclosed fair values

For all financial instruments other than those measured at fair value their carrying value approximates fair value. The carrying amounts of trade and other receivables and payables are reasonable approximations of their fair values due to their short-term nature.



5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Income taxes

The Company has recognised deferred tax liabilities from unrealised gains on investments of \$119,565,000 at 30 June 2021 (30 June 2020: \$9,639,000) and deferred tax assets relating to prior year tax losses and unrealised losses on investments of \$2,185,000 at 30 June 2021 (30 June 2020: \$92,722,000). The utilisation of tax losses depends on the ability of the Company to generate future taxable profits and general market movements. Based on the long-term performance of a materially similar long/short strategy managed by the Investment Manager since September 2014 and strong performance of the Company for the year ended 30 June 2021, the Company considers that it is probable that future taxable profits will be available to utilise those deferred tax assets.

New information may become available that may cause the Company to change its judgement regarding calculation of tax balances, and such changes will impact the profit or loss in the period that such determination is made. However, utilisation of the tax losses also depends on the ability of the Company to satisfy certain tests at the time the losses are recouped. The Company may fail to satisfy the continuity of ownership test and therefore would have to rely on the same business test. If the Company fails to satisfy the test, \$Nil (30 June 2020: \$88,357,000) of deferred tax assets related to tax losses would be written off to income tax expense. Refer to Note 12 for further discussion of accounting for deferred taxes.

Uncertain taxes

For the year ended 30 June 2021, the Directors have evaluated the Company's tax positions and concluded that no recognition of uncertain tax position is required in the Company's financial statements.

The Company identifies its major tax jurisdictions as those where the Company is domiciled and makes significant investments. The Directors do not believe there are positions for which it is reasonably possible that the total amounts of unrecognised tax liabilities will materially change within 12 months of the reporting date.

Financial instruments

For the majority of the Company's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Investment Manager, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. While the COVID-19 pandemic has resulted in significant volatility in the markets, the Company does not disregard the market prices at the measurement date that are publicly available and based in an orderly transaction between knowledgeable and willing market participants. For more information on how fair value is calculated please see Note 4 to the financial statements.

For financial instruments measured at amortised cost, the expected credit loss impairment assessment considers the probability of default which was assessed to be close to zero.

Receivable from Manager

Receivable from Manager is carried at amortised cost using effective interest method. The Company assesses the impact of effective interest rate that will discount the estimated future cash receipts through the expected life of the financial asset to be not significant in the financial report. The Company deems that the credit risk of the Investment Manager which includes risk associated with cash flows will not significantly impact the balance.



Notes to the Financial Statements

Continued

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *continued*

(a) Critical accounting estimates and assumptions *continued*

Receivable from Manager continued

The Company considers both historical analysis and forward looking information in determining any expected credit loss on this financial asset based on historical performance of the Manager, the Manager's current and forecasted financial position and evaluating a range of possible probability-weighted outcomes. Directors' assessment is disclosed in the credit risk note 3(b) under Financial Risk Management.

6. SEGMENT INFORMATION

The Company has only one reportable segment. The Company operates in one industry being the securities industry, deriving revenue from dividend and trust distribution income, interest income and from the sale of its trading portfolio.

7. INCOME TAX EXPENSE/(BENEFIT)

(a) Income tax expense/(benefit) through profit or loss

	Year Ended	
	30 June 2021 \$'000	30 June 2020 \$'000
Income tax expense/(benefit)	210,717	(13,200)
	210,717	(13,200)
<i>Income tax expense/(benefit) composition:</i>		
Current income tax expense	10,254	-
Deferred income tax expense/(benefit)	200,463	(13,200)
	210,717	(13,200)
<i>Income tax expense/(benefit) is attributable to:</i>		
Profit/(loss) from continuing operations	210,717	(13,200)

(b) Numerical reconciliation of income tax benefit to prima facie tax payable

	Year Ended	
	30 June 2021 \$'000	30 June 2020 \$'000
Profit/(loss) from continuing operations before income tax benefit	724,909	(34,850)
Tax at the Australian tax rate of 30.0% (2020: 30.0%)	217,473	(10,455)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Imputation credit gross up	(6,756)	(2,785)
Franked dividends not subject to tax	-	40
Income tax expense/(benefit)	210,717	(13,200)
The applicable weighted average effective tax rates are as follows:	(29.07%)	(37.88%)



7. INCOME TAX EXPENSE/(BENEFIT) *continued*

(c) Amounts recognised directly in equity

	Notes	Year Ended	
		30 June 2021 \$'000	30 June 2020 \$'000
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:			
Deferred tax – Share issue costs	12	2,172	2,172

8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Cash at bank	7,081	59,013
Cash at broker	476,914	500,299
	483,995	559,312

9. CURRENT ASSETS – OTHER RECEIVABLES

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Dividends receivable	5,060	6,709
Interest receivable	56	1
GST receivable	424	448
Withholding tax receivable	459	459
Due from brokers	38,209	46,791
	44,208	54,408

Receivables are non-interest bearing and unsecured.

10. CURRENT ASSETS – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Swaps	–	8,650
Australian listed equity securities	1,878,156	1,062,462
International listed equity securities	1,043,479	692,910
International unlisted equity securities	63,147	–
Australian listed property trusts	40,326	49,372
Australian share price index futures	7,074	1,794
Total financial assets at fair value through profit or loss	3,032,182	1,815,188



Notes to the Financial Statements

Continued

10. CURRENT ASSETS – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *continued*

Listed securities are readily saleable with no fixed terms.

Changes in fair values of financial assets at fair value through profit or loss are recorded in net gains on financial instruments at fair value through profit or loss in the Statement of Comprehensive Income.

(a) Investment transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 4,478 (2020: 4,839). Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was \$14,818,000, inclusive of GST (2020: \$14,418,000).

(b) Risk exposure and fair value measurements

Information about the Company's exposure to price risk and about the methods and assumptions used in determining fair value is provided in Note 3 and Note 4 to the financial statements.

11. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company enters into transactions in derivative financial instruments with certain risks. A derivative is a financial instrument or other contract whose value depends on, or is derived from, underlying assets, liabilities or indices. Derivative transactions include a wide assortment of instruments, such as forwards, futures, options and swaps.

Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Company's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multi-faceted and includes:

- (i) hedging to protect an asset of the Company against a fluctuation in market values or to reduce volatility;
- (ii) as a substitute for physical securities; and
- (iii) adjustment of asset exposures within the parameters set out in the investment strategy.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

The Company holds the following derivative instruments:

Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange.

Equity swaps

An equity swap is an agreement between counterparties to exchange a set of payments, determined by a stock or index return, with another set of payments (usually an interest-bearing (fixed or floating rate) instrument, but they can also be the return on another stock or index). Equity swaps are used to substitute for a direct transaction in stock. The two cash flows are usually referred to as "legs". As with other swaps, the difference in the payment streams is netted.



11. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

Equity swaps continued

The Company's derivative financial instruments at year end are detailed below:

	Notional values \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
30 June 2021			
Swaps	13,548	-	3,313
Australian share price index futures	(718,720)	7,074	-
30 June 2020			
Swaps	186,058	8,650	16
Australian share price index futures	(327,327)	1,794	-

Risk exposures and fair value measurements

Information about the Company's exposure to price risk, credit risk, foreign exchange risk, interest rate risk and liquidity risk and about the methods and assumptions used in determining fair values is provided in Note 3 and Note 4 to the financial statements.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are presented net in the Statement of Financial Position where the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Certain derivative assets and liabilities are subject to legally enforceable master netting arrangements, such as an International Swaps and Derivatives Association ("ISDA") master netting agreement. The ISDA agreements in place meet the criteria for offsetting in the Statement of Financial Position as the Company has a currently legally enforceable right of payment netting to net same day, same currency payments by derivative transaction type.

In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated, the termination value is assessed and only a net amount is payable in settlement of all transactions.



Notes to the Financial Statements

Continued

11. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

Offsetting financial assets and financial liabilities continued

The gross and net positions of financial assets and liabilities that have been offset in the Statement of Financial Position are disclosed in the first three columns of the table below.

30 June 2021	Gross amounts \$'000	Amounts set off in the Statement of Financial Position \$'000	Net amounts presented in the Statement of Financial Position \$'000	Cash collateral (received)/ pledged \$'000	Net amount \$'000
Derivative assets					
<i>Australian share price index futures</i>					
Credit Suisse AG	7,074	–	7,074	–	7,074
<i>Swaps</i>					
Morgan Stanley & Co. International Plc	1,138	(1,138)	–	54,397	54,397
Derivative liabilities					
<i>Swaps</i>					
Credit Suisse AG	–	–	–	–	–
Morgan Stanley & Co. International Plc	4,451	(1,138)	3,313	–	3,313
30 June 2020					
Derivative assets					
<i>Australian share price index futures</i>					
Credit Suisse AG	1,794	–	1,794	–	1,794
<i>Swaps</i>					
Morgan Stanley & Co. International Plc	12,141	(3,491)	8,650	32,000	40,650
Derivative liabilities					
<i>Swaps</i>					
Credit Suisse AG	16	–	16	–	16
Morgan Stanley & Co. International Plc	3,491	(3,491)	–	–	–



12. DEFERRED TAXES

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
	Notes	
The balance comprises temporary differences attributable to:		
Deferred tax assets		
Tax losses	–	88,357
Capitalised share issue costs	2,171	4,343
Other temporary differences	14	22
Deferred tax assets	2,185	92,722
Deferred tax liabilities		
Net unrealised gains on investments	118,159	7,912
Other temporary differences	1,406	1,727
Deferred tax liabilities	119,565	9,639
Deferred tax (liabilities)/assets, net	(117,380)	83,083

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Movements:		
Deferred tax assets		
Opening balance	92,722	69,914
Credited:		
directly to equity	(2,172)	(2,172)
directly to profit or loss	(88,365)	24,980
Closing balance, Deferred tax assets	2,185	92,722
Deferred tax liabilities		
Opening balance	9,639	32
Charged:		
profit or loss	109,926	9,607
Closing balance, Deferred tax liabilities	119,565	9,639
Closing balance, Deferred tax (liabilities)/assets, net	(117,380)	83,083



Notes to the Financial Statements

Continued

13. CURRENT LIABILITIES – OTHER PAYABLES

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Management fees payable	2,122	1,337
Performance fees payable	68,074	–
Interest payable	600	530
Due to brokers	48,482	18,581
Short dividends payable	–	1,285
Other payables	406	417
	119,684	22,150

Other payables are unsecured and are usually paid within 30 days of recognition.

Due to their short-term nature, the carrying amounts of other payables are reasonable approximations of their fair values.

14. CURRENT LIABILITIES – FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Swaps	3,313	16
Australian listed equity securities	402,504	434,295
International listed equity securities	118,607	61,928
Australian listed property trusts	–	14,368
Exchange traded funds	–	105,801
Total financial liabilities at fair value through profit or loss	524,424	616,408

When the Company sells securities it does not possess, it has to cover this short position by acquiring securities at a later date and is therefore exposed to price risk of those securities sold short. The sales agreement is usually settled by delivering borrowed securities. However, the Company is required to return those borrowed securities at a later date.

15. ISSUED CAPITAL

(a) Share capital

	Notes	30 June 2021 Shares '000	30 June 2020 Shares '000	30 June 2021 \$'000	30 June 2020 \$'000
Ordinary Shares	15(c)	606,619	649,064	1,241,165	1,312,361



15. ISSUED CAPITAL *continued*

(b) Movements in issued capital

	Notes	Shares '000	\$'000
Opening balance – 30 June 2020	15(d)	649,064	1,287,021
Share buyback		(43,060)	(72,518)
Dividend reinvestment		615	1,322
Closing balance – 30 June 2021		606,619	1,215,825
Opening balance – 30 June 2019	15(d)	664,839	1,304,338
Share buyback		(15,775)	(17,317)
Closing balance – 30 June 2020		649,064	1,287,021

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Shares issued

At incorporation, the Company issued 1 share at \$2.00 per share.

On 24 April 2018, the Company issued 664,839,144 fully paid ordinary shares under this initial public offering at \$2.00 per share.

On 27 February 2020, the Company announced a new on-market buy-back of up to 10% of its shares, commencing 16 March 2020 and continuing for up to 12 months. The Company announced on 12 February 2021 that it will extend its share buy-back program for a further 12 months from 16 March 2021. A total of 43,059,924 shares (6.48%) had been bought back during the financial period ended 30 June 2021 (2020: 15,775,000 shares (2.37%)).

(e) Capital risk management

The Board of Directors will actively manage the capital of the Company. The overriding intention is to deliver value to shareholders.

To achieve this, the Board monitors the monthly NTA results, investment performance, the Company's indirect cost ratio and share price movements.

The Company is not subject to any externally imposed capital requirements.

16. DIVIDENDS

(a) Dividend rate

On 11 February 2021, the Directors declared a fully franked interim dividend of 1.5 cents per share with record date of 2 March 2021 and paid to the shareholders on 26 March 2021.

Subsequent to balance sheet date, on 25 August 2021, the Directors declared a fully franked final dividend of 3 cents per share with record date of 14 September 2021 and payable to the shareholders on 1 October 2021.



Notes to the Financial Statements

Continued

16. DIVIDENDS *continued*

(b) Dividend franking account

	2021 \$'000	2020 \$'000
The amount of franking credits for subsequent financial years are:		
– franking account balance as at the end of the financial year at tax rate of 30% (2020:30%)	14,991	11,842
– franking credits that will arise from franked dividends receivable as at the end of the financial year	306	932
– franking credits that will arise from the payment of income tax payable as at the end of the financial year	10,254	–
	25,551	12,774
The amount of franking credits available for future reporting periods:		
– impact on the franking credit account of the dividend declared but not recognised as a liability at the end of the financial year at tax rate of 30% (2020: 30%)	(7,799)	(3,949)
	17,752	8,825

The Company's ability to pay franked dividends is dependent upon receipt of franked dividends from investments and the Company paying tax.

17. DIVIDEND PROFIT RESERVE

The dividend profit reserve is made up of amounts allocated from retained earnings that are preserved for future dividends payments. The allocation is determined at the end of each half-year where the Company reported a profit subject to the approval of the Directors.

Movement in Dividend Profit Reserve	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Balance at the beginning of the year	–	–
Transferred from current period profits	514,192	–
Payment of dividend	(9,215)	–
Closing balance at the end of the year	504,977	–

On 16 December 2020, the Directors resolved to approve the transfer of any resulting net profit after tax for the half-year ended 31 December 2020 to the dividend profit reserve. Accordingly, on 31 December 2020, the transfer of \$325,296,000 was made to the reserve. A further transfer of \$188,896,000 was made to the reserve on 30 June 2021 which is in line with the board resolution dated 29 June 2021.

18. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Year ended	
	30 June 2021 \$	30 June 2020 \$
Short-term employee benefits	315,684	280,479
Post-employment benefits	14,316	19,521
	330,000	300,000

18. KEY MANAGEMENT PERSONNEL DISCLOSURES *continued*

(a) Key management personnel compensation *continued*

As at 30 June 2021, there were no Directors' fees payable (2020: nil).

Detailed remuneration disclosures are provided in the remuneration report.

(b) Equity instrument disclosures relating to key management personnel

Shareholdings

The number of shares in the Company held during the financial year by each Director of L1 Long Short Fund Limited and other key management personnel of the Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

30 June 2021	Balance at the start of the year	Acquisitions	Disposals	Balance at end of the year
Directors of L1 Long Short Fund Limited				
Andrew Larke	775,000	–	–	775,000
John Macfarlane	500,000	129,360	–	629,360
Harry Kingsley	25,000	174	–	25,174
Raphael Lamm*	14,937,752	11,758,548	–	26,696,300
Mark Landau*	18,689,588	12,945,033	–	31,634,621
	34,927,340	24,833,115	–	59,760,455
30 June 2020				
Directors of L1 Long Short Fund Limited				
Andrew Larke	625,000	150,000	–	775,000
John Macfarlane	500,000	–	–	500,000
Harry Kingsley	25,000	–	–	25,000
Raphael Lamm*	6,568,655	8,369,097	–	14,937,752
Mark Landau*	9,942,215	8,747,373	–	18,689,588
	17,660,870	17,266,470	–	34,927,340

* Raphael Lamm and Mark Landau have an interest in the shares held by L1 Employees Remuneration Trust and L1 Investment Trust by virtue of s608(1) of the *Corporations Act 2001*.

Ordinary shares held by the following Directors are subject to voluntary escrow for a period which is the earlier of (a) the period of 10 years from the date that the Company is listed on the exchange or (b) the duration of the Investment Management Agreement:

- Raphael Lamm – 9,086,225 shares (2020: 2,500,000 shares)
- Mark Landau – 9,086,225 shares (2020: 2,500,000 shares)

All of the key management personnel held shares during the years ended 30 June 2021 and 30 June 2020.



Notes to the Financial Statements

Continued

19. REMUNERATION OF AUDITORS

During the year, the following fees were paid or payable for services provided by the auditor of the Company and its related practices:

	Year ended	
	30 June 2021 \$	30 June 2020 \$
Fees to Ernst & Young (Australia)		
Fees for auditing the statutory financial report	84,000	83,000
Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm		
• Agreed-upon-procedures on investment mandate	13,000	14,000
• Agreed-upon-procedures on admin transition	-	10,000
• Agreed-upon-procedures on performance fees	33,000	-
Total fees to Ernst & Young (Australia)	130,000	107,000
Fees to other overseas member firms of Ernst & Young (Australia)	-	-
Total auditor's remuneration	130,000	107,000

The Investment Manager, on behalf of the Company, records and pays income tax return filing services of Ernst & Young. The Company's Audit and Risk Committee oversees the relationship with the Company's External Auditors. The Audit and Risk Committee reviews the scope of the audit and the proposed fee.

20. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

The Company had no contingent assets, liabilities or commitments as at 30 June 2021 (2020: nil).

21. RELATED PARTY TRANSACTIONS

(a) Key management personnel

Disclosures relating to key management personnel are set out in Note 18.

(b) Transactions with other related parties

All transactions with related entities were made under normal commercial terms and conditions at arm's length no more favourable than those available to other parties unless otherwise stated.

L1 Capital Pty Limited is a Director-related entity which operates a funds management business and has been appointed to manage the investment portfolio of L1 Long Short Fund Limited. In its capacity as Investment Manager, L1 Capital Pty Limited is entitled to be paid a management fee equal to 1.40% (plus GST) per annum (1.4350% inclusive of the net impact of GST and RITC) of the value of the portfolio calculated daily. Under the Investment Management Agreement, the Investment Manager will repay the Company all costs and expenses (Offer Costs) incurred in the establishment of the Company and in relation to or as a result of the Company undertaking its initial public offer of shares pursuant the Prospectus and listing on ASX. The Offer Costs will be repaid to the Company through an offset against management fees that would otherwise have been payable to the Investment Manager.

In 2018, the total Offer Costs paid by the Company amounted to \$38,868,972. As at 30 June 2021, the balance of the Company's Receivable from Manager in relation to the Offer Costs amounted to \$Nil (2020 : \$230,000) presented as current assets in the Statement of Financial Position.

Management fees (inclusive of the net impact of GST and RITC) incurred during the year amounted to \$20,639,000 (2020: \$15,640,000) of which \$2,122,000 (2020: \$1,337,000) remained payable as at year end.



21. RELATED PARTY TRANSACTIONS *continued*

(b) Transactions with other related parties *continued*

In addition, L1 Capital Pty Limited is entitled to be paid by the Company a fee equal to 20.00% (plus GST) (20.50% inclusive of the net impact of GST and RITC) of the Portfolio's outperformance, if any, over each performance calculation period, subject to a high watermark mechanism. Further information in respect of the Company's performance fee calculation is contained in Section 9.1 of the Company's Prospectus which was issued on 16 February 2018.

Performance fees (inclusive of the net impact of GST and RITC) incurred during the year amounted to \$128,687,000 (2020: \$Nil) of which \$68,074,000 (2020: \$Nil) remained payable as at year end.

The expense recoveries borne by the Company are paid directly to the service provider and is subsequently reimbursed by the Investment Manager. Expense recoveries include ASX fees, ASIC fees, custodian, administrator, tax professional fees and other expenses. Total amount reimbursed by the Investment Manager for the year ended 30 June 2021 was \$616,000 (2020: \$763,000), of which \$49,000 (2020: \$39,000) was receivable at year end.

No Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

22. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 25 August 2021, the Directors declared a fully franked final dividend of 3 cents per share with record date of 14 September 2021 and payable to the shareholders on 1 October 2021.

The Dividend Reinvestment Plan (DRP) is in operation under which the shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Participating shareholders will be entitled to be allotted the number of shares (rounded down to the nearest whole number) which the cash dividend would purchase at the relevant allocation price. The relevant allocation price is the arithmetic average of the daily volume weighted average sale price (calculated to the nearest cent) of shares traded on the ASX over the five trading days commencing on the ex-dividend date for the relevant dividend, without any discount. The last day for the receipt of an election notice for participation in the DRP is 15 September 2021.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.



Notes to the Financial Statements

Continued

23. RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Year ended	
	30 June 2021 \$'000	30 June 2020 \$'000
Profit/(loss) for the year	514,192	(21,650)
Purchase of financial instruments at fair value through profit or loss	(3,102,100)	(2,594,292)
Proceeds from sale of financial instruments at fair value through profit or loss	2,672,390	2,058,706
Net gains on financial instruments at fair value through profit or loss	(838,423)	(27,732)
Dividend reinvested	(2,362)	(151)
Effects of foreign currency exchange rate changes on cash and cash equivalents	(27,072)	31,346
Change in operating assets and liabilities		
Decrease in other receivables (current)	1,838	11,543
(Increase)/decrease in other current assets	(86)	36
Decrease/(increase) in deferred tax assets	83,083	(13,201)
Increase/(decrease) in other payables	67,634	(2,281)
Increase in deferred tax liabilities	117,380	-
Increase in provision for income tax	10,254	-
Net cash outflow from operating activities	(503,272)	(557,676)

24. PROFITS/(LOSSES) PER SHARE

(a) Basic profits/(losses) per share

	Year Ended	
	30 June 2021 Cents	30 June 2020 Cents
Basic profits/(losses) per share attributable to the ordinary equity holders of the Company	82.72	(3.27)

(b) Diluted profits/(losses) per share

	Year Ended	
	30 June 2021 Cents	30 June 2020 Cents
Diluted losses per share attributable to the ordinary equity holders of the Company	82.72	(3.27)

Diluted losses per share are the same as basic losses per share.



24. PROFITS/(LOSSES) PER SHARE *continued*

(c) Weighted average number of shares used as denominator

	Year Ended	
	30 June 2021 Number	30 June 2020 Number
Weighted average number of ordinary shares used as the denominator in calculating basic losses per share	621,573,496	662,745,849
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted losses per share	621,573,496	662,745,849

Notes to the Financial Statements

Continued

25 Investment Portfolio (long positions) as at 30 June 2021

Company name

A2 Milk	New Hope Corporation
Airbus Group NV	News Corporation
Als Queensland	Nexgen Energy
Arrowhead Pharmaceuticals	OceanaGold
Atlas Arteria	Oil Search
Aurizon Holdings	Orica
Canadian Natural Resources	Origin Energy
Capstone Mining Corp	Palo Alto Networks
Cenovus Energy	Peet
Challenger	Perenti Global
Chorus	Pointsbet Holdings
CIMIC Group	Qantas Airways
CK Hutchison Holdings	QBE Insurance Group
Cooper Energy	Resolute Mining
Coronado Global Resources	Safran S.A.
Dariohealth	SES S.A.
Downer EDI	Smartgroup Corp
Entain PLC	Splunk
F45 Training Holding	St Barbara
Ferrovial S.A.	Tabcorp Holdings
Flutter Entertainment PLC	Telstra Corporation
Hastings Technology Metals	Teck Resources Ltd Class B
Health and Happiness (H&H) International Holdings	The Star Entertainment Group
Hudbay Minerals	Treasury Wine Estates
IMDEX	United Malt Group
John Wood Group	Vodafone Group PLC
Karoon Energy	Warrior Met Coal
Liberty Group	Webjet
Link Administration Holdings	West African Resources
Madrigal Pharmaceuticals	Westgold Resources
McMillan Shakespeare	Whitehaven Coal
Mineral Resources	Z Energy

Total Long Portfolio (\$'000)	3,032,182
Total Short Portfolio (\$'000)	524,424
Net Equity Portfolio (\$'000)	2,507,758



Directors' Declaration

For the year ended 30 June 2021

In the opinion of the Directors of L1 Long Short Fund Limited:

- (a) the financial statements and notes set out on pages 18 to 48 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 2(a) confirms that the financial statements also complies with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer of the Investment Manager required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

A handwritten signature in black ink that reads "Andrew Larke".

Andrew Larke
Independent Chairman

Melbourne
25 August 2021



Independent Auditor's Report

To the Members of L1 Long Short Fund Limited



Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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Independent auditor's report to the members of L1 Long Short Fund Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of L1 Long Short Fund Limited (the Company), which comprises the statement of financial position as at 30 June 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the Company's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.



1. Investment existence and valuation

Why significant	How our audit addressed the key audit matter
<p>The Company has a significant investment portfolio consisting of securities in listed equities, listed property trusts and unlisted equities; equity swaps; and futures contracts.</p> <p>As at 30 June 2021, the values of these financial assets and financial liabilities, set out in Note 10 and Note 14 of the financial report, were \$3,032,182,000 and \$524,424,000, which equate to 83% and 26% of the total assets and total liabilities respectively of the Company.</p> <p>As detailed in the Company's accounting policy, as described in Note 2(j) of the financial report, these financial assets and financial liabilities are recognised at fair value through profit or loss in accordance with Australian Accounting Standards.</p> <p>Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and financial liabilities, and the financial report. Accordingly, existence and valuation of the investment portfolio were considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ We assessed the effectiveness of the controls relating to the existence and valuation of investments. ▶ We obtained and considered the assurance report on the controls of the Company's administrator, in relation to the fund administration services for the year ended 30 June 2021 and considered the auditor's credentials, their objectivity and the results of their procedures. ▶ We independently obtained investment and cash confirmations from the Company's custodians, prime brokers, counterparties, investees, and banks. ▶ We assessed whether the fair values of investments were determined in accordance with Australian Accounting Standards. Our procedures included: <ul style="list-style-type: none"> ▶ For listed securities, the values were agreed to independently sourced market prices; ▶ For unlisted equities, our valuation specialists assessed the methodology applied by the Company to determine fair value, and underlying valuation assumptions; and ▶ For unlisted derivatives, the values were agreed to independently sourced observable market inputs applied to appropriate valuation models. <p>We assessed the adequacy of the disclosures in Note 4, Note 10, Note 11 and Note 14 of the financial report.</p>

2. Management and Performance Fees

Why significant	How our audit addressed the key audit matter
<p>Management and performance fees paid to L1 Capital Pty Ltd ("L1" or "the Manager") are the most significant expenses of the Company. The Company's accounting policy for management and performance fees is described in Note 21 of the financial report.</p>	<p>We assessed the effectiveness of the controls in relation to the calculation of management and performance fees of the Company's administrator, who has responsibility for the calculations.</p> <p>We recalculated management and performance fees in accordance with relevant service</p>



Independent Auditor's Report

Continued



Why significant	How our audit addressed the key audit matter
<p>The management fee is calculated daily and paid monthly in arrears. The Manager is entitled to be paid monthly a management fee equal to 1.4% (plus GST) per annum of the value of the portfolio.</p> <p>The Company's accounting policy for management and performance fees is described in Note 21 to the financial report. Performance fees are recognised in the financial report if the performance hurdles for the Company have been met at the end of the relevant measurement period, which is the date that the performance criteria is met and the obligation has crystallised.</p> <p>During the year, management and performance fees totalled \$20,639,000 and \$128,687,000, which equates to 11% and 67% of total expenses, respectively.</p> <p>The quantum of these expenses, the impact that market volatility can have on the recognition of performance fees and the complexity involved in the assessment of performance fee arrangements resulted in management and performance fees being considered a key audit matter.</p>	<p>arrangements including agreeing the contract rate to the calculations.</p> <p>We assessed the performance fee calculation, including testing the inputs into the calculation model and assessed whether the calculation was in accordance with the relevant services agreement.</p> <p>We assessed the adequacy of the disclosures in Note 21 of the financial report.</p>

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's 2021 annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit



Independent Auditor's Report

Continued



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matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 7 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of L1 Long Short Fund for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Rohit Khanna
Partner
Sydney
25 August 2021



Shareholder Information

The shareholder information set out below was applicable as at 30 September 2021.

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report, are listed below.

A. Distribution of shareholders

Analysis of the number of shareholders by size of holding:

Holdings	Number of ordinary shares held	Number of shareholders	Percentage of shares on issue
1 – 1,000	289,847	543	0.05
1,001 – 5,000	8,969,727	2,628	1.48
5,001 – 10,000	22,644,030	2,787	3.73
10,001 – 100,000	241,461,554	7,922	39.80
100,001 – 100,000,000	333,253,930	626	54.94
	606,619,088	14,506	100.00

There were 162 holders of less than a marketable parcel of ordinary shares.

B. Twenty largest shareholders

The names of the twenty largest shareholders of quoted equity securities are listed below:

Rank	Holder name	Number of ordinary shares held	Percentage of shares on issue
1	HSBC Custody Nominees (Australia) Limited	34,990,968	5.77
2	Sylverly Pty Ltd	32,820,967	5.41
3	Cantone No. 2 Pty Ltd	27,833,250	4.59
4	Netwealth Investments Limited <Wrap Services A/C>	12,744,161	2.10
5	BNP Paribas Nominees Pty Ltd <Hub24 Custodial Serv Ltd>	11,047,734	1.82
6	Navigator Australia Ltd	9,514,152	1.57
7	Citicorp Nominees Pty Limited	8,173,291	1.35
8	Custodial Services Limited	7,350,210	1.21
9	Netwealth Investments Limited <Super Services A/C>	6,372,152	1.05
10	National Nominees Limited	4,770,897	0.79
11	L1 Capital Nominees Pty Ltd	4,574,223	0.75
12	Shomron Pty Ltd	4,527,024	0.75
13	Kuridale Nominees Pty Ltd	4,218,534	0.70
14	Annaeus Pty Ltd	4,125,188	0.68
15	HSBC Custody Nominees (Australia) Limited – A/C 2	4,055,103	0.67
16	BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client>	3,877,652	0.64
17	J P Morgan Nominees Australia Pty Limited	3,588,885	0.59
18	The Ian Potter Foundation Limited	3,300,000	0.54
19	NCSR Pty Ltd	2,882,400	0.48
20	Investment Custodial Services Limited	2,804,939	0.46
		193,571,730	31.91



Shareholder Information

Continued

C. Substantial shareholders

As at 30 September 2021, the Company had received the following substantial shareholder notifications.

Holder Name	Shares held at date of notice	Percentage of shares held at date of notice	Date of notice
Mark Landau, Raphael Lamm and associates	71,931,819	11.86%	01/09/2021

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

Each share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

E. Stock exchange listing

Quotation has been granted for all of the ordinary shares and options of the Company on all Member Exchanges of the ASX Limited.

F. Unquoted securities

There are no unquoted shares.

G. Securities subject to voluntary escrow

The ordinary shares below are subject to voluntary escrow for a period which is the earlier of 24 April 2028 or the duration of the Investment Management Agreement.

	Number of ordinary shares held
Cantone No. 2 Pty Ltd	12,250,218
Sylverly Pty Ltd	12,250,218
NCSR Pty Ltd	2,882,400
Shomron Pty Ltd	2,500,000
Annaeus Pty Ltd	2,150,000
Inkmore 2 Pty Ltd	1,441,200
Yerkes Pty Ltd	588,236
Billy Ray Pty Ltd	350,000
Jellk Pty Ltd	294,118

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