L1 CAPITAL

L1 Long Short Fund Limited

October 2018

Investment Excellence Across All Products

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Launched Sep 2014

L1 Capital Long Short Fund (unlisted fund since inception)

- 140.6% net return since inception; 24.0% net return p.a. since inception
- 75 individual positions added +1% to performance
- Strong positive returns across a wide range of sectors
- Sharpe Ratio 2.1, Sortino Ratio 4.8

ZENITH AWARD

Best 'Australian Equities – Alternative Strategies' 2017.

Launched Aug 2007

L1 Capital Australian Equities Fund (Long only)

- Since fund launch in 2007, net return of 8.9% p.a. vs 4.9% p.a. (ASX200AI)
- 4.4% alpha p.a. over the past 3 years (net);
- One of the best performing large cap, long only funds in Australia.

HSBC SURVEY

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

Launched June 2015

L1 Capital Global Opportunities Fund – New York

- Convertibles and deal structuring fund
- 30.0% net return p.a. since inception
- No negative months since inception

EUREKAHEDGE

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

Note: Performance data current as at 30 September, 2018. Fund ranking based on HSBC Global Hedge Fund Performance Survey (December 2017)

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L1 Long Short Fund (LSF) Performance

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Why has LSF performance been weak over the past 6 months compared to the strategy's history?

1. High P/E stocks have dramatically outperformed low P/E stocks
   - The Fund typically has a modest value bias, but that bias has been more pronounced in 2018 given that growth stocks are trading at 20 year extremes versus value stocks.
2. 'Momentum' has been the strongest performing factor in the market, with a huge mid-year surge.
   - The Fund typically has a contrarian bias (the opposite of momentum), which has been a huge headwind this year.
3. Over the past 6 months, the Portfolio has had more of its net exposure in Europe & HK rather than the U.S.
   - While the allocation to Europe/HK has been modest, the performance differential between the U.S. versus Europe/HK has been extreme (~20% performance difference in only 6 months).
4. The Portfolio was impacted by a number of truly left-field stock events
   - Please refer to page 10 for a description of these events

These four factors account for the bulk of the weak performance over the past 6 months

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

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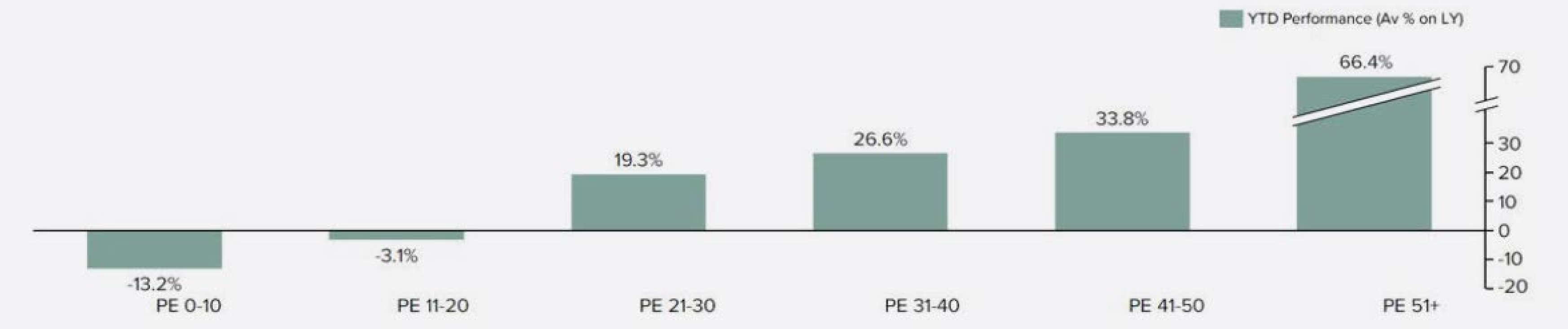
- Over the past year, low P/E stocks have fallen, while high P/E stocks have rallied strongly
- In general, the higher the P/E, the better has been the share price performance
- Very challenging market environment for a value-focused, long-short strategy
- Currently, the Fund's long positions trade at an average P/E of ~14x, while the short positions average ~30x

P/E ratios – Past year share price performance (ASX)



Source: Moelis, Bloomberg, as at 3 July 2018, ASX100 ex-resources

High P/E stocks have dramatically outperformed low P/E stocks (cont…)

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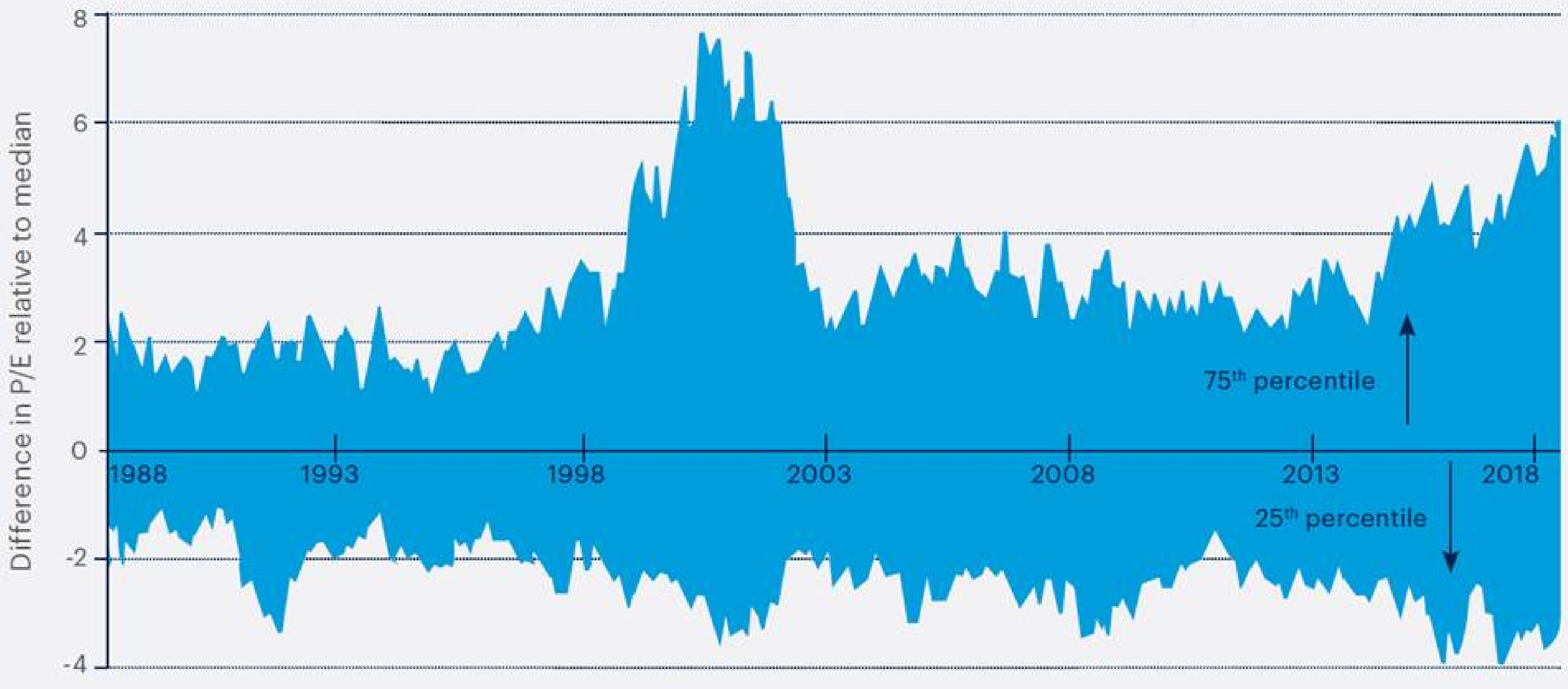
- The relative valuation dispersion between 'growth' and 'value' stocks has only reached this level once in the last 30 years
- The only period where valuations have been more distorted was during the dot com boom

12-Month Fwd PEs for Industrials (25th percentile & 75th percentile vs median)



Sources: Thomson Reuters, Macquarie Research, September 2018

High P/E stocks have dramatically outperformed low P/E stocks (cont...)

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- The outperformance of growth stocks has been a global phenomenon (S&P500)

Source: Citigroup

'Momentum' has been the strongest performing factor in the market, with a huge mid-year surge.

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- 'Momentum' has outperformed 'value' by 17% p.a. on average over the past 5 years
- In 2018, this pace has surged to an annualised rate of 50% p.a. (see table below)
- During the June quarter, the spread averaged 5.5% per month. It was 8% in the month of August

Relative performance of momentum stocks vs value stocks (ASX100)

TYPE	FACTOR NAME	CYTD 2018	5-YEARS
Value	Value Composite - per month	-1.4%	-0.3%
Momentum	Price Momentum (12 Month) - per month	2.0%	1.0%
Difference	Price Momentum less Value Composite - per month	3.4%	1.3%
	Price Momentum less Value Composite - annualised	**49.5%**	**17.2%**

Source: Factset, UBS. Data current at 30 September 2018

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

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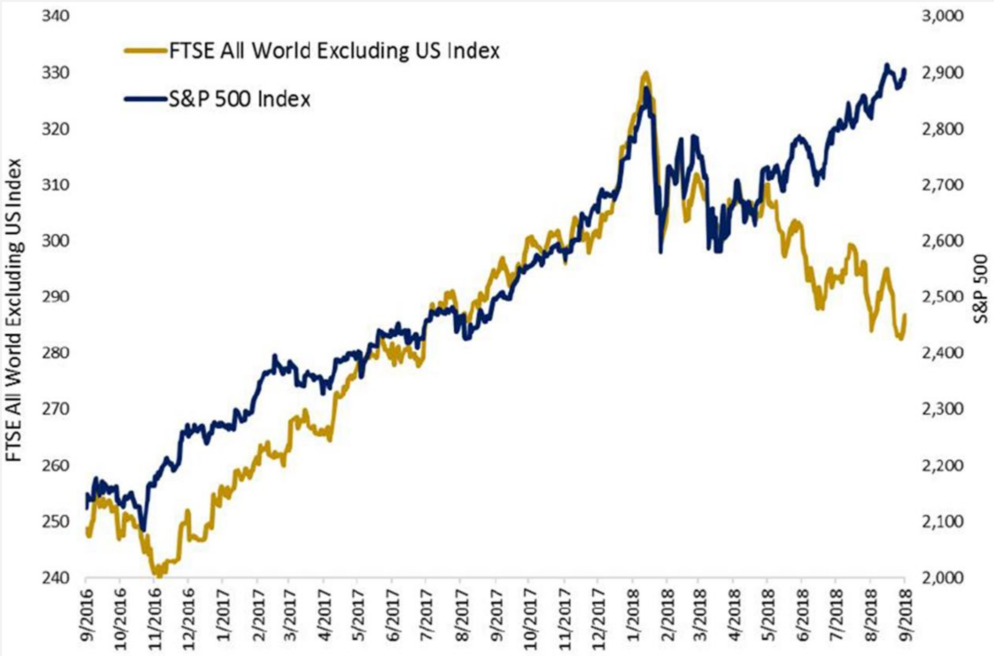
- The Fund had been long U.S. equities from 2014-2017. In 2018, the Fund has had more exposure to Europe/HK, as we have identified better stock opportunities in those markets
- Since May 2018, U.S Equities have continued rallying while non-U.S. stock markets have collapsed
- We believe U.S. GDP will soon begin to slow as a result of rising interest rates and a stronger USD
- U.S. equities should also start to underperform due to rising input cost pressures (such as wages) and relatively stretched valuations
- We are long some high quality global companies that are listed in Europe/HK that trade on P/Es of 7-10x, with reliable earnings growth and strong balance sheets



Source: Bloomberg

The Portfolio was impacted by a number of truly left-field stock events

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Some of the largest negative impacts on performance in the past few months were:

- **VENATOR –** Fire at one of their main plants 2 years ago. Management had stated repeatedly that insurance coverage would largely cover the repair costs. In August, management shocked the market by announcing insurance would be insufficient to cover the remediation and build costs and ultimately announced a decision to close their most profitable plant. Shares fell 50%.
- **NUFARM –** Shares fell after a judge in Brazil announced a ban on glyphosate sales (after a surprise Californian court case decision against Monsanto). Timing coincided with severe drought in Australia and a product registration delay in Europe, which led the company to conduct a capital raise.
- **OFFSHORE SHORT (CHANGE OF CONTROL) –** Shares spiked post a surprise transaction at a time when the industry was beginning to face pressure of weaker product prices than market expectations.
- **SIMS METAL –** Shares fell due to U.S. President Trump's announcement of steel tariffs on Turkey and some uncertainty around Chinese scrap import regulations. The long term earnings outlook is little changed, yet the shares have fallen 35%, which we believe is a significant overreaction.
- **TESLA (SHORT) –** CEO announced a discredited privatisation plan at $420 a share. The shares spiked on the announcement but have subsequently retreated as the bid was found to be baseless and the SEC fined the CEO and made him stand down as Chairman. Post quarter end, the Fund exited this position.
- **NEWS CORP –** Market misinterpreted the consolidation of Foxtel/Fox Sports into the NWS accounts. When NWS increased its ownership of Foxtel from 50% to 65% brokers consolidated all the debt from the subsidiary despite it being non-recourse. Resulted in brokers (incorrectly) lowering their sum of parts by 15%. Refer to page 29 for the NWS investment case.
- **LYNAS –** A surprise election result in Malaysia (first change of ruling party in 61 years) was followed by the unexpected announcement of a review into Lynas' plant despite the fact that Lynas had already passed numerous independent reviews and had never had an adverse breach.

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Equity Market Observations

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We believe several stock markets look mispriced as a result of central bank policy and differing stages of their economic cycle

1. The ASX200 Industrials Index is trading well above its long term average P/E
2. European value stocks appear undervalued, with many high quality global firms trading at their cheapest levels in over a decade
3. Declining central bank asset purchases should pressure asset values and raise volatility
4. NASDAQ has enjoyed an epic bull run, however, it is now looking vulnerable

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

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Outlook for subdued returns:

- The ASX200 Industrials index is now trading on 20.7X P/E (1 yr fwd) a 27% premium to its 10-year average of 16.3x
- We believe returns for the stockmarket will be lower than its long run average, given the high starting P/E multiple, lower earnings growth than the historical average and political risk in Australia and internationally
- The Australian market appears to be underestimating the risks from a weakening housing market, China slowdown, rising input cost pressures and geopolitical/trade tensions

European value stocks appear undervalued, with many high quality global firms trading at their cheapest levels in over a decade

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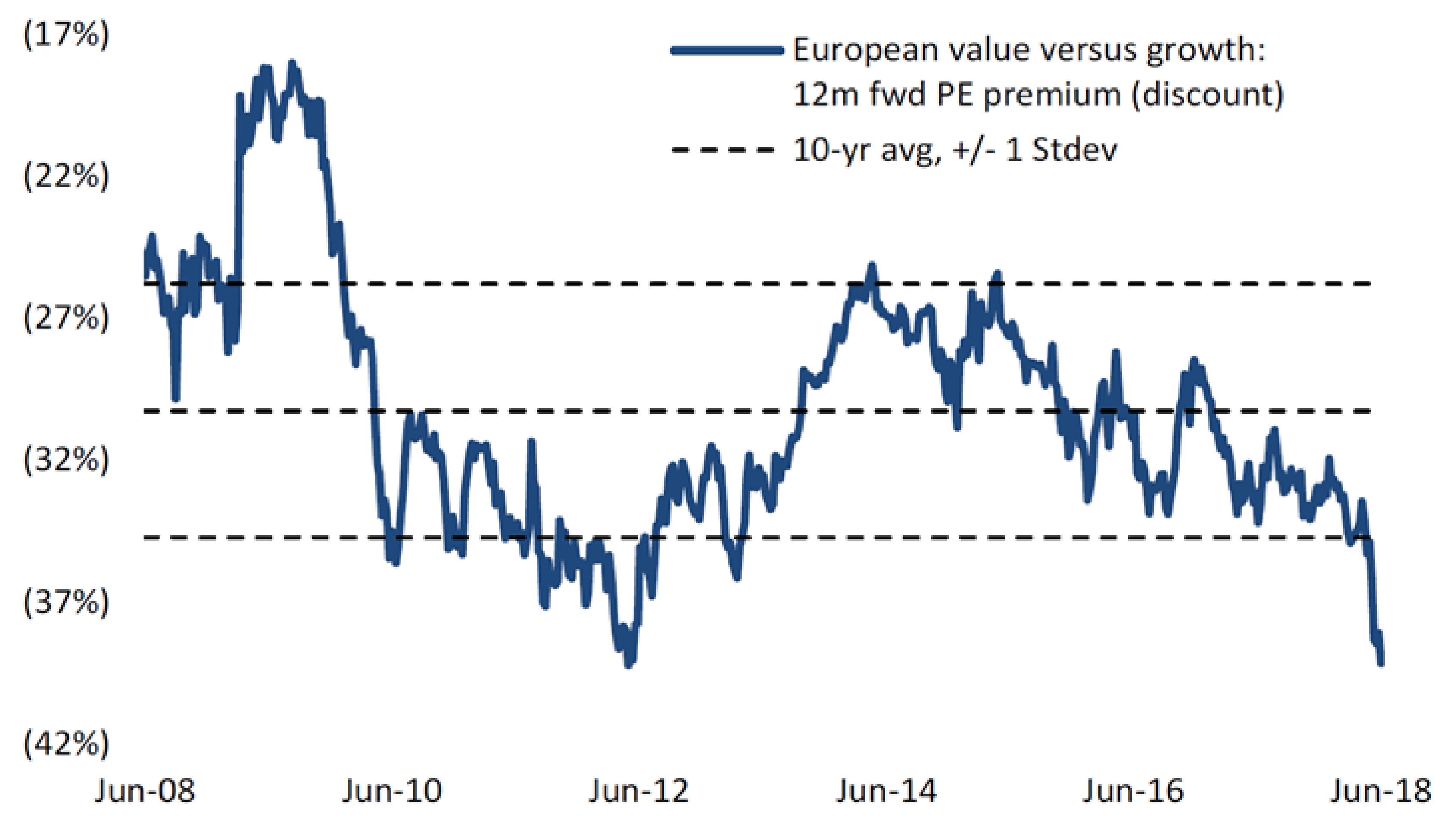

Source: Deutsche Bank, Bloomberg, Haver.

Declining central bank asset purchases should pressure asset values and raise volatility

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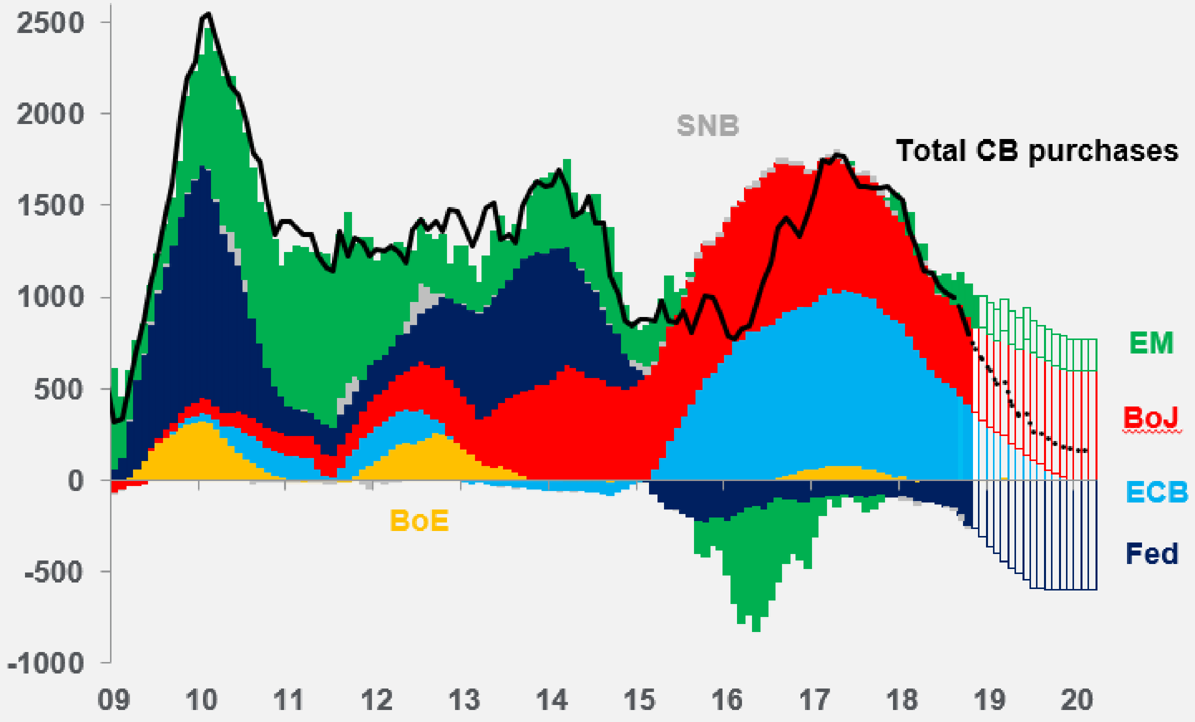
- Central banks have bought more than $10 trillion of bonds and equities over the past decade
- This has caused a huge increase in asset values and a large fall in market volatility
- Investors should be wary of the unwind of Quantitative Easing (QE), both in terms of asset values and the likely sustained increase in volatility



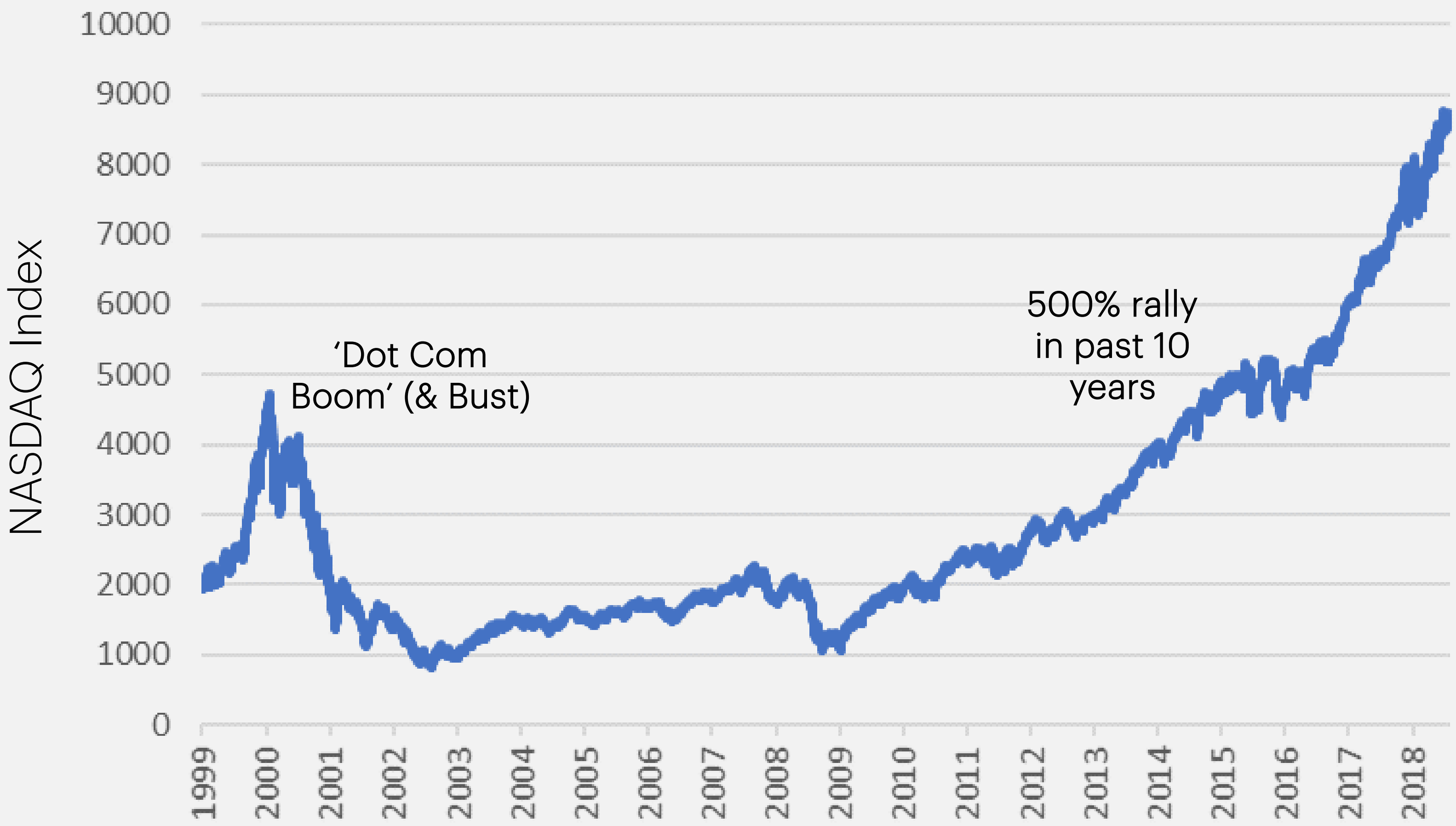
Earnings don't move the overall market; it's the Federal Reserve Board... focus on the central banks and focus on the movement of liquidity... most people in the market are looking for earnings and conventional measures. It's liquidity that moves markets.

- Stanley Druckenmiller

Source: Citi, National central banks, Citi Research. EMFX reserve changes are FX-adjusted.

NASDAQ has enjoyed an epic bull run, however it is now looking vulnerable

- Over the past decade, the Fed, ECB, BoJ & BoE all enacted QE and negative real interest rate policy
- Pension Funds, SWFs and Endowment Funds were forced out of bonds and into equities
- NASDAQ appears to have been the biggest beneficiary of QE. Will it be the biggest loser from Quantitative Tightening (QT)?



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Portfolio Positioning – Net Long & Geographic Exposure

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- We believe markets are at a riskier point in the cycle – valuations are full, central bank asset purchases are set to slow and geopolitical risks are elevated (U.S./China relations, Brexit, Italy)
- We are conservatively positioned - modest net long of ~50% (ie. 50% in cash)
- Roughly 25% net long to Australia and 25% net long to offshore stocks (largely Europe/HK where valuations are more compelling)
- Importantly, we are not particularly positive on Europe. Instead, we are buying businesses that are not overly reliant on Europe to do well
- Little net exposure to the U.S. The combination of rising interest rates and a stronger currency will begin to slow the economy and earnings growth

	Net Exposure	**Gross Exposure**
Australia/New Zealand	**24%**	**127%**
North America	**1%**	**25%**
Europe	**18%**	**18%**
Asia	**4%**	**9%**
Total	**47%**	**179%**

All figures as at 30 September 2018.

Current Portfolio Positioning

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The portfolio is positioned to take advantage of the extremes we see in the market:

1. Long 'Value' & Short 'Momentum/Growth' stocks
2. Long European & Hong Kong listed 'value' stocks
   – High quality, global businesses trading at huge discounts to intrinsic value
3. Short '2nd tier' U.S. tech stocks with over-rated business models that are trading at an average of ~200x P/E and 8x price to sales.
4. Given our expectation of rising volatility, we have a large skew to companies with low gearing (or net cash) while many of our shorts are over-geared or have risky balance sheets.
5. The Portfolio is positioned to benefit from the long term structural growth in:
   - Chinese inbound tourism;
   - Infrastructure construction & maintenance;
   - Demand for high speed internet;
   - Battery minerals that are used in electric vehicles, mobile phones and renewable energy

Portfolio Metrics

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- Our long portfolio has an average P/E of 14x. The short portfolio has an average P/E of 31x
- Despite the huge gap in multiples, our longs and shorts are expected to deliver the same earnings growth (8% in FY19) using consensus broker forecasts.
- Our long positions trade on far lower multiples, generate far higher free cash flow, have superior industry structures and much stronger balance sheets than our short positions.

PORTFOLIO METRICS (FY19)	LONG POSITIONS	SHORT POSITIONS
EV / EBITDA	5.9x	13.3x
Free Cash Flow Yield	8%	3%
Price to Book	1.2x	4.2x
EPS Growth	8%	8%

Source: Bloomberg broker consensus data. Current as at 30 September 2018

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Long Position – Chorus (CNU AU)

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SUMMARY

- **Chorus is the 100% monopoly owner of the existing copper telecommunications network in New Zealand and will own 81% of the new monopoly fibre network.**
- **Chorus is investing $6b over 10 years to build one of the world's best fibre to the premise networks.**
- **Post the completion of the fibre network, we believe the company could generate much stronger dividends and free cash flow as it begins to earn a return on its fibre investment**

INVESTMENT METRICS & VALUATION (FY19):

- 5% Dividend Yield
- Current share price A$4.30
- Valuation upside: 100%+

Investment Thesis

- Chorus generates a 5% dividend yield and we expect dividends to grow at a significantly faster rate than other infrastructure and utility stocks over the next 5 years.
- FY19 will be the peak period of capital expenditure for Chorus as the build out of the fibre network nears completion after nearly eight years of investment.
- The NZ government is in the final stages of passing legislation that will change how Chorus is regulated, transitioning it to a regulated asset in line with other monopoly utility and infrastructure assets. This should allow Chorus to earn a reasonable return on its fibre investment with more predictable cashflows.
- Investors have been concerned about the regulatory outlook and fixed wireless competition. We believe both of these risks are now receding given upcoming legislation and the recent slowdown in fixed wireless adoption in NZ as fibre penetration grows.

Long Position – Chorus (cont) – Capital Expenditure Profile

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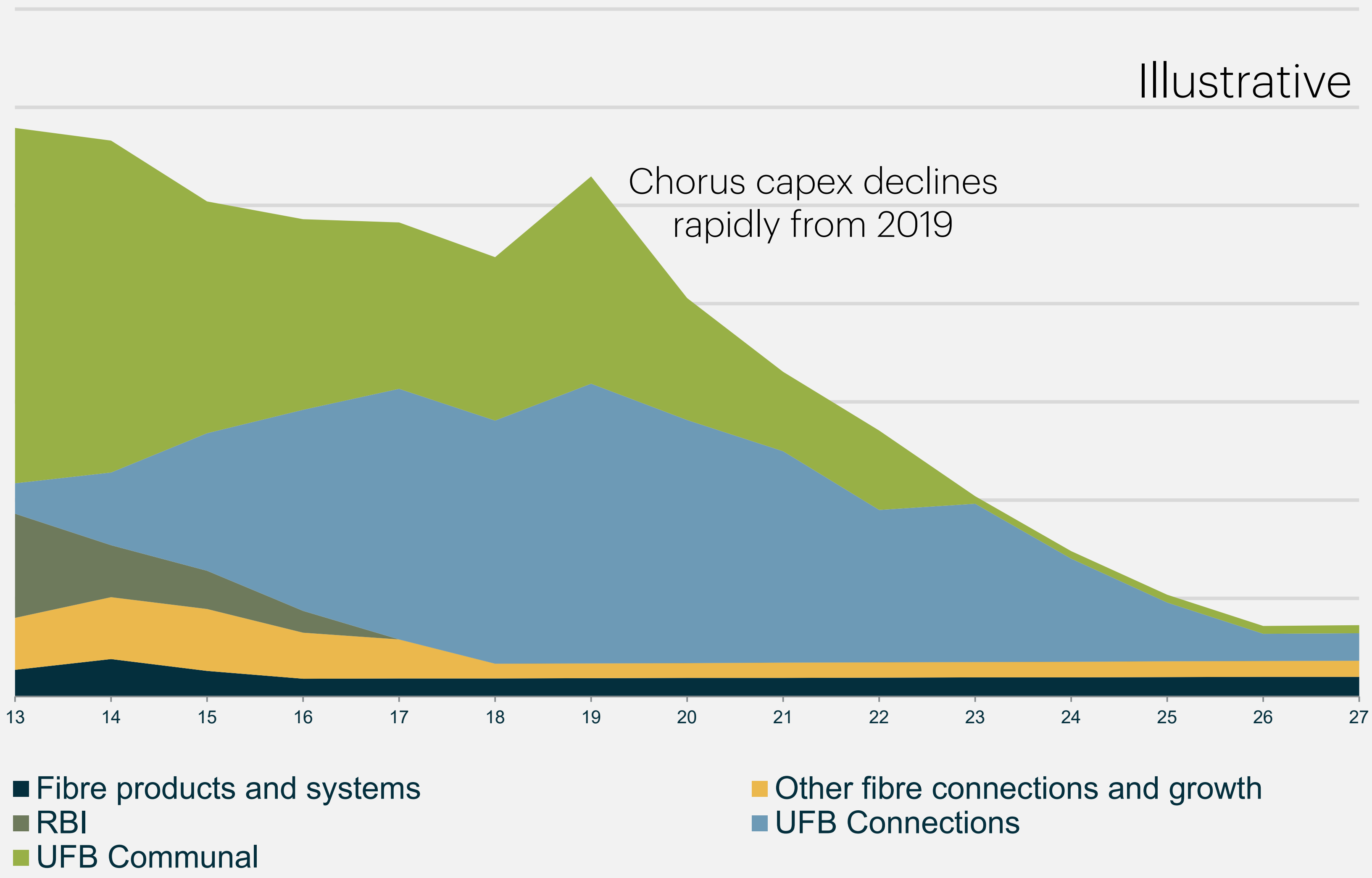

Source: L1 Capital estimates

Long Position – Alcoa (AA US)

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SUMMARY

- **Alcoa owns one of the best global portfolios of high quality, low-cost bauxite, alumina and aluminium assets.**
- **Assets are incredibly undervalued – to replicate their portfolio of assets would cost around US$100 per share versus the current share price of ~US$34.**
- **The more streamlined structure of the business (post the spin-off of Arconic) leaves management more focused on operational improvements and shareholder returns.**
- **Recent underperformance has been driven by the weak aluminium spot price and short-term negative announcements such as Norsk Hydro withdrawing plans to shutdown the remaining 50% capacity of its Alunorte alumina refinery (the world's largest).**
- **Aluminum demand is set to continue its long term track record of displacing other materials due to its attractive, light-weight properties.**

INVESTMENT METRICS (FY19):

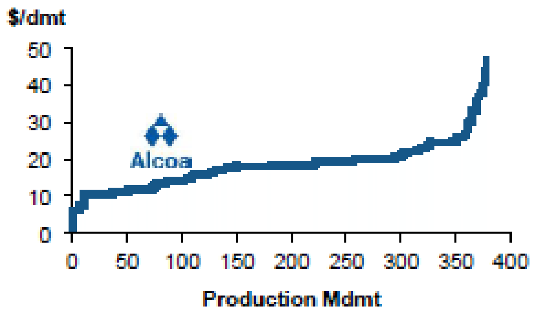
- 9.6x P/E
- 7% EPS growth
- 15% Free Cash Flow Yield
- 1.4x P/Book Value
- Conservatively geared balance sheet (including pension liabilities)

Investment Thesis

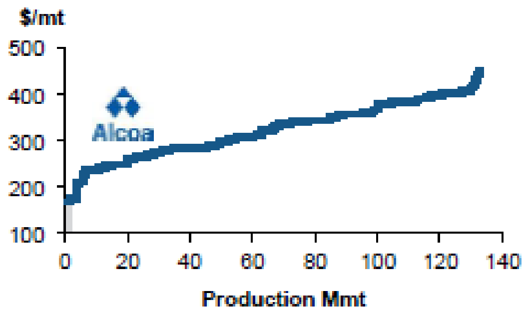
- Current Alcoa earnings are sustainable and the business generates around 15% of its market capitalisation in free cash flow each year.
- After a year of substantial de-gearing, Alcoa announced its first program of capital management with a US$200m buyback. We expect a larger capital management program in 2019 and 2020.
- At current prices, over 50% of aluminium producers are not covering their cash costs*. We believe the aluminium price will rise over time as more loss making smelters close.

Industry cost curve:

Bauxite – 20th Percentile



Alumina - 15th Percentile



Source: Alcoa

** Based on management commentary from Alcoa's September 2018 quarter earnings results.*

Long Position – CK Hutchison (1 HK)

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SUMMARY

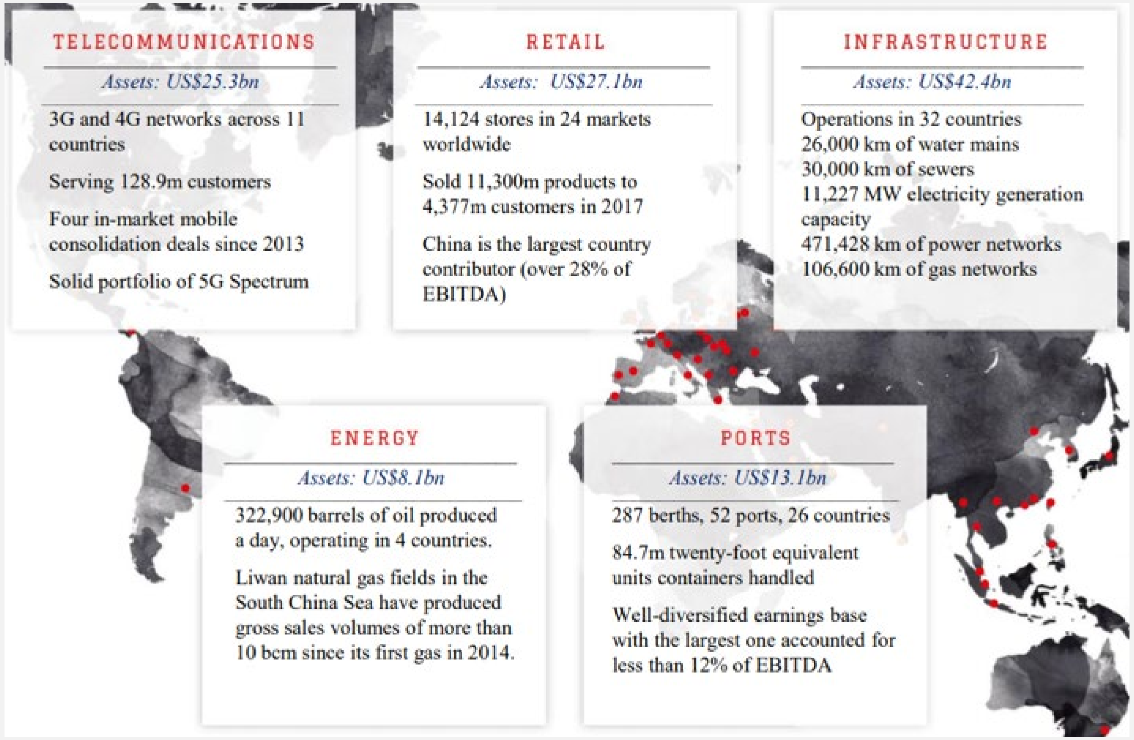
- **High quality conglomerate – 52 ports, US$40b+ of infrastructure assets, huge fast-growing Chinese pharmacy chain, large European telco business, global energy assets.**
- **Key assets have attractive industry structures, high barriers to entry and excellent cashflow generation**
- **Major shareholder is Li Ka-Shing (one of Asia's most successful business leaders) who has an enviable track record of making attractive investments**
- **Extremely undergeared balance sheet at both the corporate level and asset level enables management to accelerate the organic growth.**

INVESTMENT METRICS (FY19):

- 7.5x P/E
- 11% EPS growth
- 13% Free Cash Flow Yield
- 5% Dividend Yield

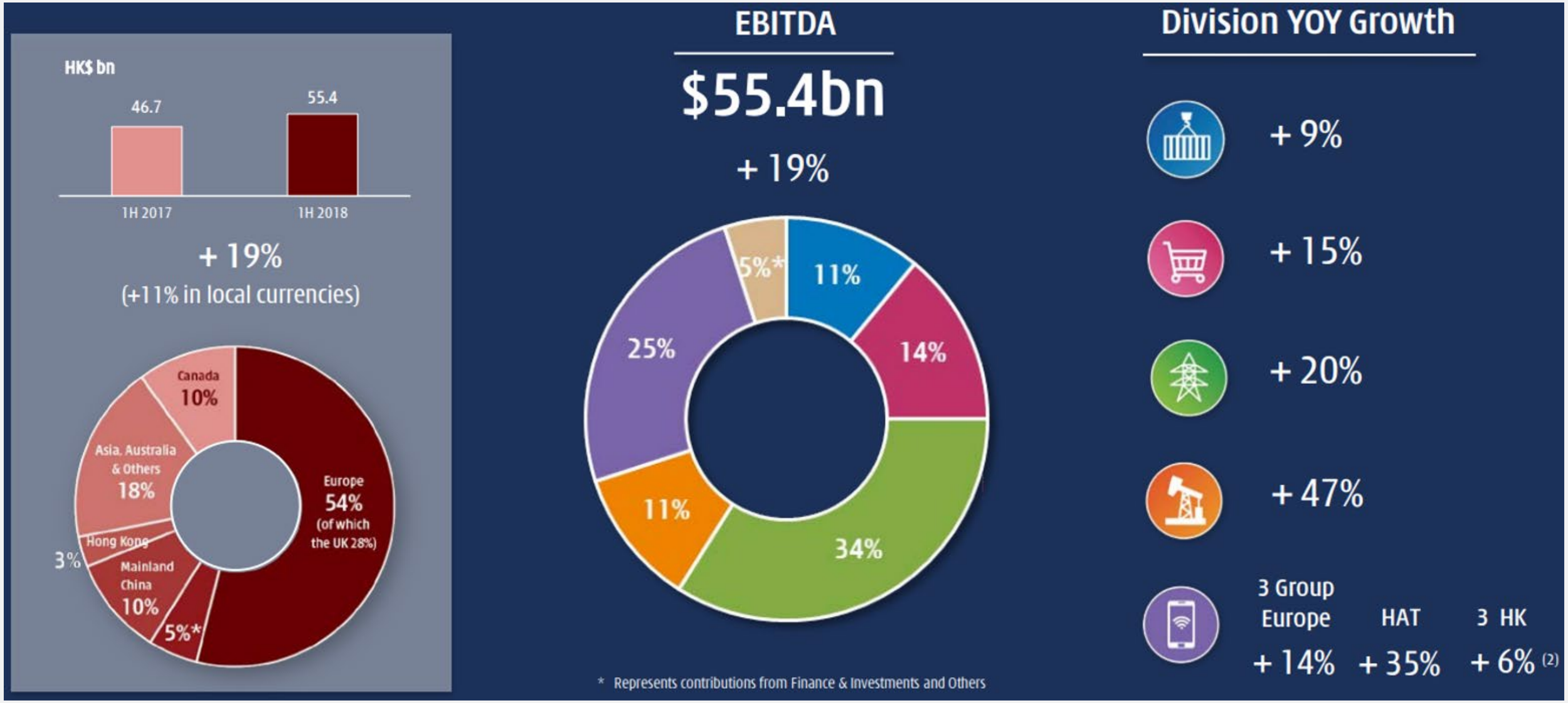
Investment Thesis

- We believe CK Hutchison has more than 80% valuation upside, using conservative assumptions to determine fair value
- The company is expected to generate almost half its market capitalization in free cash flow over the next 3 years
- The shares trade on a P/E of 7x, despite the business growing earnings by 19% in the past year (11% in constant currency). Please see chart on p.30



Source: CK Hutchison

Long Position – CK Hutchison (cont)



Source: CK Hutchison. All values expressed in HKD

Long Position – Boral (BLD AU)

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SUMMARY

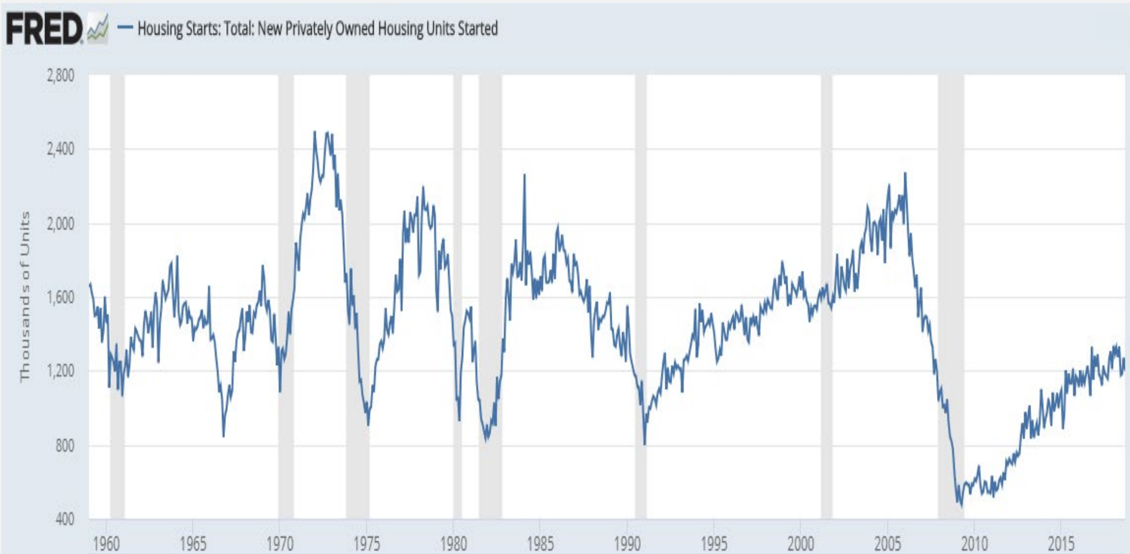
- **Boral is a leading construction materials and building product company with operations in Australia, North America and Asia.**
- **We expect Boral to average double digit EPS growth p.a. over the next three years.**
- **Boral's Australian construction materials business will see strong volume growth from the boom in east coast infrastructure over the next three years (see next slide).**
- **Boral USA is well positioned to achieve targeted merger synergies from the Headwaters acquisition while benefiting from a gradual recovery towards mid-cycle housing starts. U.S housing starts are still tracking below their 50 year average of 1.5m and far below today's estimated household formation (given the U.S. population has increased dramatically over the past 50 years)**
- **Boral is exposed to some temporary earnings risk largely due to the recent wet weather in NSW and USA and higher input costs.**

INVESTMENT METRICS (FY19):

- 12.2x P/E
- 10% EPS growth (FY19 may be lower due to adverse weather)
- 9% Free Cash Flow Yield

Investment Thesis

- Boral owns some of the most strategic quarry, cement, concrete and asphalt assets on the east coast of Australia, which are set to benefit from the multi-year expansion of infrastructure spending in Australia (primarily large scale road projects)
- Post the Headwaters acquisition, Boral also controls more than 50% market share in the U.S. fly ash industry (a cement substitute with superior structural properties), which looks set to enjoy a sustained period of price and volume growth.
- We believe the shares are extremely undervalued given the strong long term earnings outlook and current P/E multiple of 12x (FY19)



Source: https://fred.stlouisfed.org

Long Position – Boral (cont)
Boral is leveraged to rising infrastructure spending in Australia

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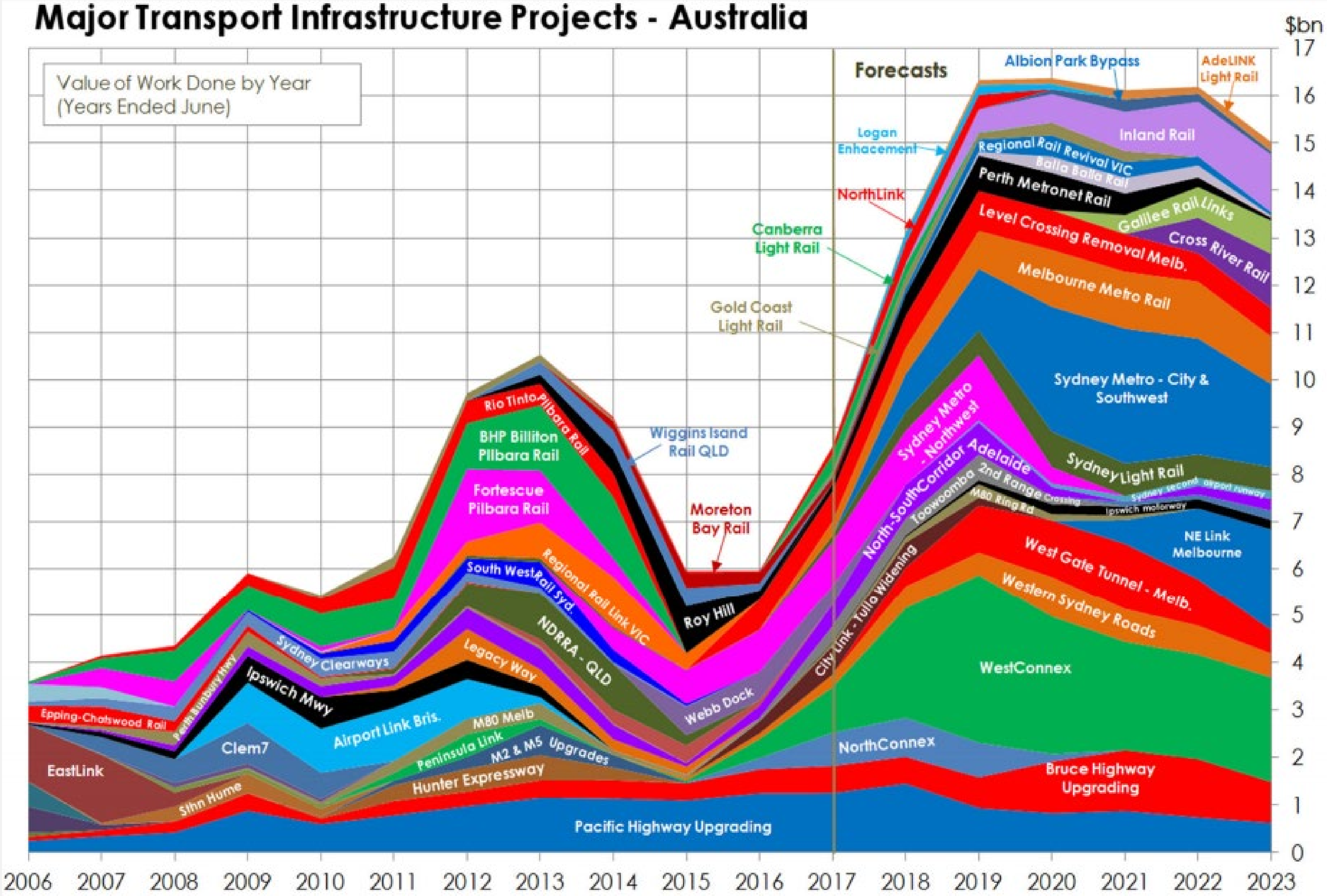

Source: Macromonitor Australian Construction Outlook Overview June 2018

Long Position – News Corp (NWS AU)

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SUMMARY

- **News Corporation owns a broad suite of digital real estate and media assets, including a 61.6% stake in REA (Australia's No.1 digital real estate portal), along with an 80% stake in realtor.com (2nd largest U.S. real estate portal)**
- **The business has no debt and approx. $2.4b of net cash (almost 25% of its market cap)**
- **Cash flow generation is particularly strong, given the skew to capital-light businesses and media/publishing assets with little requirement for ongoing capex**
- **Earnings are expected to grow at a double-digit rate for the foreseeable future due to the quality of the main assets - REA, MOVE & WSJ**

INVESTMENT METRICS (FY19):

- 6x EV/EBITDA
- 10%+ Free Cash Flow Yield

Investment Thesis

- News Corporation is dramatically undervalued, given all the firm's assets apart from REA & MOVE are currently being valued at close to zero, despite generating over $1b of EBITDA (after deducting all corporate costs)
- The company has tremendous flexibility to generate value and EPS accretion given its huge cash balance, which could be deployed on acquisitions or capital management
- We expect the company may consider an asset restructure designed to highlight the value within the group
- The WSJ alone is worth A$4-5b using equivalent multiples as the FT or NY Times.
- Investors have historically viewed News Corporation as an old media business. Given the huge growth in the digital real estate assets, along with the transformation of assets like WSJ and book publishing to digital formats, the business is now dominated by high growth digital assets

Long Position – News Corp (cont)

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News Corp Digital Assets

REA (Realestate.com.au) - 62% stake

$5.8b

MOVE (Realtor.com) - 80% stake

+$1.7b

+ NET CASH

+$2.4b

DIGITAL ASSETS + CASH

= $9.9b

CURRENT MARKET CAP

$10.5b

News Corp Traditional Assets

News & Info

- New York Post
- Wall Street Journal
- Dow Jones
- Barron's

Australian Publishing

- The Australian
- The Daily Telegraph
- Herald Sun
- The Courier Mail

UK

- The Sun & The Times
- TalkSport

Book Publishing

- Harper Collins Publishers

Cable Networks

- ANC (Sky News, Sky Business, etc)
- Foxtel & Fox Sports (65%)

EBITDA (post corporate costs)

$1b

= paying less than 1x EBITDA for these assets

CURRENT MARKET VALUE

$0.6b

($10.5b-$9.9b)

Note: AUD/USD exchange rate of 0.71. Data current as at 26 October 2018.

Long Position - Mineral Resources (MIN AU)

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SUMMARY

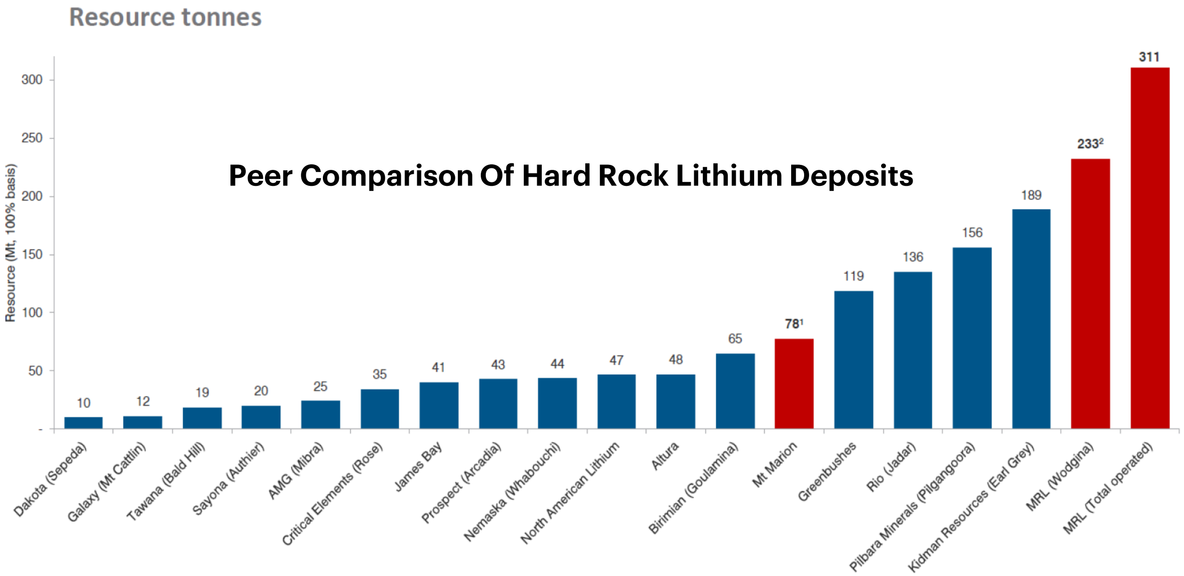
- **MIN is a high-quality mining services business with a predictable crushing contract order book and generates over 250m EBITDA p.a.**
- **MIN owns 100% of Wodgina, the world's largest hard rock lithium mine. It also operates and owns 43.1% of the Mt Marion lithium mine.**
- **Entrepreneurial management team led by Chris Ellison (CEO). CEO recently purchased $5.5m of MIN shares on market.**
- **Strong pipeline of future growth in new areas including, carbon fiber products and the BOSS rail project.**

INVESTMENT METRICS (FY19):

- 9.7x P/E
- 5.1x EV/EBITDA

Investment Thesis

- We believe the current market cap of around $2.6b implies little if any value for Wodgina, the world's largest hard rock lithium mine.
- Management have decided to run a process to evaluate selling a stake of up to 49% in the mine. A successful outcome on this transaction would demonstrate a look through sum of parts valuation well above the current share price.
- Broker expectations for the sale are low, which suggests upside risk if a deal can be achieved.



Source: Mineral Resources

Long Position - Mineral Resources (cont)
Outlook for Lithium Demand from EVs

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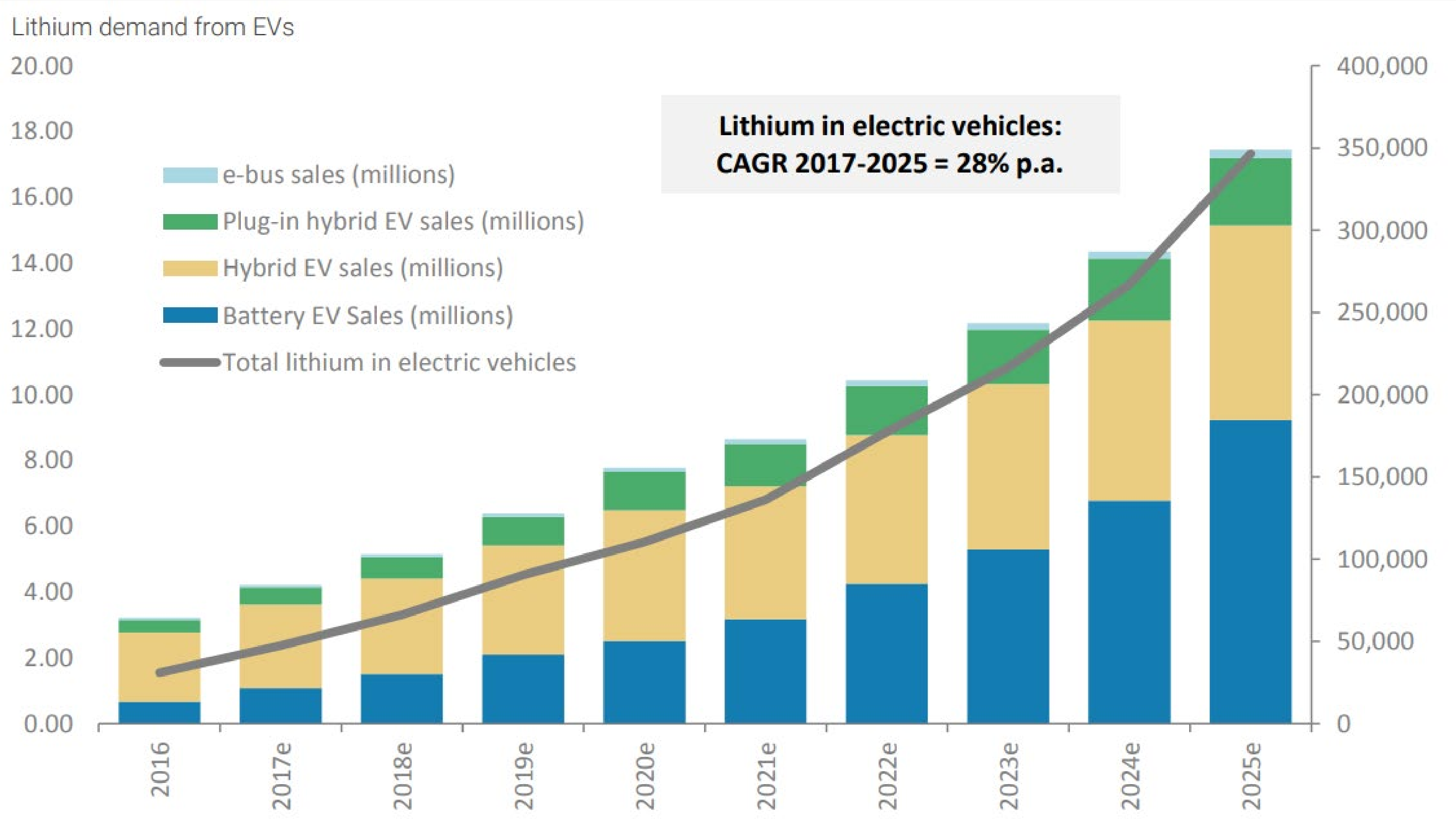

Source: Morgan Stanley forecasts

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Conclusion

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- We remain confident in the research process and the fundamental logic for our portfolio positioning
- There have been no changes to the investment team or investment process that has delivered very strong returns to L1 Capital investors since 2007
- All senior members of the investment team have the bulk of their personal wealth invested in the Fund
- The co-CIOs, Mark Landau and Rafi Lamm, have voluntarily escrowed their investment in the LIC for 10 years
- Both have been significantly adding to their investment in the LIC in the past month

Legal Disclaimer

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