



19 November 2020

The Manager
ASX Market Announcements

L1 Long Short Fund Limited – 2020 Annual General Meeting – Chairman’s Address

In what has been a memorable year for many reasons, I am very pleased to report exceptional performance by our Manager and a significant reduction in the share price to NTA discount. As shareholders are acutely aware, the Company had a disappointing start after its IPO in 2018, finishing the calendar year with an NTA down by 26.6%. 2019 was a very different story, with the investment strategy delivering positive returns in 11 of the 12 months, delivering a 25.5% return for the calendar year.

The Manager entered 2020 optimistic that its portfolio was well positioned for continued strong performance. Unfortunately, as the broader market rallied in January, the Company’s NTA fell due to strong gains in the Healthcare, Technology and Staples sectors (where the Fund was underrepresented) and sharp falls in the Fund’s Energy and Materials stocks due to falling oil and commodity prices.

By March, the global coronavirus pandemic had taken hold, resulting in the worst month for the ASX200 since the 1987 crash and the worst first quarter ever for the ASX200. The ASX200 suffered its fastest bear market on record, plunging 36.5% between February 20th and March 23rd. The Company’s NTA was down 33.8% for the March quarter.

At the height of market negativity, the Manager took the view, based on its own detailed research, that markets had been oversold. At the time, this was a highly contrarian position. It started buying high-quality businesses at significantly depressed prices and increased its net long position from 64% at the end of January to 92% by the end of March and over 100% by the end of April.

After extensive research on COVID-19, the Manager became confident of a safe and effective vaccine being available well ahead of the consensus timeline. The Manager increasingly positioned its portfolio to take advantage of its non-consensus view. This positioning, and the recent announcements regarding the high level of effectiveness of the Pfizer and Moderna vaccines, has enabled the Fund to generate a very strong bounce back in performance since March. As of Friday 13th November, the Company’s pre-tax NTA is now up 102% since the March low and 17.5% for the calendar year to date.

What Are We Doing to Close the Discount?

On-market buyback of up to 10% of shares in LSF.

- As at 30 October, ~\$51 million has been bought at an average price of \$1.28 per share, representing 6% of capital. Buyback has been accretive to shareholders and has reduced the discount to NTA.
- The buyback will continue until the share price discount to NTA narrows to 10% or less, which will benefit all shareholders¹.

Continued on-market share purchases by senior management.

- In August, the L1 senior management team purchased an additional ~\$10m of LSF shares on market.
- The L1 team intends to continue buying further LSF shares over time.

Attracting numerous high quality people to our investment & investor relations team.

- Recently added a top-rated Senior Investment Analyst, Andrew Levy (16 years at Macquarie).
- Hired a well-regarded Head of Distribution, Chris Clayton (former Head of Sales & Marketing at BT), to lead a team of marketing professionals dedicated to best practice shareholder communication.

Enhanced shareholder communication & engagement.

- Regular webinar updates, broker/planner roadshows, detailed monthly & quarterly reports, increased portfolio disclosure, enhanced investor relations team.

1. Share price discount being to the Company's Net Tangible Assets on either a pre-tax or post-tax basis, whichever is lower. Please refer to LSF ASX buyback announcement dated 17 March 2020 for further details.

Capital Management

During 2019 and 2020, the Company's shares traded at a discount to their underlying NTA. While a sustained period of strong performance is clearly central to reducing the share price discount to NTA, the Board has been very active in taking steps to address this critical issue for shareholders.

In mid-March, the Company announced the commencement of an on-market share buyback of up to 10% of the shares in LSF within a 12-month period. Since that announcement, the Company has acquired over \$51 million of shares at an average price of around \$1.28 per share, representing ~6% of the Company's share capital. Subject to ASX and Corporations Act requirements, the Company intends to continue buying steadily in instances where the share price discount to NTA is above 10%.

Following the full year results announcement in August, Mark Landau and Rafi Lamm (and their associated entities) purchased an additional 7.3 million shares in LSF, for a consideration of approximately \$10m. This on-market buying reaffirms the strong alignment of their interests with those of shareholders and the commitment and confidence they share in the outlook for LSF. Pleasingly, Mark and Rafi have indicated that they intend to continue buying shares in LSF over time during permitted windows.



During 2020 the Manager has also invested heavily in its team to bolster its capabilities, hiring 5 people since March this year, including Andrew Levy (previously 16 years at Macquarie) and Chris Clayton (former Head of Sales & Marketing at BT).

Finally, the Company has enhanced its shareholder communication and engagement with regular webinars, roadshows, detailed monthly & quarterly reports as well as increased portfolio disclosure.

Pleasingly, these initiatives, combined with the strong performance of the strategy have helped narrow the discount to NTA from over 40% to around 17% as at last Friday. The share price has also returned to levels not seen since August 2018.

While delivering a high dividend is not a primary objective of the investment strategy of the Manager, the Board is conscious that the Company has not yet paid a dividend. The Board believes that paying shareholders a consistent, albeit modest, fully franked dividend is another important element in increasing the attractiveness of the Company to investors and helping reduce the share price discount to NTA. However, any future dividend decision by the Board is dependent on continued strong performance by the Manager and the profitability of the Company.

In conclusion, your Board remains confident in the capabilities and processes of the Manager to provide benefits for our shareholders over the medium to longer term. We believe the past two years has re-affirmed the skills, investment process and work ethic of the investment team and we are optimistic about the outlook for LSF.

I would like to thank all of our Shareholders for their continuing support of the Company. It is very much appreciated.

ENDS

Authorised for release by Andrew Larke, Chairman.