

**L1 CAPITAL**

DAILY CLASS

# Long Short Fund

Monthly Newsletter | October 2018

Unit Price: 0.9833<sup>12</sup> | Fund NAV: \$832m

## Monthly Net Performance (%)\*

PERIOD	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT*	NOV	DEC	YEAR
2014	-	-	-	-	-	-	-	-	(2.42)	3.03	2.85	1.61	5.07
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.62	60.52
2016	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.18)*	0.55	2.13	29.43
2017	2.48	1.79	2.83	1.01	4.14	1.68	2.61	1.67	1.91	2.50	0.86	3.50	30.50
2018	0.54	(0.49)	(1.68)	1.59	(3.77)	(6.31)	0.79	(5.93)	(2.13)	(4.01)			(19.75)

Past performance should not be taken as an indicator of future performance.

## Market and Fund Review

**The Fund returned -4.0% in October.****Since inception, the Fund has returned 128.6% (after fees).****This compares to a total return of 24.4% for the ASX200 and 25.6% for the MSCI World Index over the same period.**

Rising U.S. bond yields and ongoing geopolitical tensions caused stock markets around the world to endure one of their worst months of the past decade - MSCI World Index (-7.4%), ASX200 AI (-6.1%) and S&P500 (-6.8%). The China/U.S. trade war, Brexit uncertainty and rising Italian bond yields all contributed to market volatility. All sectors in Australia fell in October, with the hardest hit being Energy (-11.0%) and IT (-9.4%).

Themes from October:

**Momentum stocks under pressure** – The US 10-year bond yield has had a more pronounced impact on long duration growth assets such as U.S. tech stocks and other high P/E stocks. Pleasingly, several of our short positions fell by more than 20% in October.

**Value stocks remain under pressure** – Several high conviction long positions fell by more than their respective indices in October. These includes Mineral Resources, CK Hutchison, Nufarm and Alcoa.

**M&A activity pickup** – We believe an increase in M&A could help normalise the current valuation dispersion in the market. Recent takeover targets include Navitas, MYOB, Healthscope and Greencross.

Stock specific commentary:

**Lynas (Long: +30%)** – Shares have begun to recover from oversold levels due to incrementally positive news regarding the Malaysian Government’s environmental review of Lynas’ plant and the release of a strong operational update. We believe Lynas is strategically well placed for long-term structural growth, given the growing demand for rare earths and the proposed curtailment of supply out of China due to environmental concerns.

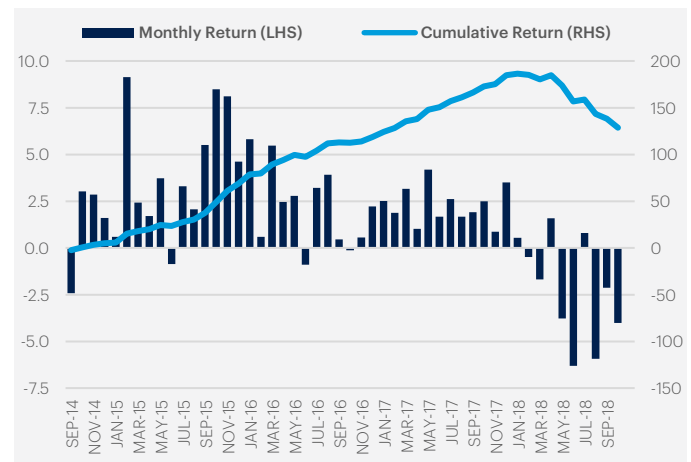
**Boral (Long: -19%) / HeidelbergCement (Long: -11%)** – Shares in both stocks reacted negatively to updates that unfavourable weather in parts of the U.S. and NSW would impact earnings. The update from HeidelbergCement was largely in-line with already pessimistic consensus earnings expectations. Boral’s guidance was only slightly modified but increased the reliance on second half earnings for FY19, making the 19% fall in the shares appear excessive.

Investors should expect higher volatility in both equities and bonds due to the unwind of quantitative easing and rising geopolitical uncertainty.

## Fund Characteristics\*

	CURRENT	AVG SINCE INCEPTION
Number of positions	74	76
Number of long positions	44	50
Number of short positions	30	26
Gross long exposure (%)	108%	141%
Gross short exposure (%)	56%	84%
Gross exposure (%)	163%	227%
Net exposure (%)	52%	57%

## Fund Performance (Net)\*



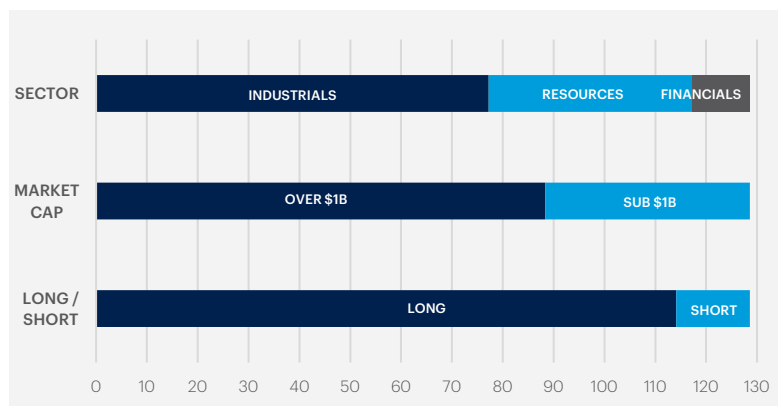
## Performance Metrics (%)\*

	LONG SHORT FUND
One month	(4.01)
Three months	(11.64)
One year	(16.23)
Two years (p.a.)	3.70
Three years (p.a.)	15.31
Since inception (p.a.)	21.95
Since inception (cumulative)	128.60

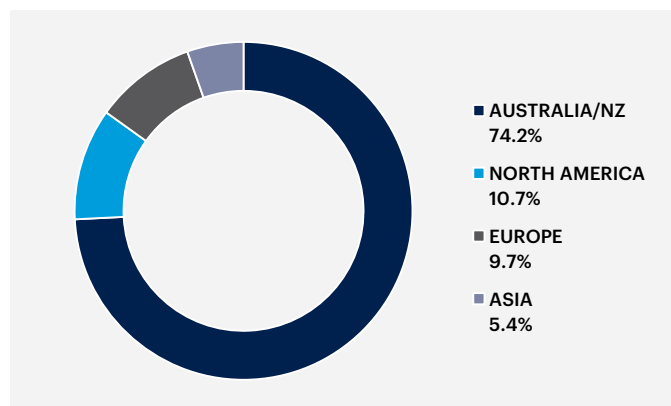
## Risk Metrics (%)\*

	LONG SHORT FUND
Beta	0.25
Sharpe ratio	1.9
Sortino ratio	4.2
Maximum drawdown	20.0%
Percentage of positive months	78.0%
Annualised standard deviation	10.8%
Annualised downside deviation	5.4%

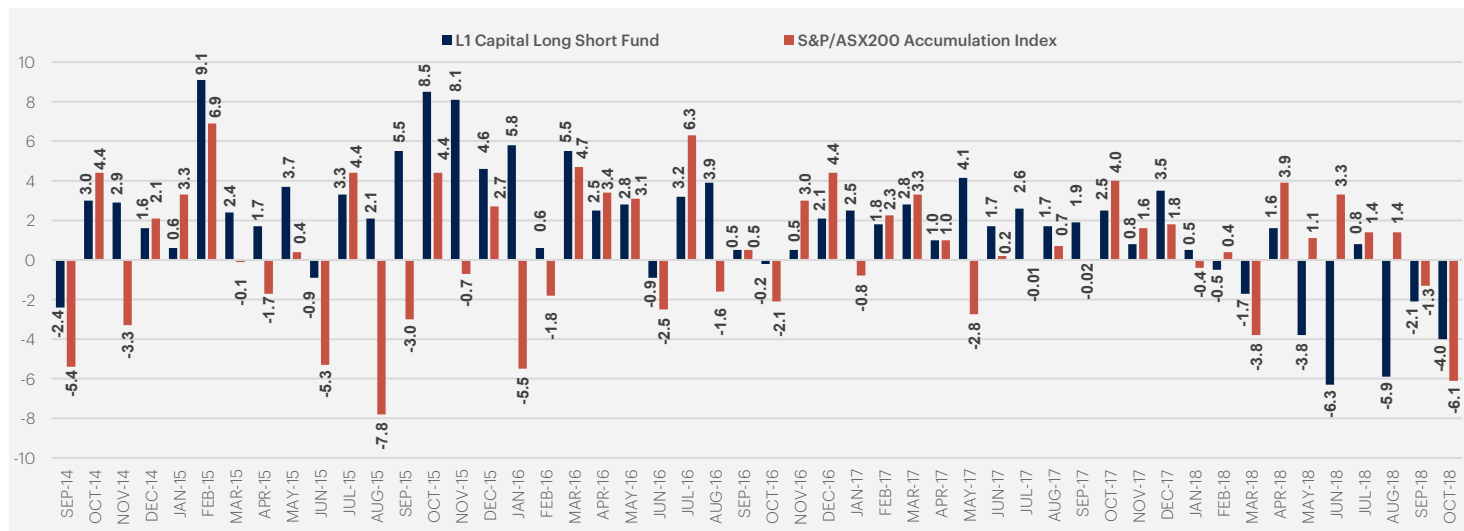
## Attribution since inception (Net %)\*



## Gross exposure by region\*



## Monthly Fund Performance vs S&P/ASX200 Accumulation Index (since inception)\*



## Fund Information

<b>Name</b>	L1 Capital Long Short Fund
<b>Class of Units</b>	Daily
<b>Structure</b>	Unit Trust
<b>Domicile / Currency</b>	Australia / AUD
<b>Inception</b>	1 September 2014
<b>Management Fee</b>	1.54%
<b>Performance Fee</b>	20.50%
<b>High Watermark</b>	Yes
<b>APIR / ISIN</b>	ETL0490AU / AU60ETL04909
<b>Minimum Investment</b>	A\$25,000
<b>Subscription Frequency</b>	Daily
<b>Redemption Frequency</b>	Daily

There have been no changes to key service providers since the last monthly newsletter.

## Service Providers

<b>Responsible Entity</b>	Equity Trustees Limited
<b>Prime Broker</b>	Morgan Stanley, Credit Suisse (Europe)
<b>Fund Administrator</b>	Link Fund Solutions
<b>Fund Auditor</b>	EY
<b>Fund Custodian</b>	HSBC
<b>Legal Advisor</b>	Hall & Wilcox



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## Information contained in this publication

\*All performance numbers are quoted after fees. All performance in this update prior to 3 October 2016 (being the date that the first retail class units were issued) relate to the monthly class units which are subject to a different fee structure. Beta, sharpe ratio, sortino ratio, maximum monthly drawdown, annualised standard deviation and annualised downside deviation relate to the monthly class units. 1. The value of the Fund's assets less the liabilities of the Fund net of fees, costs and taxes. 2. The unit price is calculated by decreasing the NAV price by the sell spread (currently 0.25%). The NAV price is the NAV divided by the units on issue. Past performance is not predictive of future returns. Beta is calculated versus the ASX200AI.

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