



L1 CAPITAL

Annual Report 2019

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 secretaries

Mark Licciardo
Adam Sutherland (resigned 7 May 2019)

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

Link Fund Solutions Pty Limited
Level 12, 680 George Street
Sydney NSW 2000
Phone: (02) 8280 7100

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

Annual General Meeting

The Annual General Meeting will be held at 10:00am on Wednesday, 20 November 2019 at the offices of Holding Redich, Level 8, 555 Bourke Street, Melbourne VIC 3000.

Corporate Governance Statement

The Board of Directors of L1 Long Short Fund Limited (the "Company") is committed to maintaining high standards of Corporate Governance. This Corporate Governance Statement discloses the extent to which the Company has followed the 3rd Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles and Recommendations).

The Corporate Governance Statement adopted by the Board can be found in the Company's Corporate Governance section (<https://www.l1longshort.com/company-information/corporate-governance/>).

The Corporate Governance Statement is accurate and up to date as at 21 August 2019 and has been approved by the Board.

Chairman's Letter



Dear fellow shareholders,

I am pleased to provide you with the Annual Report for the L1 Long Short Fund Limited (Company) for the year ended 30 June 2019.

It has been an eventful year for equity markets, given the U.S/China Trade War, the potential for a 'hard Brexit' and a surprise election victory for Australia's Coalition Government. The collapse in global interest rates has also precipitated a dramatic outperformance of 'bond proxies' and 'growth' stocks, given their long duration attributes.

As you know, the Investment Manager has been maintaining a portfolio with a bias towards value stocks, given they are trading today at an extreme discount versus growth and momentum stocks. While value stocks have lagged the market this year, it has been very pleasing to see much improved performance by the Investment Manager as a result of solid bottom-up stock selection.

The Investment Manager's performance in 2018 was disappointing for all of us, particularly considering the strong track record that had been delivered over many years previously. We have seen performance significantly improve in 2019, with the pre-tax NTA increasing by 18.4% this calendar year¹.

While the Company's NTA has risen strongly in 2019, the share price had not kept pace. Accordingly, the board has been focused on addressing the share price discount to NTA. In August, the board announced a major share purchase program by the Founders of L1 Capital that is designed to help close the discount and enable the share price to reflect the underlying value of the Company's portfolio. Pleasingly, since this announcement, we have observed an improved share price performance and a reduction in the discount.

In the event the LSF share price continues to trade at a material discount to NTA, then the Independent Directors will consider the potential for an on-market buy-back in accordance with the ASX listing rules and Corporations Act requirements.

The Investment Manager has shown over a long period of time that it has the investment expertise and processes to deliver strong returns over the long term. I remain confident in the investment team and their research skills and have significantly added to my personal shareholding during the year.

I look forward to seeing many of you at the Annual General Meeting at 10am on Wednesday, 20th November 2019.

Thank you for your continued support of the Company.

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

Andrew Larke
Chairman

¹ Current as at 30 September, 2019.

Investment Manager's Report

On behalf of the investment team at L1 Capital, we are pleased to provide you with our annual letter to shareholders. While the Fund's performance in 2018 was disappointing, it has been encouraging to see a marked improvement during 2019.

The Fund has returned 18.4% so far in 2019, with positive returns in 8 out of 9 months. This turnaround in performance was achieved in spite of holding a portfolio that has endured a severe headwind from the continued outperformance of high P/E stocks and 'bond proxies'. We continue to believe that the outlook for these groups of stocks is unattractive, given the lofty valuations of growth/momentum stocks (see Chart 1) and the poor earnings outlook for many mature or structurally challenged 'bond proxies'.

Our investment process involves detailed, fundamental, bottom-up company and industry research that helps us to have a more complete and informed view than the average investor. It is this investment process that has enabled our team to have the best track record of all Large Cap Australian Equities Fund managers since our inception in 2007¹, along with the L1 Capital Long Short Fund delivering 19.9% p.a. (net of fees) since its inception in September 2014. All L1 Capital unlisted funds have delivered very strong returns to investors and we are absolutely determined to deliver the same strong, long-term results for LSF shareholders.

Market & Portfolio Overview

We believe Australian equities currently appear overvalued in an absolute sense, but attractively priced relative to other asset classes. The ASX200 Industrials Index is currently trading at close to 24x P/E (1 year forward), compared to its 10-year average of around 17x. However, with Australian 10-year bonds now yielding less than 1%, we believe investing in the stock market is compelling in a relative sense, given that it is delivering an earnings yield of more than 4%.

Today, our long portfolio looks extremely undervalued in both an absolute and relative sense. Our collection of businesses generates almost 10% of their market capitalisation in free cash flow each year (after all expenses and capex) and they trade on a modest forward P/E multiple of 14.5x. Meanwhile, our average short position trades on more than 25x, yet delivers earnings growth that is no better than that of our longs. We believe that over time, the vastly superior cashflows of our longs compared to that of our shorts will deliver considerable value to shareholders. While investment fads and styles will come in and out of favour, we believe sustainable and growing cashflows are the single most important factor in driving share prices over time.

¹ Zenith 2019 Australian Shares – Large Companies Sector Review (June 2019). L1 Capital Australian Equities Fund was ranked 1st out of 81 participating funds. Performance data is current as at 30th September 2019. Past performance is not an indicator of future performance.

Investment Manager's Report

Continued

Chart 1 – Relative valuation of Momentum versus Value stocks (S&P500)



Source: JP Morgan Global Equity Strategy & Quantitative Research – September 12, 2019.

Over the past year, we have seen a number of our short positions rally strongly initially (often for dubious reasons) only to subsequently collapse as fundamentals reassert themselves. Fortunately, we retained our conviction in these short positions and the portfolio has benefited in 2019.

Over many years, we have benefited from strictly adhering to our investment process which identifies mispriced companies with substantial medium-term upside on account of poor current sentiment, temporary headwinds or latent, unpriced optionality. We strongly believe we have identified a number

of companies that possess these attributes and indeed have greater than usual upside to our valuation.

We have also continued to buy more LSF shares on market as a sign of our commitment and confidence in the outlook for the Company. We are very optimistic about the portfolio and look forward to updating you further at the AGM.



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 2019.

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 was no significant change in the nature of the activity of the Company during the year.

Dividends

There were no dividends paid or proposed to be paid during the year.

Review of operations

The operating loss before tax was \$75,789,000 for the year ended 30 June 2019 (2018: loss \$108,073,000). The net result after tax was a loss of \$49,402,000 (2018: loss \$75,439,000).

The net tangible asset backing before tax as at 30 June 2019 was \$1.6771 per share (2018: \$1.7938).

Financial position

The net asset value of the Company for the financial year ended 30 June 2019 was \$1,179,497,000 (2018: \$1,228,886,000).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company during the year ended 30 June 2019.

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

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).

Directors' Report

Continued

Other current directorships

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

Former directorships in last 3 years

Andrew Larke has not held any directorships in other listed companies within the last 3 years.

Interests in shares and options

Details of Andrew Larke's interests in shares of the Company are included later in this report.

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.

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 later in this report.

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 Holding Redlich. 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 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 later in this report.

Interests in contracts

Harry Kingsley has no interests in contracts of the Company.

Directors' Report

Continued

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 five 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 later in this report.

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 five 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.

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 later in this report.

Interests in contracts

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

Directors' Report

Continued

Company secretaries

Mark Licciardo

Mark Licciardo is the founder and Managing Director of Mertons Corporate Services Pty Ltd. As a former company secretary of ASX 50 companies, Transurban Group and Australian Foundation Investment Company Limited, 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 Victoria division and Melbourne Fringe Festival and 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.

Adam Sutherland (resigned 7 May 2019)

Adam Sutherland is an experienced corporate governance professional and is Company Secretary for a number of ASX listed entities. He has expertise in corporate compliance obligations, including ASX and ASIC requirements. Currently a Corporate Governance Advisor at Mertons Corporate Services Pty Ltd, Adam has also held legal support and corporate compliance roles with Crown Resorts Limited and Crown Melbourne Limited.

He holds an Advanced Diploma of Business (Legal Practice) from RMIT and a Certificate in Corporate Governance from the Governance Institute of Australia.

Meetings of directors

The numbers of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2019 and up to the date of this audit report, and the numbers of meetings attended by each Director were:

	Directors' Meetings		Meetings of committee	
	A	B	A	B
			Audit, Risk and Compliance	
Andrew Larke	6	6	2	2
Mark Landau	6	6	-	-
Raphael Lamm	6	6	1	1
John Macfarlane	6	6	2	2
Harry Kingsley	6	6	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

Directors' Report

Continued

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 will not receive Directors' fees from the Company.

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.

2019	Short-term employee benefits	Post-employment benefits	
Name	Salary and fees \$	Superannuation \$	Total \$
Independent Directors			
Andrew Larke	136,986	13,014	150,000
John Macfarlane	68,493	6,507	75,000
Harry Kingsley	68,493	6,507	75,000
Sub-total Independent Directors	273,972	26,028	300,000
Non Independent Directors			
Raphael Lamm	-	-	-
Mark Landau	-	-	-
Sub-total Non Independent Directors	-	-	-
Total key management personnel compensation	273,972	26,028	300,000

2018 (5 months)	Short-term employee benefits	Post-employment benefits	
Name	Salary and fees \$	Superannuation \$	Total \$
Independent Directors			
Andrew Larke	60,024	5,702	65,726
John Macfarlane	30,012	2,851	32,863
Harry Kingsley	30,012	2,851	32,863
Sub-total Independent Directors	120,048	11,404	131,452
Non Independent Directors			
Raphael Lamm	-	-	-
Mark Landau	-	-	-
Joel Arber - resigned 24 January 2018	-	-	-
Sub-total Non Independent Directors	-	-	-
Total key management personnel compensation	120,048	11,404	131,452

Directors' Report

Continued

Remuneration report (Audited) continued

Director Related Entity Remuneration

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

L1 Capital Pty Limited is a Director related entity and has been appointed to manage the investment portfolio of L1 Long Short Fund Limited. L1 Capital Pty Limited operates a funds management business. 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 Reduced Input Tax Credit (RITC)) of the value of the portfolio calculated daily. Under the Investment Management Agreement, the Company will not pay any management fees that would otherwise have been payable to the Investment Manager, until such time as all of the Company's offer costs have been recouped.

As at 30 June 2019, the balance of the Company's receivable from manager amounted to \$17,113,000 (2018: \$33,869,014), of which the total amount is presented as current asset in the Statement of Financial Position. As at 30 June 2018, the receivable from manager is presented as current and non-current assets in the Statement of Financial Position amounting to \$19,796,023 and \$14,072,991, respectively.

Management fees (inclusive of the net impact of GST and RITC) incurred during the year amounted to \$15,353,123 (2018: \$3,624,913). Of the total management fees incurred, \$1,373,494 (2018: \$1,540,350) has not been recouped from the receivable from the manager as at year end. For the year ended 30 June 2019 in its capacity as Investment Manager, L1 Capital Pty Limited was paid management fees through recoupment of the Company's offer costs.

In addition, L1 Capital Pty Limited is entitled to be paid by the Company a fee equal to 20% (plus GST) 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.

There was no performance fee incurred during the year. For the year ended 30 June 2019 in its capacity as Investment Manager, L1 Capital Pty Limited was not paid a performance fee (2018: nil).

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.

Directors' Report

Continued

Remuneration report (Audited) continued

Equity Instrument Disclosures Relating to Directors

As at 30 June 2019 and 30 June 2018, the Company's Directors and their related parties held the following interests in the Company:

Ordinary Shares Held

2019					
Director	Position	Balance at 30 June 2018	Acquisitions	Disposals	Balance at 30 June 2019
Andrew Larke	Independent Chairman	525,000	100,000	-	625,000
John Macfarlane	Independent Director	500,000	-	-	500,000
Harry Kingsley	Independent Director	25,000	-	-	25,000
Raphael Lamm*	Non Independent Director	2,500,001	4,068,654	-	6,568,655
Mark Landau*	Non Independent Director	2,500,000	7,442,215	-	9,942,215
		6,050,001	11,610,869	-	17,660,870

2018					
Director	Position	Balance at 14 December 2017	Acquisitions	Disposals	Balance at 30 June 2018
Andrew Larke	Independent Chairman	-	525,000	-	525,000
John Macfarlane	Independent Director	-	500,000	-	500,000
Harry Kingsley	Independent Director	-	25,000	-	25,000
Raphael Lamm*	Non Independent Director	1	2,500,000	-	2,500,001
Mark Landau*	Non Independent Director	-	2,500,000	-	2,500,000
Joel Arber	Non Independent Director (Resigned 24 January 2018)	-	294,118	-	294,118
		1	6,344,118	-	6,344,119

* Raphael Lamm and Mark Landau have interest in the shares held by L1 Capital Nominees Pty Ltd by virtue of s608(3)(b) of the Corporations Act as directors of the said entity.

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 – 2,500,000 shares
- Mark Landau – 2,500,000 shares
- Joel Arber (resigned 24 January 2018) – 294,118 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 year ended 30 June 2019 (2018: nil).

There has been no change to the ordinary shares and options held by the Directors of the Company from 30 June 2019 up to the date of this report.

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 15.

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



Andrew Larke
Chairman

Melbourne
21 August 2019



Auditor's Independence Declaration



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

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of L1 Long Short Fund Limited

As lead auditor for the audit of L1 Long Short Fund Limited for the financial year ended 30 June 2019, 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
Sydney
21 August 2019

Statement of Comprehensive Income

For the year ended 30 June 2019

	Notes	Year ended 30 June 2019 \$'000	For the period 14 December 2017 to 30 June 2018 \$'000
Investment income			
Net losses on financial instruments at fair value through profit or loss		(45,161)	(140,248)
Dividend income		42,724	10,790
Interest income from financial assets measured at amortised cost		12,579	3,507
Trust distributions		743	-
Other income		2,583	-
Net foreign exchange (losses)/gains		(18,841)	1,245
Offer costs reimbursement income		-	36,219
Total investment loss		(5,373)	(88,487)
Expenses			
Management fees	21	(15,353)	(3,625)
Brokerage expense		(7,754)	(4,991)
Dividend expense		(19,812)	(4,997)
Interest expense		(12,416)	(1,658)
Stock loan fees		(8,709)	(3,421)
Administration fees		(215)	-
Share registry fees		(199)	-
Custody fees		(46)	(10)
Secretarial fees		(69)	-
Legal fees		(12)	-
Withholding tax on foreign dividends		(3,031)	(712)
Directors' fees	18	(300)	(131)
ASX fees		(1,089)	-
Audit fees	19	(87)	(41)
Other expenses		(1,324)	-
Total operating expenses		(70,416)	(19,586)
Loss before income tax		(75,789)	(108,073)
Income tax benefit	7	26,387	32,634
Loss after income tax		(49,402)	(75,439)
Other comprehensive income, net of tax		-	-
Total comprehensive loss		(49,402)	(75,439)
		Cents	Cents
Losses per share for loss attributable to the ordinary equity holders of the Company:			
Basic losses per share	24	7.43	11.35
Diluted losses per share	24	7.43	11.35

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

Statement of Financial Position

As at 30 June 2019

	Notes	At 30 June 2019 \$'000	At 30 June 2018 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	1,089,205	1,110,969
Other receivables	9	22,287	77,301
Receivable from Manager	21	17,190	19,796
Financial assets at fair value through profit or loss	10	1,408,281	1,341,137
Other current assets		380	-
Total current assets		2,537,343	2,549,203
Non-current assets			
Receivable from Manager	21	-	14,073
Deferred tax assets	12	69,914	43,867
Total non-current assets		69,914	57,940
Total assets		2,607,257	2,607,143
LIABILITIES			
Current liabilities			
Broker advances		657,070	574,122
Other payables	13	35,421	48,357
Financial liabilities at fair value through profit or loss	14	735,237	755,411
Total current liabilities		1,427,728	1,377,890
Non-current liabilities			
Deferred tax liabilities	15	32	367
Total non-current liabilities		32	367
Total liabilities		1,427,760	1,378,257
Net assets		1,179,497	1,228,886
EQUITY			
Issued capital	16	1,304,338	1,304,325
Accumulated losses		(124,841)	(75,439)
Total equity		1,179,497	1,228,886

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

Statement of Changes in Equity

For the period ended 30 June 2019

	Note	Issued capital \$'000	Accumulated losses \$'000	Total \$'000
Balance as at 14 December 2017		-	-	-
Loss after income tax		-	(75,439)	(75,439)
Other comprehensive income		-	-	-
Total comprehensive loss		-	(75,439)	(75,439)
Transactions with owners in their capacity as owners:				
Shares issued	16	1,329,678	-	1,329,678
Capital raising costs		(36,219)	-	(36,219)
Capital raising costs – tax effect		10,866	-	10,866
		1,304,325	-	1,304,325
Balance as at 30 June 2018		1,304,325	(75,439)	1,228,886
Balance as at 1 July 2018		1,304,325	(75,439)	1,228,886
Loss after income tax		-	(49,402)	(49,402)
Other comprehensive income		-	-	-
Total comprehensive loss		-	(49,402)	(49,402)
Transactions with owners in their capacity as owners:				
Capital raising costs*		19	-	19
Capital raising costs – tax effect*		(6)	-	(6)
		13	-	13
Balance as at 30 June 2019		1,304,338	(124,841)	1,179,497

* The movement in capital raising costs represents adjustment on the Reduced Input Tax Credit (RITC) associated to previously incurred capital raising costs.

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

Statement of Cash Flows

For the period ended 30 June 2019

	Notes	Year ended 30 June 2019 \$'000	For the period 14 December 2017 to 30 June 2018 \$'000
Cash flows from operating activities			
Purchase of financial instruments at fair value through profit or loss		(878,108)	(861,596)
Proceeds from sale of financial instruments at fair value through profit or loss		788,983	104,681
Dividends received		42,050	7,666
Trust distribution received		743	-
Interest income received from financial assets measured at amortised cost		12,643	2,587
Other income received		2,583	-
Brokerage expenses paid		(7,686)	(5,174)
Dividends paid on short positions		(21,931)	(306)
Stock loan fees paid		(9,894)	-
ASX fees paid		(1,089)	-
Net GST received		2,661	-
Interest paid		(12,201)	(696)
Other expenses paid		(4,644)	(2,369)
Net cash outflow from operating activities	23	(85,890)	(755,207)
Cash flows from financing activities			
Shares issued		-	1,329,678
Capital raising costs received/(paid)		19	(38,869)
Broker deposits received		82,948	574,122
Net cash inflow from financing activities		82,967	1,864,931
Net (decrease)/increase in cash and cash equivalents		(2,923)	1,109,724
Cash and cash equivalents at the beginning of the year		1,110,969	-
Effects of exchange rate changes on cash and cash equivalents		(18,841)	1,245
Cash and cash equivalents at the end of the year	8	1,089,205	1,110,969

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

Notes to the Financial Statements

For the period ended 30 June 2019

1 General information

L1 Long Short Fund Limited (the "Company") is a listed public company domiciled in Australia. The address of L1 Long Short Fund Limited's registered office 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 21 August 2019. 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

This 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 and amended standards adopted by the Company

The Company had to change some of its accounting policies as a result of new and revised accounting standards which became effective for the first time in the current reporting period. The affected policies are:

AASB 9 Financial Instruments (and applicable amendments)

AASB 9 became effective for annual periods beginning on or after 1 July 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in AASB 139. The derecognition rules have not changed from the previous requirements, and the Company does not apply hedge accounting.

Derivative and equity instruments are measured at fair value through profit or loss. AASB 9 also introduces a new expected credit loss (ECL) impairment model.

Impact of adoption of AASB 9

AASB 9 has been applied and the Company has chosen to take advantage of the option not to restate comparatives. Therefore, the 2018 figures are presented and measured under AASB 139. The Company's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

AASB 15 Revenue from Contracts with Customers

AASB 15 became effective for annual periods beginning on or after 1 July 2018 which is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

Notes to the Financial Statements

Continued

2 Significant accounting policies *continued*

(a) Basis of preparation *continued*

The Company's main sources of income are interest, dividends, and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the adoption of AASB 15 does not have a significant impact on the Company's accounting policies or the amounts recognised in the interim financial statements.

Several other amendments and interpretations were applied for the first time in 2019, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

(iii) Historical cost convention

This 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

International Financial Reporting Interpretations Committee (IFRIC) 23 Uncertainty over Income Tax Treatments

IFRIC 23 Uncertainty over Income Tax Treatments ("IFRIC 23") clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgements made
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

The adoption of above amendment will not have any significant impact on the Company's financial statements, as currently there is no uncertainty relating to any tax treatments.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

(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.

(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.

Notes to the Financial Statements

Continued

2 Significant accounting policies *continued*

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 incurred 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 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.

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.

Notes to the Financial Statements

Continued

2 Significant accounting policies *continued*

(e) Income tax *continued*

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.

(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 – Policy effective from 1 July 2018 (AASB 9)

(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.

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.

Notes to the Financial Statements

Continued

2 Significant accounting policies *continued*

(j) Financial assets and liabilities *continued*

(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).

Classification – Policy effective before 1 July 2018 (AASB 139)

(i) Financial instruments held for trading

These include futures and equity swaps. Derivative financial instruments entered into by the Company do not meet the hedge accounting requirements as defined by the accounting standards. Consequently, hedge accounting is not applied by the Company.

Derivatives are classified as at fair value through profit or loss – held-for-trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

Derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss – held-for-trading. All derivatives in a net payable position (negative fair value) are reported as financial liabilities at fair value through profit or loss – held-for-trading.

(ii) Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These are investments in exchange traded equity instruments.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is to evaluate information about these financial instruments on a fair value basis together with other related financial information.

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

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 classified as current financial liabilities at fair value through profit or loss.

Dividends expense on short sales of securities, which have been classified at fair value through profit or loss, is recognised in the Statement of Comprehensive Income.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in receivable from manager in the Statement of Financial Position.

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.

Notes to the Financial Statements

Continued

2 Significant accounting policies *continued*

(j) Financial assets and liabilities *continued*

(iii) Loans and receivables *continued*

Measurement

At initial recognition, the Company measures financial assets and financial liabilities at its 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.

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 of 'financial assets or liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within 'net gains/(losses) on financial instruments at fair value through profit or loss' in the period in which they arise.

Debt instruments, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the debt instruments are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as 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.

When an investment is disposed, the cumulative gain or loss, net of tax thereon, is recognised as realised gains and losses from the sale of financial instruments in the Statement of Comprehensive Income.

Impairment – Policy effective from 1 July 2018 (AASB 9)

At each reporting date, the Company shall measure the loss allowance on financial assets at amortised cost (cash, due from broker, receivable from manager) at an amount equal to the lifetime expected credit losses 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 counter party, probability that the counter party 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.

Notes to the Financial Statements

Continued

2 Significant accounting policies *continued*

(j) Financial assets and liabilities *continued*

Impairment – Policy effective before 1 July 2018 (AASB 139)

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(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.

Incremental costs directly attributable to the issue of new shares or options are shown 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.

(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.

Notes to the Financial Statements

Continued

2 Significant accounting policies *continued*

(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 taxation authority.

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 taxation authority 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.

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.

Notes to the Financial Statements

Continued

3 Financial risk management *continued*

(i) Price risk *continued*

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 investment portfolio had increased by 5% and 10% or decreased by 5% and 10% with all other variables held constant.

	Impact on loss after tax	
	2019 \$'000	2018 \$'000
Decrease 5%	(23,557)	(20,500)
Increase 5%	23,557	20,500
Decrease 10%	(47,113)	(41,001)
Increase 10%	47,113	41,001

Loss after tax for the year would increase/decrease as a result of (losses)/gains on equity securities classified as 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 \$673,044,000 (2018: \$585,726,000).

(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.

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 2019	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	1,089,205	-	-	1,089,205
Other receivables	-	-	22,287	22,287
Other current assets	-	-	380	380
Financial assets at fair value through profit or loss	-	-	1,408,281	1,408,281
Receivable from Manager	-	-	17,190	17,190
	1,089,205	-	1,448,138	2,537,343
Financial liabilities				
Broker advances	(657,070)	-	-	(657,070)
Other payables	-	-	(35,421)	(35,421)
Financial liabilities at fair value through profit or loss	-	-	(735,237)	(735,237)
	(657,070)	-	(770,658)	(1,427,728)
Net exposure to interest rate risk	432,135	-	677,480	1,109,615

Notes to the Financial Statements

Continued

3 Financial risk management *continued*

(a) Market risk *continued*

(ii) Interest rate risk *continued*

At 30 June 2018	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	1,110,969	-	-	1,110,969
Other receivables	-	-	77,301	77,301
Financial assets at fair value through profit or loss*	-	-	1,341,137	1,341,137
Receivable from Manager	-	-	33,869	33,869
	1,110,969	-	1,452,307	2,563,276
Financial liabilities				
Broker advances	(574,122)	-	-	(574,122)
Other payables	-	-	(48,357)	(48,357)
Financial liabilities at fair value through profit or loss	-	-	(755,411)	(755,411)
	(574,122)	-	(803,768)	(1,377,890)
Net exposure to interest rate risk	536,847	-	648,539	1,185,386

* The Company's investments in derivatives were previously classified as held for trading, and equity securities and property trusts were previously designated at fair value through profit or loss. On adoption of AASB 9 all above investments are mandatorily classified as fair value through profit or loss.

Sensitivity

At 30 June 2019, if interest rates had increased or decreased by 75 basis points ("bps") from the year end rates with all other variables held constant, loss after tax for the year would have been \$2,269,000 lower/\$2,269,000 higher (2018: \$2,818,000 lower/\$2,818,000 higher), 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 on-going 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.

Notes to the Financial Statements

Continued

3 Financial risk management *continued*

(a) Market risk *continued*

(iii) Foreign exchange risk *continued*

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:

At 30 June 2019	USD \$'000	EUR \$'000	HKD \$'000	Others \$'000
Monetary				
Cash and cash equivalents	–	–	–	2,498
Other receivables	5,631	632	–	1,324
Broker advances	(196,948)	(98,511)	(188,055)	(157,250)
Other payables	(4,125)	(6)	(2,810)	(378)
Non-monetary				
Financial assets at fair value through profit or loss	248,994	131,511	111,594	90,783
Financial liabilities at fair value through profit or loss	(30,977)	–	–	(48,157)
	22,575	33,626	(79,271)	(111,180)
Net exposure from derivative financial instruments	47,445	–	–	28,041
Net exposure	70,020	33,626	(79,271)	(83,139)

At 30 June 2018	USD \$'000	EUR \$'000	HKD \$'000	Others \$'000
Monetary				
Cash and cash equivalents	19,919	–	–	30,386
Other receivables	51,968	1,025	1,208	7,148
Broker advances	(231,561)	(178,769)	(103,907)	(59,670)
Other payables	(774)	(3,744)	(183)	(103)
Non-monetary				
Financial assets at fair value through profit or loss*	112,510	136,565	99,291	119,224
Financial liabilities at fair value through profit or loss*	(94,360)	–	–	(65,512)
	(142,298)	(44,923)	(3,591)	31,473
Net exposure from derivative financial instruments	–	–	–	(26,303)
Net exposure	(142,298)	(44,923)	(3,591)	5,170

* The Company's investments in derivatives were previously classified as held for trading, and equity securities and property trusts were previously designated at fair value through profit or loss. On adoption of AASB 9 all above investments are mandatorily classified as fair value through profit or loss.

Notes to the Financial Statements

Continued

3 Financial risk management *continued*

(a) Market risk *continued*

(iii) Foreign exchange risk *continued*

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 loss for the period would be as follows:

	Impact on post-tax profit	
	30 June 2019 \$'000	30 June 2018 \$'000
USD/AUD exchange rate – increase 10%	13,681	11,231
USD/AUD exchange rate – decrease 10%	(13,681)	(11,231)
EUR/AUD exchange rate – increase 10%	(6,852)	(12,704)
EUR/AUD exchange rate – decrease 10%	6,852	12,704
HKD/AUD exchange rate – increase 10%	(13,361)	(7,202)
HKD/AUD exchange rate – decrease 10%	13,361	7,202
Others/AUD exchange rate – increase 10%	(10,766)	(1,557)
Others/AUD exchange rate – decrease 10%	10,766	1,557

(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 Fund gave to the counterparty. The collateral on securities sold short is set at 100% of the borrowed stock.

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 2019 and 30 June 2018, all receivables, amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of AA/Aa/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.

Notes to the Financial Statements

Continued

3 Financial risk management *continued*

(b) Credit risk *continued*

In relation to receivable from manager, subject to the termination clause under the Investment Manager 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 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.

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 2019, the long term credit ratings of the Company's bank and prime brokers as per Standard and Poor's were as follows:

	2019	2018
National Australia Bank	AA-	AA-
Morgan Stanley & Co. International plc	BBB+	A+
Credit Suisse AG	A+	A
L1 Capital Pty Ltd	N/A	N/A

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.

Financial assets not subject to AASB 9's impairment requirements

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, under both AASB 139 (2018) and AASB 9 (2019) 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 tradable 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.

Notes to the Financial Statements

Continued

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.

(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.

Notes to the Financial Statements

Continued

4 Fair value measurements *continued*

(iii) Recognised fair value measurements

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

At 30 June 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Swaps	-	16,934	-	16,934
Australian listed equity securities	754,130	-	-	754,130
International listed equity securities	582,882	-	-	582,882
Australian listed property trusts	54,335	-	-	54,335
Total financial assets at fair value through profit or loss	1,391,347	16,934	-	1,408,281
Financial liabilities at fair value through profit or loss				
Australian share price index futures	1,014	-	-	1,014
Australian listed equity securities	624,259	-	-	624,259
International listed equity securities	79,134	-	-	79,134
Australian listed property trusts	30,830	-	-	30,830
Total financial liabilities at fair value through profit or loss	735,237	-	-	735,237

At 30 June 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Australian share price index futures	2,156	-	-	2,156
Swaps	-	270	-	270
Australian listed equity securities	871,121	-	-	871,121
International listed equity securities	467,590	-	-	467,590
Total financial assets at fair value through profit or loss*	1,340,867	270	-	1,341,137
Financial liabilities at fair value through profit or loss				
Swaps	-	5,587	-	5,587
Australian listed equity securities	549,432	-	-	549,432
International listed equity securities	159,872	-	-	159,872
Australian listed property trusts	40,520	-	-	40,520
Total financial liabilities at fair value through profit or loss*	749,824	5,587	-	755,411

* The Company's investments in derivatives were previously classified as held for trading, and equity securities and property trusts were previously designated at fair value through profit or loss. On adoption of AASB 9 all above investments are mandatorily classified as fair value through profit or loss.

Notes to the Financial Statements

Continued

4 Fair value measurements *continued*

(iii) Recognised fair value measurements *continued*

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 for the year ended 30 June 2019 (2018: nil).

(iv) 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 assets relating to current year tax losses and unrealised losses on investments of \$69,914,000 at 30 June 2019 (2018: \$43,867,000). The utilisation of tax losses depends on the ability of the Company to generate future taxable profits. The Company considers that it is probable that future taxable profits will be available to utilise those deferred tax assets. This assessment is supported by the Investment Manager's long term performance and profitability. 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, the deferred tax asset of \$60,196,000 (2018: \$8,505,000) that is currently recognised would be written off to income tax expense. Refer to Note 12 for further discussion of accounting for deferred tax assets.

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 responsible entity, 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. 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.

Notes to the Financial Statements

Continued

5 Critical accounting estimates and judgements *continued*

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.

The Company also evaluates based on ECL model that there is no objective evidence that an impairment loss should be recognised in 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 benefit

(a) Income tax benefit through profit or loss

	Year ended 30 June 2019 \$'000	For the period 14 December 2017 to 30 June 2018 \$'000
Income tax benefit	(26,387)	(32,634)
	(26,387)	(32,634)
<i>Income tax benefit is attributable to:</i>		
Loss from continuing operations	(26,387)	(32,634)

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

	Year ended 30 June 2019 \$'000	For the period 14 December 2017 to 30 June 2018 \$'000
Loss from continuing operations before income tax benefit	(75,789)	(108,073)
Tax at the Australian tax rate of 30.0% (2018 - 30.0%)	(22,737)	(32,422)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Imputation credit gross up	(4,035)	211
Franked dividends not subject to tax	385	(423)
Income tax benefit	(26,387)	(32,634)
The applicable weighted average effective tax rates are as follows:	(34.82%)	(30.20%)

Notes to the Financial Statements

Continued

7 Income tax benefit *continued*

(c) Amounts recognised directly in equity

	Note	Year ended 30 June 2019 \$'000	For the period 14 December 2017 to 30 June 2018 \$'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	6,515	8,693

8 Current assets – Cash and cash equivalents

	At 30 June 2019 \$'000	At 30 June 2018 \$'000
Cash at bank	160,501	362,307
Cash at broker	928,704	748,662
	1,089,205	1,110,969

9 Current assets – Other receivables

	At 30 June 2019 \$'000	At 30 June 2018 \$'000
Dividends receivable	423	2,659
Interest receivable	856	920
GST receivable	500	3,098
Other receivables	2	–
Withholding tax receivable	459	459
Due from brokers	20,047	70,165
	22,287	77,301

Receivables are non-interest bearing and unsecured.

Notes to the Financial Statements

Continued

10 Current assets – Financial assets at fair value through profit or loss

	At 30 June 2019 \$'000	At 30 June 2018 \$'000
Swaps	16,934	270
Australian listed equity securities	754,130	871,121
International listed equity securities	582,882	467,590
Australian listed property trusts	54,335	–
Australian share price index futures	–	2,156
Total financial assets at fair value through profit or loss*	1,408,281	1,341,137

* The Company's investments in derivatives were previously classified as held for trading, and equity securities and property trusts were previously designated at fair value through profit or loss. On adoption of AASB 9 all above investments are mandatorily classified as fair value through profit or loss.

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 investment income 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 3,764 (2018: 1,620). Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was \$8,167,000, inclusive of GST (2018: \$5,357,000).

(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 4.

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.

Notes to the Financial Statements

Continued

11 Derivative financial instruments *continued*

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.

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

		Fair values \$'000	
	Notional values \$'000	Assets	Liabilities
30 June 2019			
Swaps	205,346	16,934	-
Australian share price index futures	114,291	-	1,014

		Fair values \$'000	
	Notional values \$'000	Assets	Liabilities
30 June 2018			
Australian share price index futures	84,535	2,156	-
Swaps	27,095	270	-
Swaps	26,303	-	5,587

In 2018, the Company's investments in derivatives were previously classified as held for trading. On adoption of AASB 9 all above investments are mandatorily classified as fair value through profit or loss during the year ended 30 June 2019.

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.

Notes to the Financial Statements

Continued

11 Derivative financial instruments *continued*

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.

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 2019	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					
Morgan Stanley & Co. International plc	17,784	(850)	16,934	17,092	34,026
Derivative liabilities					
Credit Suisse AG	1,014	-	1,014	-	1,014
Morgan Stanley & Co. International plc	850	(850)	-	-	-

30 June 2018	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					
Credit Suisse AG	2,156	-	2,156	-	2,156
Morgan Stanley & Co. International plc	405	(135)	270	5,254	5,524
Derivative liabilities					
Credit Suisse AG	5,587	-	5,587	-	5,587
Morgan Stanley & Co. International plc	135	(135)	-	-	-

Notes to the Financial Statements

Continued

12 Non-current assets – Deferred tax assets

	At 30 June 2019 \$'000	At 30 June 2018 \$'000
The balance comprises temporary differences attributable to:		
Tax losses	60,196	8,505
Net unrealised losses on investments	3,196	26,664
Capitalised share issue costs	6,515	8,693
Other temporary differences	7	5
	69,914	43,867

	At 30 June 2019 \$'000	At 30 June 2018 \$'000
Opening balance	43,867	–
Credited:		
– directly to equity	6,515	8,693
– directly to profit or loss	19,532	35,174
Closing balance	69,914	43,867

13 Current liabilities – Other payables

	At 30 June 2019 \$'000	At 30 June 2018 \$'000
Management fees payable	1,374	1,540
Interest payable	1,177	962
Due to brokers	29,572	39,224
Short dividends payable	2,552	4,691
Other payables	746	1,940
	35,421	48,357

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.

Notes to the Financial Statements

Continued

14 Current liabilities – Financial liabilities at fair value through profit or loss

	At 30 June 2019 \$'000	At 30 June 2018 \$'000
Australian share price index futures	1,014	–
Swaps	–	5,587
Australian listed equity securities	624,259	549,432
International listed equity securities	79,134	159,872
Australian listed property trusts	30,830	40,520
Total financial liabilities at fair value through profit or loss*	735,237	755,411

* The Company's investments in derivatives were previously classified as held for trading, and equity securities and property trusts were previously designated at fair value through profit or loss. On adoption of AASB 9 all above investments are mandatorily classified as fair value through profit or loss.

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 Non-current liabilities – Deferred tax liabilities

	At 30 June 2019 \$'000	At 30 June 2018 \$'000
The balance comprises temporary differences attributable to:		
Other temporary differences	32	367
	32	367

	At 30 June 2019 \$'000	At 30 June 2018 \$'000
Movements:		
Opening balance	367	–
Charged:		
– profit or loss	(335)	367
Closing balance	32	367

Notes to the Financial Statements

Continued

16 Issued capital

(a) Share capital

	Notes	30 June 2019 Shares \$'000	30 June 2018 Shares \$'000	30 June 2019 \$'000	30 June 2018 \$'000
Ordinary shares	16(c)	664,839	664,839	1,329,678	1,329,678

(b) Movements in issued capital

	Notes	30 June 2019 Shares \$'000	30 June 2019 \$'000
Opening balance – 30 June 2018		664,839	1,304,325
Capital raising costs*		–	19
Capital raising costs – tax effect*		–	(6)
Closing balance – 30 June 2019		664,839	1,304,338

* The movement in capital raising costs represents adjustment on the Reduced Input Tax Credit (RITC) associated to previously incurred capital raising costs.

	Notes	30 June 2018 Shares \$'000	30 June 2018 \$'000
Opening balance – 14 December 2017		–	–
Shares issued	16(d)	664,839	1,329,678
Capital raising costs		–	(36,219)
Capital raising costs – tax effect		–	10,866
Closing balance – 30 June 2018		664,839	1,304,325

(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.

On a show of hands 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.

The Company issued a Prospectus on 16 February 2018 for the offer of up to 300,000,000 fully paid ordinary shares at an offer price of \$2.00 per share to raise up to \$600,000,000. On 29 March 2018, the Company issued a Supplementary Prospectus to increase the maximum offer size to \$1.35 billion and as a result, the maximum number of shares to be issued increased from 300,000,000 to 675,000,000 shares. On 24 April 2018, the Company issued 664,839,144 fully paid ordinary shares under this initial public offering at \$2.00 per share.

Notes to the Financial Statements

Continued

16 Issued capital *continued*

(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.

17 Dividends

(a) Dividend rate

There were no dividends paid or declared during the year.

(b) Dividend franking account

The Company's franking account balance as at 30 June 2019 was \$7,056,000 (30 June 2018: nil). Subsequent to year end, the Company will receive \$57,000 in franking credits as a result of dividends accrued at 30 June 2019 (2018: \$606,000).

18 Key management personnel disclosures

(a) Key management personnel compensation

	Year ended 30 June 2019 \$	For the period 14 December 2017 to 30 June 2018 \$
Short-term employee benefits	273,972	120,048
Post-employment benefits	26,028	11,404
	300,000	131,452

As at 30 June 2019, total directors' fees payable amounted to \$41,550 (2018: \$75,179).

Detailed remuneration disclosures are provided in the remuneration report.

(b) Equity instrument disclosures relating to key management personnel

Share holdings

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 2019	Balance at the start of the year	Net movement	Balance at end of the year
Directors of L1 Long Short Fund Limited			
Andrew Larke	525,000	100,000	625,000
John Macfarlane	500,000	-	500,000
Harry Kingsley	25,000	-	25,000
Raphael Lamm*	2,500,001	4,068,654	6,568,655
Mark Landau*	2,500,000	7,442,215	9,942,215
	6,050,001	11,610,869	17,660,870

Notes to the Financial Statements

Continued

18 Key management personnel disclosures *continued*

2018	Balance at date of incorporation	Net movement	Balance at end of the period
Directors of L1 Long Short Fund Limited			
Andrew Larke	–	525,000	525,000
John Macfarlane	–	500,000	500,000
Harry Kingsley	–	25,000	25,000
Raphael Lamm*	1	2,500,000	2,500,001
Mark Landau*	–	2,500,000	2,500,000
Joel Arber – resigned 24 January 2018	–	294,118	294,118
	1	6,344,118	6,344,119

* Raphael Lamm and Mark Landau have interest in the shares held by L1 Capital Nominees Pty Ltd by virtue of s608(3)(b) of the Corporations Act as directors of the said entity.

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 – 2,500,000 shares
- Mark Landau – 2,500,000 shares
- Joel Arber (resigned 24 January 2018) – 294,118 shares

All of the key management personnel held shares during the year ended 30 June 2019 and 30 June 2018.

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 2019 \$	For the period 14 December 2017 to 30 June 2018 \$
<i>Audit and other assurance services</i>		
Audit of financial statements	87,000	41,250
Total remuneration for audit and other assurance services	87,000	41,250
Total remuneration of Ernst & Young	87,000	41,250

The Investment Manager, on behalf of the Company, records and pays income tax return filing services of EY. 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 2019 (2018: nil).

Notes to the Financial Statements

Continued

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 on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

L1 Capital Pty Limited is a Director related entity and has been appointed to manage the investment portfolio of L1 Long Short Fund Limited. L1 Capital Pty Limited operates a funds management business. 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 Company will not pay any management fees that would otherwise have been payable to the Investment Manager, until such time as all of the Company's offer costs have been recouped.

In 2018, the total offer costs paid by the Company amounted to \$38,868,972. As at 30 June 2019, the balance of the Company's receivable from manager amounted to \$17,113,000 (2018: \$33,869,014), of which the total amount is presented as current during the year. In 2018, the receivable from manager is presented as current and non-current assets in the Statement of Financial Position amounting to \$19,976,023 and \$14,072,991, respectively.

Management fees (inclusive of the net impact of GST and RITC) incurred during the year amounted to \$15,353,123 (2018: \$3,624,913). Of the total management fees incurred, \$1,373,494 (2018: \$1,540,350) has not been recouped from the receivable from the manager as at year end. For the year ended 30 June 2019 in its capacity as Investment Manager, L1 Capital Pty Limited was paid management fees through recoupment of the Company's offer costs.

In addition, L1 Capital Pty Limited is entitled to be paid by the Company a fee equal to 20% (plus GST) 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.

There was no performance fee incurred during the year. For the year ended 30 June 2019 in its capacity as Investment Manager, L1 Capital Pty Limited was not paid a performance fee (2018: nil).

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 fees and other expenses.

The Investment Manager, on behalf of the Company, records and pays income tax return filing services of EY.

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

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.

Notes to the Financial Statements

Continued

23 Reconciliation of loss after income tax to net cash outflow from operating activities

	Year ended 30 June 2019 \$	For the period 14 December 2017 to 30 June 2018 \$
Loss for the year	(49,402)	(75,439)
Purchase of financial instruments at fair value through profit or loss	(878,108)	(861,596)
Proceeds from sale of financial instruments at fair value through profit or loss	788,983	104,681
Net losses on financial instruments at fair value through profit or loss	45,161	140,248
Dividends reinvested	(2,894)	-
Effects of foreign currency exchange rate changes on cash and cash equivalents	18,841	(1,245)
Change in operating assets and liabilities:		
Decrease/(increase) in other receivables (current)	21,575	(24,282)
Increase in other current assets	(380)	-
Increase in other non-current assets	-	(14,073)
Increase in deferred tax assets	(26,047)	(33,001)
(Decrease)/increase in other payables	(3,284)	9,133
(Decrease)/increase in deferred tax liabilities	(335)	367
Net cash outflow from operating activities	(85,890)	(755,207)

Notes to the Financial Statements

Continued

24 Losses per share

(a) Basic losses per share

	Year ended 30 June 2019 Cents	For the period 14 December 2017 to 30 June 2018 Cents
Basic losses per share attributable to the ordinary equity holders of the Company	7.43	11.35

(b) Diluted losses per share

	Year ended 30 June 2019 Cents	For the period 14 December 2017 to 30 June 2018 Cents
Diluted losses per share attributable to the ordinary equity holders of the Company	7.43	11.35

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

(c) Weighted average number of shares used as denominator

	Year ended 30 June 2019 Number	For the period 14 December 2017 to 30 June 2018 Number
Weighted average number of ordinary shares used as the denominator in calculating basic losses per share	664,839,144	664,839,144
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted losses per share	664,839,144	664,839,144

In 2018, the weighted average number of shares used as the denominator in calculating basic and diluted losses per share was based on the average number of shares from 24 April 2018, being the date of initial public offering, to 30 June 2018.

Notes to the Financial Statements

Continued

25 Investment Portfolio (long positions) as at 30 June 2019

Company name

Alacer Gold Corp	Lynas Corporation Limited
Alamos Gold Inc	Mali Lithium Limited
Alibaba Group Holding Ltd Ard	McMillan Shakespeare Limited
Aristocrat Leisure Limited	MEG Energy Corp
Ausdrill Limited	Metals X Limited
Autohome, Inc. Sponsored ADR Class A	Mineral Resources Limited
AXA	National Australia Bank Limited
Bellamys Australia Limited	News Corporation Inc
BlueScope Steel Limited	Nexa Resources
Boral Ltd	Nine Entertainment Co. Holdings Limited
Caltex Australia Ltd	Peet Limited
Cenovus Energy Inc	PlayAGS Inc
Charter Hall Retail REIT	PPDAI Group Inc
Chorus Limited	Qantas Airways Limited
CK Hutchison Holdings Ltd	QBE Insurance Group Limited
CYBG plc	Reliance Worldwide Corp Limited
Despegar Com Corp	Resolute Mining Limited
Downer EDI Ltd	Royal Dutch Shell PLC Class B
Eclix Group Limited	Syrah Resources Limited
ERM Power Limited	Tempur Sealy Intl Inc
Gold Fields Ltd	Tencent Holdings Ltd
HeidelbergCement	The Star Entertainment Group Limited
IMDEX Limited	Total S.A.
Kinross Gold Corporation	Vivendi SA
Largo Resources	Warrior Met Coal
Lendlease Group	Westgold Resources Limited
Lundin Mining Corp	WorleyParsons Limited

Total Long Portfolio (\$'000)	1,408,281
Total Short Portfolio (\$'000)	735,237
Net Equity Portfolio (\$'000)	673,044

Directors' Declaration

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

- (a) the financial statements and notes set out on pages 16 to 49 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 2019 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 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.



Andrew Larke

Chairman

Melbourne

21 August 2019

Independent Auditor's Report to the Members of L1 Long Short Fund Limited

30 June 2019



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Independent Auditor's Report to the Directors 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 2019, 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 2019 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 (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.

Independent Auditor's Report to the Members of L1 Long Short Fund Limited

30 June 2019, Continued



1. Recoverability of deferred tax assets

Why significant

At 30 June 2019, the Company recognised \$69,914,000 of net deferred tax assets ("DTA") relating to carry forward tax losses. The analysis of the recognition and recoverability of the DTA was considered a key audit matter because its value is significant, the assessment process is judgmental and is based on assumption that are affected by expected future market or economic conditions.

The Company recognised the DTA to the extent that it is probable that future taxable profits will allow the DTA to be recovered as disclosed in Note 12 of the financial report. The probability of recovery is impacted by uncertainties regarding the likely timing and level of future taxable profits.

How our audit addressed the key audit matter

Our tax specialists assessed the availability of the underlying tax losses to the Company based on applicable tax legislation.

We considered the Company's determination of future taxable income and hence the recoverability of the deferred tax assets. We performed sensitivity analyses and evaluated the key assumptions with reference to historical data and available market information.

We assessed the adequacy of the disclosures in Note 12 of the financial report.

2. Accounting for Receivable from Manager (Offer Cost)

Why significant

The Company has entered into an Investment Management Agreement ("IMA") with the Manager that entitles the Company to be reimbursed for the Offer Costs incurred during the year in relation to the initial public offering through monthly instalments.

Under IMA, the Company will not pay management fees and apply such amounts as repayment of the Offer Costs until all of the costs have been paid in full.

Under IMA, if the Manager is terminated in accordance with the agreement, the Manager must 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.

How our audit addressed the key audit matter

We reviewed the IMA and assessed the Company's accounting treatment for this transaction from initial recognition to subsequent measurement (including impairment and discounting) in accordance with Australian Accounting Standards.

We considered the Company's determination that the Receivable from the Manager is recoverable and the likelihood of the Manager's termination based on the IMA is unlikely.

We considered whether the taxation effects of this transaction were correctly addressed.

We assessed the adequacy of the disclosures in Note 21 of the financial report.

Independent Auditor's Report to the Members of L1 Long Short Fund Limited

30 June 2019, Continued



As at 30 June 2019, offer costs reimbursement receivable was \$17,113,000 which equates to 1% of total assets.

The value of this asset and its related party nature resulted in this being considered a key audit matter. The disclosure of this amount is included in Note 21 of the financial report.

3. Investment Existence, Valuation and Classification

Why significant

The Company has a significant investment portfolio consisting primarily of listed equity securities, equity swaps and future contracts. As at 30 June 2019, the values of these financial assets and financial liabilities, per Note 10 and Note 14 to the financial report were \$1,408,281,000 and \$735,237,000 which equates to 54% and 51% of the total assets and total liabilities, respectively of the Company.

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.

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, valuation of the investment portfolio was considered a key audit matter.

How our audit addressed the key audit matter

We assessed the effectiveness of the controls relating to recognition 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 it provided for the year ended 30 June 2019 and considered the auditor's qualifications, objectivity and the results of their procedures.

We agreed all investment holdings, including cash accounts, to third party confirmations at 30 June 2019.

We assessed the Company's determination of fair value of all of its investments in the portfolio at 30 June 2019. For listed securities, the values were agreed to independently sourced market prices. For unlisted derivatives, the values were agreed to independently sourced observable market prices applied to appropriate valuation models.

We assessed the adequacy of the disclosures in Note 4, Note 10, Note 11 and Note 14 of the financial report.

Independent Auditor's Report to the Members of L1 Long Short Fund Limited

30 June 2019, Continued



4. Management and Performance Fees

Why significant

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. 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. 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 year, which is the date that the performance criteria is met and the obligation has crystallised. All expenses are recognised on an accrual basis.

During the year, management fee totalled \$15,353,000 which equates to 22% of total expenses

During the year, the Company had \$nil performance fees.

The assessment of performance fee arrangements can be complex and judgmental due to uncertainty around future performance.

The quantum of these expenses and the impact that market volatility can have on the recognition of performance fees relating to future periods, resulted in this being a key area of audit focus. The disclosure of this amount is included in Note 21 to the financial report.

How our audit addressed the key audit matter

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 calculation.

We recalculated management and performance fees in accordance with relevant service arrangement including agreeing the contract rate to the calculation.

We assessed the performance fee calculation, including testing the inputs into the calculation model and assessed whether the calculation of \$nil, was in accordance with the relevant services agreement.

We assessed the adequacy of the disclosures in Note 21 of the financial report.

Independent Auditor's Report to the Members of L1 Long Short Fund Limited

30 June 2019, Continued



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 2019 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.

Independent Auditor's Report to the Members of L1 Long Short Fund Limited

30 June 2019, Continued



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, related safeguards.

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 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.

Independent Auditor's Report to the Members of L1 Long Short Fund Limited

30 June 2019, Continued



Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 8 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of L1 Long Short Fund Limited for the year ended 30 June 2019 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.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Rohit Khanna'.

Rohit Khanna
Partner
Sydney
21 August 2019

Shareholder Information

The Shareholder information set out below was applicable as at 1 October 2019.

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

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding	Class of equity security Ordinary shares		
	Shares	No. of Shareholders	Percentage
1 – 1,000	156,406	263	0.02
1,001 – 5,000	11,120,565	3,130	1.67
5,000 – 10,000	27,499,607	3,262	4.14
10,001 – 100,000	289,696,575	9,321	43.57
100,001 – 100,000,000	336,365,991	702	50.59
	664,839,144	16,678	100.00

There were 81 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

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

Rank	Name	Ordinary Shares	
		1 Oct 2019	Percentage
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	64,909,749	9.76
2	NAVIGATOR AUSTRALIA LTD	12,058,123	1.81
3	CITICORP NOMINEES PTY LIMITED	11,771,374	1.77
4	CUSTODIAL SERVICES LIMITED	11,430,690	1.72
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	10,481,811	1.58
6	SHOMRON PTY LTD	9,979,561	1.50
7	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	9,575,494	1.44
8	BNP PARIBAS NOMINEES PTY LTD	8,138,205	1.22
9	BRISPOT NOMINEES PTY LTD	6,475,736	0.97
10	ANNAEUS PTY LTD	6,238,303	0.94
11	INVESTMENT CUSTODIAL SERVICES	4,952,457	0.74
12	J P MORGAN NOMINEES AUSTRALIA	4,492,193	0.68
13	NATIONAL NOMINEES LIMITED	4,347,020	0.65
14	NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	4,004,856	0.60
15	CS FOURTH NOMINEES PTY LIMITED	3,731,543	0.56
16	MR NEIL DONALD DELROY	3,000,000	0.45
17	WRITEMAN PTY LIMITED	2,500,000	0.38
18	KURIDALE NOMINEES PTY LTD	2,406,309	0.36
19	AUST EXECUTOR TRUSTEES LTD	2,025,217	0.30
20	HAMILTON EQUITIES PTY LTD	2,000,000	0.30
		184,518,641	27.75

Shareholder Information

Continued

C. Substantial holders

There are no substantial shareholders.

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 held
Shomron Pty Ltd	2,500,000
Annaeus Pty Ltd	2,150,000
Yerkes Pty Ltd	588,236
Billy Ray Pty Ltd	350,000
Jellk Pty Ltd	294,118

L1longshort.com

