



11 February 2021

The Manager
Market Announcements Office
ASX Limited
Level 6, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

RESULTS FOR HALF YEAR ENDED 31 DECEMBER 2020

L1 Long Short Fund Limited (ASX: LSF) hereby lodges:

- Appendix 4D for the half-year ended 31 December 2020; and
- Interim Report for the half-year ended 31 December 2020.

For any further enquiries please contact L1 Long Short Fund Limited on 03 9286 7000.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Licciardo', with a stylized flourish at the end.

Mark Licciardo
Company Secretary

Appendix 4D

For the half-year ended 31 December 2020

Half-year report

This is for the reporting half-year from 1 July 2020 to 31 December 2020. The previous corresponding period was 1 July 2019 to 31 December 2019.

Results for announcement to the market

	2020 \$'000	2019 \$'000	Up/down	Movement %
Income from ordinary activities	551,536	154,819	Up	256
Income before income tax attributable to the ordinary equity holders	461,324	114,936	Up	301
Income after income tax attributable to the ordinary equity holders	325,296	83,413	Up	290

Dividend information

	Cents Per Share	Franked Amount Per Share	Tax Rate for Franking
2021 Interim dividend declared	1.5c	1.5c	30%

Interim dividend dates

Ex dividend date	1 March 2021
Record date	2 March 2021
Last election date for the DRP	3 March 2021
Payment date	26 March 2021

Dividend Reinvestment Plan

The Dividend Reinvestment Plan (DRP) is in operation under which the shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Participating shareholders will be entitled to be allotted the number of shares (rounded down to the nearest whole number) which the cash dividend would purchase at the relevant allocation price. The relevant allocation price is the arithmetic average of the daily volume weighted average sale price (calculated to the nearest cent) of shares traded on the ASX over the five trading days commencing on the ex-dividend date for the relevant dividend, without any discount. The last day for the receipt of an election notice for participation in the DRP is 3 March 2021.

Net tangible assets

	31 December 2020 \$	31 December 2019 \$
Net tangible asset backing (per share) before tax	2.3849	1.8416
Net tangible asset backing (per share) after tax	2.2963	1.8977

Appendix 4D

Continued

Brief explanation of results

The gross portfolio return before all fees and expenses was up approximately 52.74% for the half-year ended 31 December 2020.

The net tangible asset (NTA) backing per share based on the market value of investments after all fees and expenses but before all taxes was \$2.3849 as at 31 December 2020, an increase of 46.2% compared with \$1.6313 as at 30 June 2020. The NTA post-tax of \$2.2963 is calculated after tax of realised and unrealised gains/losses, deferred tax assets and deferred tax liabilities.

The Company has delivered outstanding performance in the half-year ended 31 December 2020, driven by strong stock picking across a wide range of sectors. Returns were further supported by the positive vaccine announcements in November. This was achieved against a backdrop of the extraordinary challenges posed by the pandemic, as well as the extreme headwind to the portfolio's investment style (with value and cyclical continuing to remain out of favour).

As share prices collapsed in March, the Investment Manager, L1 Capital Pty Limited, took decisive actions, namely, buying or adding to a number of oversold stocks close to the market lows, increasing the net long significantly and maintaining that long positioning, and exiting many short positions after share prices collapsed in March. All of these, together with selecting top performing stocks within a broad range of sectors, were instrumental in driving strong portfolio performance in the second half of the year.

Although the Investment Manager anticipates continued volatility in markets, they continue to believe the market environment is one of the best they have seen in many years, with numerous exciting stock specific opportunities. The Investment Manager remains very positive on the outlook for equities (and especially cyclical) given the combination of massive central bank and fiscal stimulus, defensive investor sector positioning and the likelihood of positive vaccine progress providing an attractive risk-reward into 2021.

Further information

This report is based on the Interim Financial Report which has been subject to independent review by the auditors, Ernst & Young. All the documents comprise the information required by Listing Rule 4.2A. This information should be read in conjunction with the 30 June 2020 Annual Financial Report.

For personal use only



L1 CAPITAL

Interim Financial Report

For the half-year ended 31 December 2020

L1 Long Short Fund Limited

ABN 47 623 418 539

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This interim financial report does not include all the notes of the type normally included in the annual financial statements. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by L1 Long Short Fund Limited during the interim financial reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Corporate Directory

Directors

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

Company secretary

Mark Licciardo

Registered office

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

Investment manager

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

Administrator

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

Share registrar

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

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

Auditors

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

Securities exchange listing

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

Website

www.L1LongShort.com

Directors' Report



The Directors present their report together with the interim financial statements of L1 Long Short Fund Limited (the "Company") for the half-year ended 31 December 2020.

Directors

The following persons held office as Directors during the half-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 period, 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 changes in the nature of the activity of the Company during the period.

Dividends

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

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

The Dividend Reinvestment Plan (DRP) is in operation under which the shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Participating shareholders will be entitled to be allotted the number of shares (rounded down to the nearest whole number) which the cash dividend would purchase at the relevant allocation price. The relevant allocation price is the arithmetic average of the daily volume weighted average sale price (calculated to the nearest cent) of shares traded on the ASX over the five trading days commencing on the ex-dividend date for the relevant dividend, without any discount. The last day for the receipt of an election notice for participation in the DRP is 3 March 2021.

Dividend profit reserve

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

On 16 December 2020, the Directors resolved to approve the transfer of any resulting net profit after tax for the half-year ended 31 December 2020 to the dividend profit reserve. Accordingly, on 31 December 2020, the transfer of \$325,296,000 was made to the reserve.

The balance of the dividend profit reserve as of 31 December 2020 is \$325,296,000.

Directors' Report

Continued

Review of operations

The operating profit before tax was \$461,324,000 for the half-year ended 31 December 2020 (31 December 2019: \$114,936,000). The net result after tax was a profit of \$325,296,000 (31 December 2019: \$83,413,000).

The net tangible asset backing before tax as at 31 December 2020 was \$2.3849 per share (31 December 2019: \$1.8416).

The Company's performance exceeded its high watermark as of the performance calculation period ended 31 December 2020 giving the Investment Manager an entitlement to a performance fee. Please refer to Note 6 for further details.

On 27 February 2020, the Company announced a new on-market buy-back of up to 10% of its shares, commencing 16 March 2020 and continuing for up to 12 months. A total of 50,500,000 shares (7.60%) had been bought back up to 31 December 2020. Please refer to Note 8 for further details.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company that occurred during the half-year ended 31 December 2020.

Matters subsequent to the end of the reporting period

Other than the dividends declared in the dividends section above, in the latest release to the ASX on 11 February 2021, the Company reported NTA at 8 February 2021 as follows:

	8 February 2021 (A) \$	31 December 2020 (B) \$
Net tangible asset backing (per share) before tax	2.5743	2.3849
Net tangible asset backing (per share) after tax	2.4286	2.2963

(A) ASX announcements are approximates and not reviewed by Ernst & Young.

(B) NTA reviewed by Ernst & Young.

Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instruments 2016/191, the amounts in the Directors' Report and in the interim 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 6.

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



Andrew Larke
Independent Chairman

Melbourne
11 February 2021

Auditor's Independence Declaration



Building a better
working world

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

As lead auditor for the review of L1 Long short Fund Limited for the half-year ended 31 December 2020, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

Ernst & Young

Ernst & Young

A handwritten signature in black ink, appearing to read 'Rohit Khanna', with a long horizontal stroke extending to the right.

Rohit Khanna
Partner
11 February 2021

Statement of Comprehensive Income

For the half-year ended 31 December 2020

	Half-year ended	
	31 December 2020 \$'000	31 December 2019 \$'000
Investment income/(loss)		
Net gains on financial instruments at fair value through profit or loss	485,163	131,195
Dividend income	15,281	18,910
Trust distributions	3	222
Interest income from financial assets at amortised cost	121	4,123
Net foreign exchange gains/(losses)	50,675	(76)
Expense reimbursement from Investment Manager	293	445
Total investment income	551,536	154,819
Expenses		
Management fees	(8,820)	(8,334)
Performance fees	(61,059)	-
Brokerage expense	(6,552)	(3,823)
Dividend expense	(7,242)	(13,136)
Interest expense	(3,466)	(8,395)
Stock loan fees	(1,587)	(4,648)
Administration fees	(110)	(184)
Share registry fees	(75)	(83)
Custody fees	-	(23)
Secretarial fees	(36)	(23)
Legal fees	(35)	(30)
Withholding tax on foreign dividends	(553)	(627)
Directors' fees	(152)	(150)
ASX fees	(71)	(126)
Audit fees	(96)	(80)
Other expenses	(358)	(221)
Total operating expenses	(90,212)	(39,883)
Profit for the half-year before income tax	461,324	114,936
Income tax expense	(136,028)	(31,523)
Profit for the half-year after tax	325,296	83,413
Other comprehensive income for the half-year, net of tax	-	-
Total comprehensive income for the half-year	325,296	83,413

	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	51.51	12.55
Diluted earnings per share	51.51	12.55

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

Statement of Financial Position

As at 31 December 2020

As at			
	Notes	31 December 2020 \$'000	30 June 2020 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		260,418	559,312
Other receivables		43,092	54,408
Receivable from Investment Manager		68	269
Financial assets at fair value through profit or loss	3	2,959,770	1,815,188
Other current assets		–	344
Total current assets		3,263,348	2,429,521
Non-current assets			
Deferred tax assets	7	–	83,083
Total non-current assets		–	83,083
Total assets		3,263,348	2,512,604
LIABILITIES			
Current liabilities			
Broker advances		1,173,974	733,516
Other payables		78,946	22,150
Financial liabilities at fair value through profit or loss	3	544,961	616,408
Total current liabilities		1,797,881	1,372,074
Non-current liabilities			
Deferred tax liabilities	7	52,946	–
Total non-current liabilities		52,946	–
Total liabilities		1,850,827	1,372,074
Net assets		1,412,521	1,140,530
EQUITY			
Issued capital	8	1,233,716	1,287,021
Dividend profit reserve	10	325,296	–
Accumulated profits/(losses)		(146,491)	(146,491)
Total equity		1,412,521	1,140,530

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

Statement of Changes in Equity

For the half-year ended 31 December 2020

	Notes	Issued capital \$'000	Dividend profit reserve \$'000	Accumulated profits/(losses) \$'000	Total \$'000
Balance as at 1 July 2019		1,304,338	–	(124,841)	1,179,497
Profit for the half-year after tax		–	–	83,413	83,413
Other comprehensive income for the half-year, after tax		–	–	–	–
Total comprehensive income for the half-year		–	–	83,413	83,413
Balance as at 31 December 2019		1,304,338	–	(41,428)	1,262,910
Balance as at 1 July 2020		1,287,021	–	(146,491)	1,140,530
Profit for the half-year after tax		–	–	325,296	325,296
Other comprehensive income for the half-year, after tax		–	–	–	–
Total comprehensive income for the half-year		–	–	325,296	325,296
Transactions with owners in their capacity as owners:					
Share buyback	8	(53,305)	–	–	(53,305)
Transfer to dividend profit reserve account	10	–	325,296	(325,296)	–
Balance as at 31 December 2020		1,233,716	325,296	(146,491)	1,412,521

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

Statement of Cash Flows

For the half-year ended 31 December 2020

	Half-year ended	
	31 December 2020 \$'000	31 December 2019 \$'000
Cash flows from operating activities		
Purchase of financial instruments at fair value through profit or loss	(1,778,173)	(756,199)
Proceeds from sale of financial instruments at fair value through profit or loss	1,051,423	665,137
Dividends received	18,109	19,649
Trust distributions received	3	222
Interest income received from financial assets measured at amortised cost	82	4,550
Expense reimbursement received	264	445
Brokerage expenses paid	(6,552)	(3,800)
Dividends paid on short positions	(8,210)	(15,347)
Stock loan fees paid	(1,577)	(4,851)
ASX fees paid	(71)	(126)
Net GST received/(paid)	25	(3)
Interest paid	(3,440)	(8,283)
Other expenses paid	(8,605)	(494)
Net cash outflow from operating activities	(736,722)	(99,100)
Cash flows from financing activities		
Share buyback	(53,305)	-
Broker advances received	440,458	90,207
Net cash inflow from financing activities	387,153	90,207
Net decrease in cash and cash equivalents	(349,569)	(8,893)
Cash and cash equivalents at the beginning of the half-year	559,312	1,089,205
Effects of exchange rate changes on cash and cash equivalents	50,675	(76)
Cash and cash equivalents at the end of the half-year	260,418	1,080,236

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



Notes to the Financial Statements

For the half-year ended 31 December 2020

1. General information

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

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

The interim financial statements of the Company are for the period 1 July 2020 to 31 December 2020. The previous corresponding period was 1 July 2019 to 31 December 2019.

The interim financial statements were authorised for issue by the Board of Directors on 11 February 2021.

2. Summary of significant accounting policies

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

(a) Basis of preparation

These interim financial statements for the half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS 34 *Interim Financial Reporting*.

The Company is a for-profit entity for the purpose of preparing the interim financial statements.

This interim financial report does not include all the notes of the type normally included in annual financial statements. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by L1 Long Short Fund Limited during the interim financial reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim financial statements have been prepared on an accruals basis and are based on historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The accounting policies applied in these interim financial statements are the same as those applied in the Company's financial statements for the year ended 30 June 2020.

(i) New standards and interpretations adopted by the Company

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

(ii) New standards and interpretations not yet adopted

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

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

(b) Rounding of amounts

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

(c) Comparative disclosure

Where appropriate, comparative disclosures have been reclassified/amended to be consistent with the current period's presentation.

Notes to the Financial Statements

Continued

3. Fair value measurements

The Company measures and recognises the following financial 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.

(a) Fair value hierarchy

AASB 13 *Fair Value Measurement* 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

3. Fair value measurements (continued)

(a) Fair value hierarchy continued

(iii) Recognised fair value measurements

The following table presents the Company's financial assets and liabilities measured and recognised at fair value at 31 December 2020 and 30 June 2020.

At 31 December 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Swaps	–	13,155	–	13,155
Options	–	20,756	–	20,756
Australian listed equity securities	1,813,988	–	–	1,813,988
International listed equity securities	1,019,527	–	–	1,019,527
International unlisted equity securities	–	–	49,051	49,051
Australian listed property trusts	39,987	–	–	39,987
Australian share price index futures	3,306	–	–	3,306
Total financial assets at fair value through profit or loss	2,876,808	33,911	49,051	2,959,770
Financial liabilities at fair value through profit or loss				
Swaps	–	–	–	–
Australian listed equity securities	303,328	–	4,125	307,453
International listed equity securities	161,095	–	–	161,095
Australian listed property trusts	–	–	–	–
Exchange traded funds	76,413	–	–	76,413
Total financial liabilities at fair value through profit or loss	540,836	–	4,125	544,961

Notes to the Financial Statements

Continued

3. Fair value measurements (continued)

(a) Fair value hierarchy continued

(iii) Recognised fair value measurements continued

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

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

There were no transfers between levels in the fair value hierarchy for the half-year.

Notes to the Financial Statements

Continued

3. Fair value measurements (continued)

(a) Fair value hierarchy continued

(iv) Level 3 reconciliation

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

	International unlisted equity securities \$'000	Australian listed equity securities \$'000
Balance as at 1 July 2020	–	(4,262)
Purchases	49,051	–
Sales	–	13
Fair value gain	–	124
Balance as at 31 December 2020	49,051	(4,125)
Balance as at 1 July 2019	–	–
Transfers into Level 3	–	(4,502)
Purchases	–	(252)
Sales	–	–
Fair value gain	–	492
Balance as at 30 June 2020	–	(4,262)

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

As at 31 December 2020, the Company considers the most recent available transaction prices as the most material input used in determining the price of Level 3 securities, as such the Company did not create material alternate quantitative inputs when measuring fair value as it has primarily relied on recent transaction prices.

(vi) 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.

Notes to the Financial Statements

Continued

4. 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.

(i) Income taxes

The Company has recognised deferred tax liabilities from unrealised gains on investments of \$108,139,000 at 31 December 2020 (30 June 2020: \$9,639,000) and deferred tax assets relating to prior year tax losses and unrealised losses on investments of \$55,193,000 at 31 December 2020 (30 June 2020: \$92,722,000). The utilisation of tax losses depends on the ability of the Company to generate future taxable profits and general market movements. Based on the long term performance of a materially similar long/short strategy managed by the Investment Manager since September 2014 and strong performance of the Company for the half-year ended 31 December 2020, the Company considers that it is probable that future taxable profits will be available to utilise those deferred tax assets. If the Company continues its positive performance for the period ending 30 June 2021, the Company should have sufficient taxable profits to fully utilise those deferred tax assets.

New information may become available that may cause the Company to change its judgement regarding calculation of tax balances, and such changes will impact the profit or loss in the period that such determination is made. However, utilisation of the tax losses also depends on the ability of the Company to satisfy certain tests at the time the losses are recouped. The Company may fail to satisfy the continuity of ownership test and therefore would have to rely on the same business test. If the Company fails to satisfy the test, \$53,012,000 (30 June 2020: \$88,357,000) of deferred tax assets related to tax losses would be written off to income tax expense. Refer to Note 7 for further discussion of accounting for deferred taxes.

5. 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.

6. Management and performance fee

Management fees (inclusive of the net impact of GST and RITC) incurred during the period ended 31 December 2020 amounted to \$8,820,000 (31 December 2019: \$8,334,000) of which \$1,857,000 (31 December 2019: \$1,485,000) remained payable as at period end.

In addition, pursuant to the Investment Management Agreement (IMA) between the Company and the L1 Capital Pty Limited (Investment Manager) dated 16 February 2018, the Investment Manager is entitled to be paid by the Company a performance fee equal to 20% (plus GST) of the Portfolio's outperformance, if any, over each performance calculation period, subject to a high watermark. No performance fee is payable in respect of any performance calculation period where the Portfolio has decreased in value over that period.

Under the IMA, the owners of the Investment Manager (L1 Owners) will reinvest their after-tax proceeds from any performance fees (Performance Fee Reinvestment Amount) into shares in the Company. The Company will determine whether to issue new shares or acquire shares on-market based on the criteria set out in the IMA. It is expected that the Performance Fee Reinvestment Amount will equate to approximately 53% of the pre-tax value of any performance fees.

Any shares acquired by any of the L1 Owners pursuant to the reinvestment arrangements will be subject to voluntary escrow until the earlier of:

- (a) 10 years from the date that the Company was listed on the ASX; or
- (b) the duration of the IMA.

Notes to the Financial Statements

Continued

6. Management and performance fee (continued)

Performance Fees (inclusive of the net impact of GST and RITC) incurred during the period ended 31 December 2020 amounted to \$61,059,000 (31 December 2019: nil) of which \$61,059,000 (31 December 2019: nil) remained payable as at period end.

A summary of the key terms of the Company's performance fee calculation and reinvestment arrangements is contained in Section 9.1 of the Company's Prospectus which was issued on 16 February 2018.

7. Deferred taxes

	As at	
	31 December 2020 \$'000	30 June 2020 \$'000
The balance comprises temporary differences attributable to:		
Deferred tax assets		
Tax losses	53,012	88,357
Capitalised share issue costs	2,171	4,343
Other temporary differences	10	22
Deferred tax assets	55,193	92,722
Deferred tax liabilities		
Net unrealised gains on investments	107,428	7,912
Other temporary differences	711	1,727
Deferred tax liabilities	108,139	9,639
Deferred tax assets/(liabilities), net	(52,946)	83,083

	As at	
	31 December 2020 \$'000	30 June 2020 \$'000
Movements:		
Deferred tax assets		
Opening balance	92,722	69,914
Credited:		
directly to equity	(2,172)	(2,172)
directly to profit or loss	(35,357)	24,980
Closing balance, Deferred tax assets	55,193	92,722
Deferred tax liabilities		
Opening balance	9,639	32
Charged:		
directly to profit or loss	98,500	9,607
Closing balance, Deferred tax liabilities	108,139	9,639
Closing balance, Deferred tax assets/(liabilities), net	(52,946)	83,083

Notes to the Financial Statements

Continued

8. Issued capital

(a) Share capital

	31 December 2020 Shares '000	30 June 2020 Shares '000	31 December 2020 \$'000	30 June 2020 \$'000
Ordinary shares	614,339	649,064	1,259,057	1,312,361

(b) Movements in issued capital

	Number of Shares '000	\$'000
Opening balance – 30 June 2020	649,064	1,287,021
Share buyback	(34,725)	(53,305)
Closing balance – 31 December 2020	614,339	1,233,716

	Number of Shares '000	\$'000
Opening balance – 30 June 2019	664,839	1,304,338
Share buyback	(15,775)	(17,317)
Closing balance – 30 June 2020	649,064	1,287,021

(c) Ordinary shares

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

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

(d) Shares issued

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

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

On 27 February 2020, the Company announced a new on-market buy-back of up to 10% of its shares, commencing 16 March 2020 and continuing for up to 12 months. A total of 50,500,000 shares (7.60%) had been bought back up to 31 December 2020.

Notes to the Financial Statements

Continued

9. Dividends

No dividends were declared or proposed during the half-year ended 31 December 2020 (31 December 2019: nil).

10. Dividend profit reserve

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

	As at	
	31 December 2020 \$'000	30 June 2020 \$'000
Movement in dividend profit reserve		
Balance at the beginning of the period	–	–
Transferred from current period profits	325,296	–
Payment of dividend	–	–
Closing balance at the end of the period	325,296	–

On 16 December 2020, the Directors resolved to approve the transfer of any resulting net profit after tax for the half-year ended 31 December 2020 to the dividend profit reserve. Accordingly, on 31 December 2020, the transfer of \$325,296,000 was made to the reserve.

11. Contingent assets and liabilities and commitments

The Company had no contingent assets, liabilities or commitments as at 31 December 2020 (30 June 2020: nil).

12. Events occurring after the reporting period

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

The Dividend Reinvestment Plan (DRP) is in operation under which the shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Participating shareholders will be entitled to be allotted the number of shares (rounded down to the nearest whole number) which the cash dividend would purchase at the relevant allocation price. The relevant allocation price is the arithmetic average of the daily volume weighted average sale price (calculated to the nearest cent) of shares traded on the ASX over the five trading days commencing on the ex-dividend date for the relevant dividend, without any discount. The last day for the receipt of an election notice for participation in the DRP is 3 March 2021.

No other matter or circumstance not otherwise dealt with in this interim financial report that has significantly or may significantly affect the Company's operations, the results of those operations or the Company's state of affairs in future financial periods.

Directors' Declaration

For the half-year ended 31 December 2020

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

- (a) the interim financial statements and notes set out on pages 7 to 19 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards AASB 134 Interim Financial Reporting, 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 31 December 2020 and of its performance for the half-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.

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



Andrew Larke
Independent Chairman
Melbourne
11 February 2021

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

For the half-year ended 31 December 2020



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

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying interim financial report of L1 Long Short Fund Limited (the Company), which comprises the statement of financial position as at 31 December 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the interim financial report of the Company is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Company's financial position as at 31 December 2020 and of its financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Interim Financial Report

The directors of the Company are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with the Independent Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2020 and its financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Continued



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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

Ernst & Young

A handwritten signature in black ink, appearing to read 'Rohit Khanna'.

Rohit Khanna
Partner
Sydney
11 February 2021

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