FINANCIAL REVIEW
PREMIUM

L1's LIC moves to daily from monthly disclosures after rocky start

L1 Capital founders Mark Landau (left) and Rafi Lamm (right) pictured in February.
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L1 Capital's $1.2 billion listed investment company will move to daily from monthly updates on its underlying portfolio value after the hedge fund manager's surprising underperformance undermined its celebrated float.

As flagged by *The Australian Financial Review*'s Street Talk column last week, the L1 Long Short Fund went from a net tangible asset (NTA) value of $1.89 a share as of May 31 to $1.80 as of June 20. Both figures are reported before tax.

That near 5 per cent decline followed a rocky performance in May when the strategy lost 4.1 per cent for a total loss since listing of 5.3 per cent. In fact it was the first time in more than three years that L1's long-short strategy recorded a monthly loss in excess of 2 per cent.

Investors in L1's comparable unlisted retail strategy who had access to daily updates were aware of the ongoing underperformance in June ahead of the LIC's investors.

Investors in the unlisted wholesale long-short strategy also received monthly updates.

L1 looked to a monthly frequency for the LIC's NTA updates as a starting point given many listed investment companies on the ASX do the same. Starting Wednesday, L1's board "has determined daily NTA reporting is appropriate having regard to market feedback," the L1 Long Short Fund said in an ASX statement on Monday.

> The alternative versions of the long-short strategy rely on the same investment strategy and processes. The unlisted fund amassed an enviable track record, boasting an average compound return of 36.9 per cent a year, after fees, spanning September 2014 to December 2017 and leading to significant interest in the LIC raising from retail investors.

Fund-of-funds manager Mark Houghton is a supporter of L1 via his outperforming King Tide NZ/Australia long-short strategy. "It's never linear, and when you run a portfolio which bears no resemblance to the market, and you're long/short, you have to expect periods of significant underperformance," he said.

Top quartile managers tend to "spend a bit of time in the bottom quartile too". "It makes perfect sense when you think about it," Mr Houghton explained. "If you believe the market is often driven by things other than fundamentals, it will overvalue businesses you're short and undervalue businesses you're long."

On Friday, L1 told the market that performance was suffering because it was positioned on the wrong side of the surge in momentum and growth stocks and "continued drift" in value stocks, which are at historical extremes. It is long European equities that were dented by the Italian political crisis and elected to exit some names it believed to be riskier propositions, while holding onto others where it believed the market was overreacting.

The L1 Capital Long Short Fund has a "recommended" rating from Zenith Investment Partners; a Zenith spokesman said the research house did not comment on short-term performance. Morningstar does not have a rating on L1 because it requires fund managers to disclose their top positions.

L1 also manages a long-only Australian equities strategy that over 10 years has recorded a 12 per cent annual return on average, before fees, as of March 31. That translates to outperformance versus the S&P/ASX 200 Accumulation Index of 6.7 per cent a year (including dividends).