

# FINANCIAL REVIEW

## The fund making 30pc betting on large caps

Feb 28 2018 at 9:54 AM

Updated Feb 28 2018 at 12:41 PM

by **Anthony Macdonald**



L1 Capital founders Rafi Lamm (left) and Mark Landau. Kate Geraghty

Melbourne-based stockpicker L1 Capital has kicked off what it hopes could be the firm's last big fundraising drive; a \$600 million listed investment company.

L1 Capital founders and co-chief investment officers Mark Landau and Rafi Lamm launched the cash call this week, together tipping in the first \$10 million and locking it up for 10 years, to prove their commitment to the listed fund.

If successful, it would be the biggest initial public offering for an Australian listed investment company, [outside of funds run by Magellan Financial Group](#).

The proposed fund, L1 Long Short Fund Ltd, is to be modelled on the [firm's existing long short fund](#), which returned 30.5 per cent last year, after fees, and has averaged 36.9 per cent annually since inception in September 2014.



Other major positions include long stakes in building materials company Boral, publisher News Corp and US-listed Alcoa Corporation, which has significant assets in Australia. David Rowe

And unlike other Australian equities managers posting such big numbers, it has done those numbers by mostly investing in large cap stocks.

"We think there is more opportunity at the large-cap end of the market than the small-cap end," Mr Lamm, 40, told The Australian Financial Review.

"A lot of money has come into the small-cap space and the good quality small-cap companies are very well understood and loved by the market.

"There are are lots of large-cap companies that might have transitory issues or may not be well understood by the market, and are well priced."

## Biggest bets

While it has a flexible mandate to invest globally, the fund's biggest bet is dual-listed New Zealand telecommunications network owner Chorus.

Other major positions include long stakes in building materials company Boral, publisher News Corp and US-listed Alcoa Corporation, which has significant assets in Australia.

L1 Capital's founders are less inclined to talk about their short positions, but had success in recent years shorting private hospital owner Healthscope ahead of its earnings downgrade.

"There are always opportunities on the short side," Mr Landau, 41, said. "The shorts we look for are companies that are overvalued on their cash flows, have weak management, poor industry structure and adverse operating trends.

"And on top of that, we like shorting companies that have a risky or geared balance sheet."

Mr Landau said the fund had held its own on the short side, despite a tough environment for short sellers created by a 25 per cent jump in the S&P/ASX200 in the past two years.

It is L1 Capital's first foray into the world of listed investment companies and, if successful, could be its last major fundraising.

Landau and Lamm started investing together in August 2007 and now manage about \$3 billion, alongside fellow portfolio manager Lev Margolin.

## Permanent capital

L1 Capital's biggest fund is a long-only Australian equities fund, which predominantly manages money for big domestic and offshore institutions such as Catholic Super, Sunsuper and HOSTPLUS, and recently opened to retail investors.

It started the long short fund in 2014 and opened it to high net worth clients and planning groups.

Mr Lamm said the firm was likely to close its books once it hit \$4 billion in funds under management.

He said preserving a big slice of that for a listed investment company, where capital is locked in for the manager, would allow it to be patient with investment ideas.

"Even though we have had good performance in the past few years, we are cognisant of the fact the portfolio doesn't always produce returns exactly when you want them," he said.

"A lot of the stories we invest in do take time to be realised by the market. If there is one mistake we have made over the years, it is over-anticipating how quickly positives we see in a stock take to be seen in the share price.

"It is hard to know why but often the market takes a long time to come to our view on a stock. Having permanent capital allows us to be patient for companies we really believe in."

L1 Capital is seeking to raise the capital by April 6 and has 13 stockbrokers on board to help with the offer. Seed Partnerships is advising the company.

If successful, the listed fund would begin trading on April 24.

Read more: <http://www.afr.com/business/l1-capital-founders-write-5m-cheques-for-new-listed-fund-20180226-h0wp90#ixzz58SCwukpr>

Follow us: [@FinancialReview on Twitter](#) | [financialreview on Facebook](#)