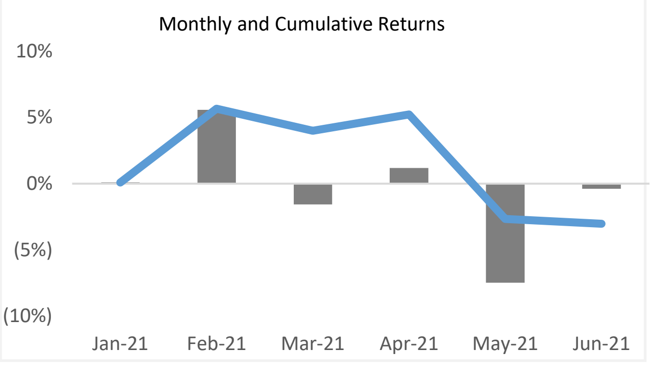
Longlead Pan-Asian Absolute Return Fund

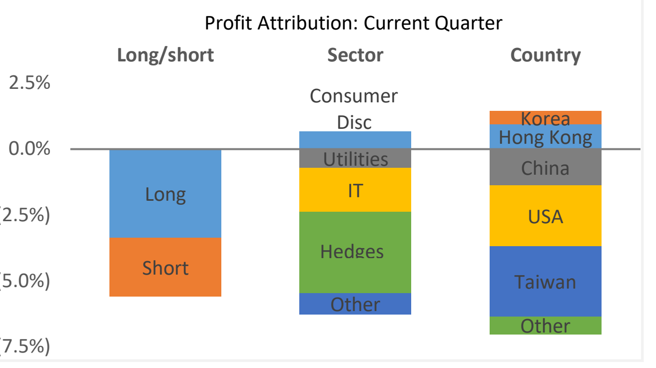
June Quarter 2021

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	0.09	5.56	-1.57	1.17	-7.48	-0.39							**-3.03**

*Net performance numbers are unaudited, presented net of fees & expenses applicable for the unrestricted class shares of the Fund and are unrestricted from participating in new issues. Past performance is not an indicator of future results.

Performance Trends & Attribution





Sector and country profit attribution is shown in the underlying currency of the Master Fund (US Dollars) and excludes the impact of FX movements

Quarterly Commentary

The Longlead Pan-Asian Absolute Return Fund (the "Fund") experienced a tougher June quarter with a loss of -6.75%. This performance was recorded against a mixed market backdrop in Asia. While many regional equity markets recorded positive performance in aggregate over the quarter, the journey throughout was punctuated by several sharp reversals, the most significant of which was the steep fall in the Taiwan market in May in response to a surprise Covid outbreak that we discussed last month. At the time of its outbreak, Taiwan was the Fund's largest geographic exposure, and this event represented a material proportion of the drawdown experienced in the quarter. General index movements however also underplay the extent of sector and factor rotation playing out across markets currently, linked to the somewhat conflicting expectations of a slower economic scenario ahead even as central banks signal that tapering and interest rate increases may come earlier than originally planned. Such rotation events, while they last, generate a negative alpha environment as global investors change portfolio positioning simultaneously leading to reversals in markets and stocks that have performed well. With peak global economic growth having likely passed in the second quarter, a number of key macroeconomic variables are currently signalling a mid-cycle slowdown. Bond yields and inflation expectations are falling and some early cycle commodities that led the reflation trend late last year such as lumber, copper, plastic resins and soft commodities are now reversing. Current economic activity however remains strong, supported by global monetary and fiscal stimulus, and consequently a sharp slowdown presents as unlikely. The magnitude of the current rotation being seen therefore appears exacerbated by crowded positioning in pro-cyclical/reflation trades and perhaps new concerns over the rapid spread of the delta Covid variant in many countries that is challenging the reopening narrative. Against this backdrop in Asia, sectors such as information technology and other long duration equities performed well late in the quarter due to the positive valuation implications of lower 10-year bond yields. For the Fund, this late recovery was not enough to offset the impact of the decline in Taiwan in May, and the Fund accordingly experienced losses across the quarter in the Technology sector as well as non-sector hedges, partially offset by gains in Consumer Discretionary positions. Across countries in the quarter, the Fund saw a drawdown from positions in China, the United States, and Taiwan, with offsetting gains in both Hong Kong and Korea.

Yangzijiang Shipbuilding Holdings, a name we profiled last quarter, continued its strong performance, with the share price up 10% for the June quarter as further signals of the strong up-cycle in new ship orders were released to the market. The company now is sitting on year-to-date order wins of more than US$5.5 billion. This six month period exceeds the highest level of annual order wins in the company’s history. The total order book has now reached a record high of US$7.7bn or 17% above the backlog reported in March. The earliest available deliveries for orders made today are in the second half of 2024, or more than three years away, and even then the team estimates that Yangzijiang's capacity is quite limited. One risk that the team has focused on is that upcycles in shipbuilding tend to coincide with rises in steel prices, which can impact margins if not properly managed. However, Yangzijiang have been prepaying steel up to six months in advance to secure supply ahead of price rises, shifted some of their steel

Quarterly Commentary (continued)

procurement to cheaper Chinese supply and adjusted prices on new orders to account for any further steel price appreciation. The company is also adjusting contractual terms to increase the level of customer prepayments on new orders. Overall, even with some older orders being delivered this year under the old contractual terms, we believe that Yangzijiang's steel price risk is being well contained for the time being. Yangzijiang also holds a number of ships on its balance sheet, which are a potential source of capital if required. The team noted with interest that third party data from shipping research house Clarkson indicated that several of its ships have already been sold this year, and believes that further sales, likely at prices that deliver strong realised gains, could be imminent. While acknowledging the strong year-to-date share price performance, the Fund retains its long position and notes that any signal confirming the realisable value of these assets would be taken positively by the market.

Makalot Industrial, another name we profiled last quarter, continued its strong share price run, with further strengthening of its order book driving the share price 11% higher in the June quarter. Makalot now has full visibility to the end of 2021 particularly in the higher margin ath-leisure segment. While there is some likely impact from port delays and managing Covid cases in some of their factories given their ASEAN production footprint, the team continues to believe that Makalot is uniquely positioned to benefit from the ongoing sector consolidation that we referenced in our March newsletter. The Fund accordingly retains its long position.

A long position in Taiwanese electronics component manufacturer **TXC Corp** contributed to the Fund's performance, with the share price rising 23% in the quarter. TXC is one of the world's leading producers of crystal oscillators which are small electrical circuits that are used in smartphones, mobile telecommunication base stations and consumer electronic devices. While most electronic devices today use some form of crystal oscillator, the growth of 5G handsets and base station networks, which utilise miniaturised oscillators, has differentiated companies like TXC which have the requisite capabilities and raised barriers to entry. These increased technical requirements have coincided with a lack of investment in new capacity by key competitors such as Seiko Epson in Japan, leading to an overall supply deficit. Whereas most competitors produce oscillators as a small product line in an otherwise diversified business, these products are TXC's primary focus. Being strategic to them, the company has prioritised development of oscillator technology to support the 5G era while also expanding its capacity by 10% to 15% each year. The broader industry supply tightness has allowed TXC to increase prices to its customers since the December quarter last year, which is now leading to higher margins. The team continues to view TXC as attractively priced with a clear growth opportunity ahead and has accordingly retained its long position.

A 16% increase in the share price of the Fund's long position in **SK Telecom** ("SKT") during the quarter also contributed to performance. SKT is the leading mobile carrier in South Korea. Like most mobile businesses globally, it had suffered a protracted decline in its earnings in recent years as telecom operators have resorted to price-based competition to attract customers onto mature 4G mobile networks. However, three things have been changing for SKT over the past 24 months. The first is the growth of 5G mobile services. Korea is one of the global leaders in 5G deployment and was among the first to commence rolling out 5G networks in mid-2019. After some initial missteps, SKT and its peers have successfully converted roughly a quarter of all Korean consumers onto 5G services which is a key milestone that allows an inflection point in the industry. SKT's 5G subscribers are paying materially higher prices than the group average and sufficient scale has now been achieved in 5G subscriptions to return SK Telecom to an earnings growth trajectory which should persist for the next couple of years. The company has now passed the peak point of its 5G capex, meaning that the increased earnings should also translate into stronger cash flows. The second change is that many of SKT's less mature non-mobile businesses, involved in activities from broadband to e-commerce and security, have reached their own inflection points recently. Collectively, these subsidiaries have gone from making a negligible earnings contribution to delivering a quarter of group operating profit last year.

The final change in SKT's business has been on capital management, as the board has sought proactive measures to rectify what it sees as a materially undervalued share price. This began with a share buyback undertaken late in 2020. SKT has also changed its dividend policy to allow more frequent returns of capital and ultimately higher dividends going forward. This is significant for a telecom business that is often valued on its dividend yield, which in SKT's case has not increased in nearly a decade. The company is also pursuing five separate IPOs of its subsidiaries to both release capital and provide investors a better line of sight as to the underlying value of these businesses. The company announced in late March that it was pursuing an internal restructure to separate the traditional mobile and

Quarterly Commentary (continued)

fixed line telecom businesses from its suite of other, largely technology focused assets. In theory, this should allow investors to choose to invest in either a cash generative telecommunications business or a higher-growth technology business and put more appropriate valuations on both. Notwithstanding the strong recent share price performance, SKT remains attractively priced. The realisation of higher dividends and the pursuit of the internal restructure and subsidiary IPOs should all act as catalysts this year, while the team continues to view consensus earnings estimates as overly conservative. The Fund retains its long position.

A long position in **Focus Media Information Technology** detracted from the June quarter performance. Focus Media operates a network of physical and digital displays in commercial and office buildings in China which it monetises by running advertisements. The share price fell particularly during late May and June in response to several factors. The first was a flare up of Covid cases in certain areas in China, such as in Guangzhou, causing more people to work from home. This reduces the number of people who can view Focus Media's in-building displays, which in turn impacts its revenue. The second factor is that recently tightened regulation around the Chinese education sector appears to have impacted advertising spend from the education industry, which tends to account for a high single digit percentage of group revenue. There are also concerns of new competition emerging which the team are monitoring. However, Focus Media maintains a high market share and has a material first mover advantage, especially in tier 1 cities, where it has locked up exclusive access to a large number of highly valuable sites. As such, the team believes the recent correction in the share price has overshot Focus Media's strong fundamentals and retains its long position.

A short position in Singaporean grocery retailer **Sheng Siong Group** detracted from the Fund during the quarter, as the stock rallied in May on the back of Singapore going back into lockdown due to a Covid outbreak. While this is a short-term positive for the company, Sheng Siong is facing a larger headwind in the form of an underlying slowdown in its business as it starts to cycle significantly elevated same store sales growth in 2020 due to the initial Covid outbreak. The team expects this will be difficult to navigate. In 2020 the company grew its top line by 40%, supported by large government wage subsidies to Covid-affected workers. This compares to single digit revenue growth for the prior decade. In a recent update the company disclosed that it would be extremely difficult to maintain this same revenue number in full year 2021, much less grow from this elevated base. On our numbers the company is likely to deliver a sharp decline as we enter the second half of 2021. Margins were also buffered during Covid by the combination of government support and underlying operating leverage and are likely to revert as sales slow. While the company has spoken about the opportunity to move more of its sales online, progress to date has been very slow. By contrast, both local competitors such as Redmart and global players such as Amazon who have a presence in Singapore are continuing to build very strong momentum with home based deliveries. The team believes that these challenges are not properly discounted into Sheng Siong's share price, and retains its short position.

June quarter performance was also impacted by a 9% fall in the share price of the Fund's long position in **Walsin Technology**. The Fund's thesis in Walsin has been documented in previous newsletters, most recently in December 2020. Walsin's underperformance was driven in large part by investor concerns over a potential for cuts to Chinese smartphone volumes in the quarter following a period of strong demand dating back to the September 2020 quarter. While various supply chain checks indicated that this had indeed occurred, this was compensated for by strong demand from other sectors such as 5G base stations, PCs and notebooks and the automotive sector. Between these, the team's checks with passive component peers suggests demand for passive components remain strong. Two metrics that the team monitors closely are the book-to-bill ratio and inventory. The former remains high and the latter remains below normal levels, both of which are positive fundamentally. Walsin was also one of the names heavily impacted by the market sell off in Taiwan in June and has experienced less of a recovery than some of its similarly afflicted peers. The team will continue to monitor the end-demand situation as the technology sector enters into a traditional peak season this coming quarter.

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June Quarter 2021

Portfolio Analysis

COUNTRY	Gross %	Net %
China	18.98%	3.92%
Hong Kong	10.95%	-4.59%
Singapore	17.85%	-2.13%
Taiwan	46.21%	1.71%
Korea	12.31%	0.60%
Japan	21.53%	2.52%
Australia	22.02%	16.36%
NZ	0.00%	0.00%
US	7.60%	2.94%
Europe	3.61%	-1.31%
Other	3.31%	2.29%
FUND	**164.37%**	**22.31%**

SECTOR	Gross %	Net %
Cons Disc	18.20%	6.09%
Cons Staples	20.89%	5.99%
Energy	2.59%	2.36%
Financials	5.83%	3.60%
Real Estate	5.12%	-4.68%
Health Care	7.16%	6.25%
Industrials	28.12%	2.13%
Info Tech	35.06%	14.07%
Materials	8.84%	2.35%
Communication	6.34%	6.34%
Utilities	0.12%	-0.12%
Non sector	26.10%	-22.07%
FUND	**164.37%**	**22.31%**

STATISTICS	%
Current Month Return	-0.39
Current Quarter Return	-6.75
2021 year-to-date return	-3.03
One year rolling return	n/a
Annualised return (inception)	n/a
Annualised std deviation	n/a
Sharpe Ratio**	n/a
Percentage of +ve months	50
Corr to MSCI Asia-Pac**	n/a
Corr to S&P 500**	n/a

Past performance is not an indicator of future results
***Not applicable as the Fund has less than 12 months of performance history*

Monthly Net Performance History (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	0.09	5.56	-1.57	1.18	-7.48	-0.39							**-3.03**

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Fund Details

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Address: Level 40-02B, 6 Battery Rd, Raffles Pl, Singapore 049909	**Email / Web**: investor@longleadcp.com; www.longleadcp.com
Launch Date: January 2021	**Management fees:** 2%
AUM: Strategy USD 82m; Firm USD 240m	**Performance fees:** 20%
Subscription frequency: Monthly	**High water mark:** Yes
Minimum subscription size: AUD 100,000	**Trustee**: Evolution Trustees Limited
Redemption frequency: Monthly, 60 days notice	**Administrator**: SS&C Fund Services (Asia) Pte Ltd
Lock Up: None	**Auditor**: Ernst & Young
Fund domicile & type: Australia, Unit Trust	**Legal Counsel**: Clayton Utz, Sydney

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