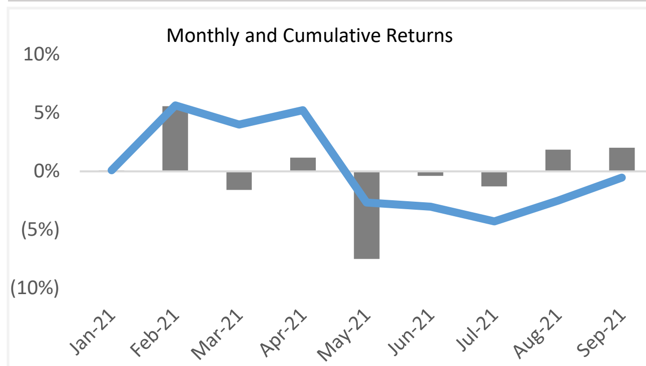
Longlead Pan-Asian Absolute Return Fund

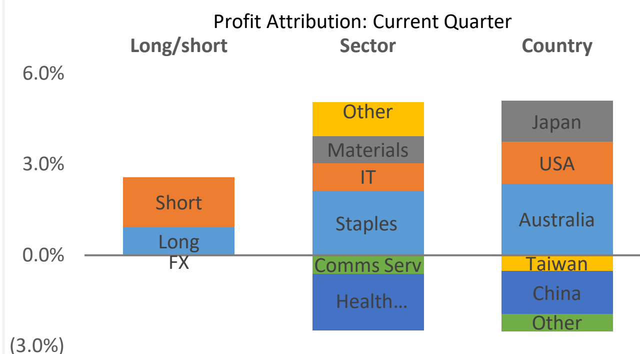
September Quarter 2021

	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	-1.29	1.85	2.02				**-0.53**

*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") generated a net return of +2.57% for the September quarter. This compares to -5.17% decline in the MSCI Asia Pacific Index over the same period. Equity markets had a challenging quarter, initially driven by concerns over the imposition of regulations on a number of industries in China and ongoing challenges to global supply chains. Later in the quarter, these worries extended to rising bond yields and the spectre of reduced central bank support for markets in the period ahead. In September, China Evergrande Group, China's largest property developer, announced that a slowdown in property sales was placing pressure on its cash flow and putting it at risk of defaulting on its debt repayments. This created widespread concern of broader contagion in the debt markets that flowed through to weaker performance in equities. The cumulative impact of these factors resulted in the weakest period of equity market performance since the outbreak of the pandemic in the March 2020 quarter. Pleasingly, the Fund navigated this challenging backdrop effectively, generating positive returns on both the long and short sides of the portfolio in the quarter. The Fund generated positive returns in Consumer Staples, Materials and Information Technology positions, while experiencing draw downs in Healthcare and Communication Services names. By country, gains were realised in Australia, the United States and Japan, while losses were seen in China and Taiwan.

We have in recent newsletters profiled research the team has conducted on companies involved in the development of electric vehicles. Despite recent manufacturing challenges over the last year in the automotive sector related to the pandemic, industry expectations of EV penetration have defied this and continued to be upwardly revised given the pace of consumer adoption. A Fund long holding benefiting from these trends is an investment in Japanese semiconductor maker **Renesas Electronics**, whose share price recorded a 16% gain in the September quarter. There are three factors underpinning the team's thesis on Renesas. The first is the structural growth of electronic parts used in automotive products. The automotive semiconductor industry has been experiencing strong growth in recent years from the electrification of an increasing number of features and components within existing internal combustion engine vehicles. This growth is set to accelerate with the adoption of EVs. An electric vehicle contains approximately US$950 worth of semiconductor components, or nearly double the US$490 found within a typical ICE vehicle. Renesas derives more than 40% of its revenue from automotive semiconductors and is accordingly a beneficiary of this transition. The second factor is Renesas' recently completed acquisition of German electronics producer Dialog Semiconductor, which has broadened its product portfolio, allowing for greater cross-selling to its existing customer base, as well as expanding its geographic footprint. Finally, the team attended Renesas' recent investor day, and came out impressed by the rapid progress that the combined entity has been making in terms of both of cost and revenue synergies. Trading at 7.6x EV/EBITDA, Renesas is trading at discount to peers such as STMicroelectronics and Infineon, which the team expects to narrow as it executes upon its synergy program and demonstrates the improvements to its product offering. While semiconductor shortages across the automotive industry constrained top line growth in 2020 and early 2021, product availability is set to improve from here with a strong demand outlook over the next twelve months. The Fund retains its long position.

Quarterly Commentary (continued)

The other side of the development of the EV industry is what is happening on the evolution of EV charging networks around the world. This is an area where industry thinking and plans are evolving rapidly and non-traditional players such as the automotive OEMs themselves are now looking to participate as shown by Tesla. How they do so however, in the scale necessary to serve their customers, is starting to change the tone of the conversation regarding the strategic value of service station businesses. One such investment identified by the team in conducting this research is a long position in **TravelCenters of America**, an operator of service stations in the United States. TravelCenters have an enviable network, with sites in 44 US states and Canada, many located on key highway routes. The stock price rose 70% in the September quarter and has more than doubled since the Fund made its initial purchase. To date, this has been driven by a turnaround of a previously underperforming network under a new management team who are successfully driving top line growth while tightly controlling costs. Despite the strong recent share price performance, the team continues to see the business as representing a compelling opportunity, based on benefits from the turnaround strategy in the short term and in the medium term on the potential for the business to realise value from EV charging. One of the biggest impediments to greater EV adoption is range anxiety, or the concern that a car's battery will run out before it can reach a charging station. This can be overcome when using a car for short urban trips where the car can be charged at home or work, but becomes a problem on longer journeys, which is where a highway-centric network like TravelCenters' gains strategic significance. The existing network of petrol and diesel refuelling stations are the most logical candidates to take on this role as they have existing footprints to leverage. The value of the EV customer to these businesses is taking on new importance as evidence has shown that their increased time on site while charging leads to materially higher convenience sales which attract a high margin. Alimentation Couche-Tarde, an industry leader, has been researching and measuring this opportunity via an in-house EV lab in Sweden which has them increasingly excited about the industry shift occurring. The team sees several possible scenarios for TravelCenters as the industry solves the EV charging conundrum. The organic scenario is for TravelCenters to upgrade their network to be EV-ready, something the business is already embarking upon. More than 75% of gross profit today is generated from non-fuel, or convenience retail sales, and the opportunity to build and monetise an EV charging network, based on the value proposition of attracting the high spending EV customer represents a potential source of earnings growth that is not reflected in the current share price. Strategic scenarios however appear increasingly probable to the team, such as a partnership with an automotive OEM to enable a rapid rollout for both parties of a branded charging station network as a point of competitive advantage. At the same time, consolidation in the service station industry is expected to accelerate due to the EV shift which raises the possibility of an acquisitive market leader like Couche-Tard (who has stated in their presentations that they are conservatively geared) acting to improve their highway network by purchasing operators with aligned assets like TravelCenters. The team views TravelCenters' turnaround as having further to run, with the EV opportunity representing additional upside. The Fund retains its long position and the team is applying the logic used here to identify similar opportunities across Asia.

The Fund also benefited from its holding in **Ganfeng Lithium**. Ganfeng is a Chinese lithium chemical producer and the largest producer of lithium hydroxide and lithium metal globally. Lithium is a key material used in every existing electric vehicle battery today. EVs are also set to become by far the predominant user of lithium globally, making it the material most directly aligned with rising EV penetration. The lithium market experienced a very challenging period from 2018-2020 as a period of high prices encouraged new supply to come on, which flooded the market and drove an extended glut. This was exacerbated by the pandemic, which saw prices collapse, several producers mothball production and others go bankrupt. The post-pandemic recovery has been rapid, fuelled by government stimulus, much of which targeted clean energy initiatives such as EV adoption. The lithium market has rapidly switched from oversupply to undersupply, and lithium prices have increased by a factor of three or more in the past 12 months. While all equities exposed to lithium have enjoyed remarkable share price performance during this time, Ganfeng has been the team's preferred exposure. In addition to being vertically integrated and the market leader, its core competence is in converting raw materials such as spodumene rock into usable end products such as lithium hydroxide. This part of the market is a longer-term bottleneck compared to raw material production which can be brought back on stream relatively rapidly. It is also the lowest cost producer of refined lithium salts globally. Finally, the price at which Ganfeng sells to its customers is largely benchmarked to the rapidly appreciating spot price, unlike leading western peers who contract on multi-year deals that have a much more muted response to changing prices. The team used a period of share price weakness following the announcement of an intended capital raise to accumulate a position in the name. The stock then bounced more than 50% over July and August, following which the

Quarterly Commentary (continued)

Fund tactically reduced its holding. While the share price has since retraced, the business remains a global leader in an industry that should see high levels of compounding growth for a decade or more. The team is accordingly focused on identifying a point at which to re-size its holding.

As we continue to see more countries reopen their economies from pandemic restrictions once vaccination targets are reached, the Fund is building long positions in companies that stand to benefit from the normalisation in consumer spending patterns that will occur, while simultaneously shorting companies who have over-earned during the pandemic and whose profits will now flatten or decline. One such "Covid over-earner" is **Dyaco International**, a Taiwanese manufacturer of home and commercial fitness equipment. The Fund has had a short position in Dyaco for the past twelve months, and it contributed to Fund performance with a 36% decline in the quarter. The pandemic created what we term "gold rush conditions" for Dyaco as consumers, prevented from accessing commercial gyms in most countries, ordered treadmills, stationary bikes and other fitness equipment for their homes. Dyaco's revenue grew by 124% in 2020 (compared to just 5% in 2019) and gross margins expanded from the 27-28% range it had occupied for a decade prior to the onset of pandemic to more than 40%. The team viewed this as unsustainable and that at some point both revenue and gross margins would revert to pre-pandemic levels. This expected downward inflection came in the June quarter results when year-on-year growth fell to 10% compared to 132% in the March quarter and gross margins contracted by more than 10% compared to the prior year. While further earnings weakness is to be expected, the stock is now down 47% year-to-date and the Fund has reduced the weight of the short. Another Fund holding in the over-earner category is Japanese resin maker **Zeon Corp**, who benefited from the spike in sales of rubber gloves and large panel TVs during the pandemic. Unlike Dyaco, Zeon's earnings are yet to normalise and the share price has accordingly remained comparatively resilient so far. The Fund retains its short in Zeon expecting this dynamic to still play out, and remains active in names on both sides of the Covid over-earner / economic reopening dynamic.

The Fund benefited from strong share price performance in a number of businesses exposed to agriculture during the quarter. A long position in Australian grain storage and handling business **Graincorp** saw a 23% gain in the quarter while Chinese fertiliser producer **China BlueChemical** generated a 26% gain. Graincorp owns a network of grain storage facilities on the east coast of Australia as well as a series of ports and export terminals. Its primary earnings driver is grain production volumes in the eastern states of Australia. A multi-year drought broke early last year and saw the eastern states produce one of their largest wheat crops in the past 20 years. This has been followed this year by a second crop that is nearly as large. Consecutive large harvests represent the ideal backdrop for Graincorp as it allows the business to keep its storage assets fully utilised throughout the year and drives very strong operating leverage. The company has upgraded guidance twice in recent months and the stock has performed well in response.

China BlueChemical, listed in Hong Kong, is one of the largest nitrogen fertiliser producers in China. As a major subsidiary of CNOOC, China's third largest petroleum company, it has cost-effective access to natural gas, which is the primary raw ingredient in urea. Its earnings are driven by fertiliser prices which have been in a strong uptrend over the past 12 months as the global fertiliser industry hit a favourable confluence of strong demand and diminished supply. While fertiliser prices have been appreciating for much of the past 12 months, a number of factors have caused the process to accelerate recently. Hurricane Ida, which hit the US Gulf Coast in late August, caused a number of large fertiliser plants in the southern states of the US to shutter, which drove a spike in pricing. A European gas crisis has seen urea and ammonia plant shutdowns in that region due to input costs exceeding current globally traded nitrogen product prices and this has further cut global supply. Finally, China, which is normally a net exporter of fertilisers, announced new industry regulations that have reduced their export volumes, once again reducing global seaborne supply and putting upward pressure on prices of the commodity. Domestically in China, recently imposed power cuts by Beijing to its manufacturing industries in late September in order to meet power quotas and promote energy efficiency have also subsequently impacted local production. The upshot of US storm disruptions, European plant shutdowns and lower exports and domestic production in China continues to be a sharp spike in both the urea price and the share price of China BlueChemical. The Fund retains its positions in both Graincorp and China BlueChemical.

The Fund also benefited from an 62% share price decline in a short position in **KE Holdings** (BEKE) in the quarter. BEKE is one of the largest property brokerage companies in China, operating a franchisee model. While the team sees BEKE

Quarterly Commentary (continued)

as a good quality company, it was hit with a rapid succession of challenges. The team initially identified a risk of gross transaction volumes slowing down due to Chinese government policy aimed at cooling the housing market in certain regions. Channel checks indicated decelerating transaction volume on both new and secondary properties. In addition, BEKE's founder and chairman passed away in May, leading to management succession risk, something that the company has not had to face in its twenty-year history. Reports then emerged in the Chinese press in June that the government had initiated anti-trust probes into BEKE. While these all had a negative impact, BEKE's share price collapsed in late July on an announcement that Chinese authorities were seeking to increase regulation of the property market. Coming in the immediate aftermath of a similar announcement that hit the for-profit education sector, investors exited the name immediately. The company was not helped by the disclosure of an unusual transaction in late July whereby the voting rights of the deceased Chairman were transferred to a co-founder, which sparked yet further selling. BEKE was always seen as a tactical position, and following such a precipitous decline in so short a period of time, the Fund has covered its position.

Earlier we discussed a number of exposures to electric vehicles that had contributed to Fund performance. One name that detracted from performance was the Fund's long holding in LG Chem whose share price saw a 9% decline. LG Chem is a South Korean business that has historically produced petrochemical, pharmaceutical and specialty chemical products. Its main value driver today is its LG Energy Solutions ("LGES") subsidiary, which is the second largest manufacturer of batteries for electric vehicles globally, and the largest outside of China. It is a major supplier of batteries to leading OEMs including Tesla, Volkswagen and Hyundai as well as General Motors, with whom it is building battery manufacturing capacity in the US under a joint venture arrangement. Battery makers are well placed courtesy of a consolidated market structure (the top five players collectively represent ~80% of global market share) and high degrees of IP protection. The Fund's long position in LG Chem was predicated on its leading market position, blue-chip client base and attractive valuation compared to peers. It is also in the process of conducting an IPO of LGES to give investors a pure exposure to EV batteries. Unfortunately, LG Chem also has a history of problems with some of its batteries. In August, GM announced that it was recalling 73,000 Chevrolet Bolt EVs at a cost of US$1 billion after several vehicles caught fire due to defective batteries that had been built by LG Chem. This was GM's third recall of the Bolt and followed similar instances with both Volkswagen and Hyundai. While issues are to be expected in any new industry, especially one which is experiencing such rapid growth using novel technology, the confluence of issues is concerning, and the Fund has closed out its position. The long-term future for EVs remains extremely bright and the team is focusing on other exposures both upstream and downstream of the battery manufacturers while seeking greater clarity on LG Chem's outlook.

Portfolio Analysis

COUNTRY	Gross %	Net %
China	6.02%	-2.28%
Hong Kong	15.10%	-2.65%
Singapore	8.03%	-1.49%
Taiwan	32.42%	0.44%
Korea	16.75%	1.18%
Japan	24.64%	4.55%
Australia	21.97%	15.89%
NZ	0.00%	0.00%
US	19.66%	7.24%
Europe	11.08%	1.11%
Other	7.65%	3.64%
FUND	**163.32%**	**27.63%**

SECTOR	Gross %	Net %
Cons Disc	24.76%	6.88%
Cons Staples	17.54%	2.70%
Energy	1.22%	0.96%
Financials	11.01%	1.30%
Real Estate	0.10%	0.10%
Health Care	5.14%	4.26%
Industrials	20.80%	-1.46%
Info Tech	30.36%	0.76%
Materials	14.14%	10.34%
Communication	10.47%	9.89%
Utilities	3.77%	3.54%
Non sector	24.01%	-11.64%
FUND	**163.32%**	**27.63%**

STATISTICS	%
Current month return	2.02
Current quarter return	2.57
2021 Calendar ytd return	-0.53
One year rolling return	n/a
Annualised return (incept)	n/a
Annualised Std deviation	n/a
Sharpe Ratio *	n/a
Percentage of +ve months	56
Corr to MSCI Asia-Pac	n/a
Corr to S&P 500	n/a

** Based on Risk free rate of 2% and annualised returns since inception*
Past performance is not an indicator of future results

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Monthly Net Performance History (%)

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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 83m; 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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