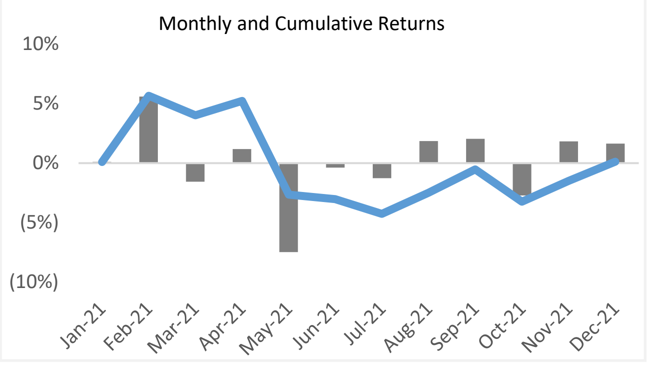
Longlead Pan-Asian Absolute Return Fund

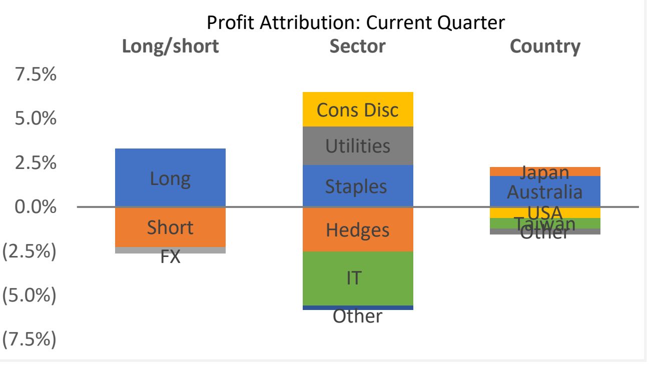
December Quarter 2021

	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	-1.29	1.85	2.02	-2.73	1.81	1.62	**0.10**

*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

Monthly Commentary

The Longlead Pan-Asian Absolute Return Fund (the "Fund") generated a net return of +0.64% for the December quarter. This compares to -2.08% decline in the MSCI Asia Pacific Index over the same period. Equity markets across the region posted mixed performance during the quarter, with most seeing positive trading conditions in October and December punctuated by sharp declines in November on the back of emerging evidence of higher and more persistent inflation and earlier signals of monetary tightening by central banks. The Fund posted gains in long positions during the quarter which were partially offset by losses experienced in the short book By sector, gains were recorded in Consumer Staples, Utilities and Consumer Discretionary holdings, while Information Technology and hedging positions posted losses. By country, holdings in Australia and Japan saw positive contributions to performance, while those in the United States and Taiwan detracted.

A long position in Japanese consumer electronics and media business **Sony** contributed positively to Fund performance in the quarter with the share price rallying in December following the successful release of the latest Spiderman movie. While Sony is synonymous with its range of consumer electronics devices, the team's bullish stance towards the company is based on its strong global entertainment content position ranging from music and movies to games. These divisions each have structural tailwinds underpinning their growth outlook, and leading market positions by virtue of their ownership of evergreen intellectual property. Importantly, this IP includes many highly valuable franchises across movies, music, and gaming which the team views as undervalued and which are in the early stages of realising synergies across the media channels. The market environment in place today is one in which it is a good time to be an owner and creator of content, and Sony owns one of only three global music publishers as well as one of the largest motion picture content producers and distributors. Owners of original IP have been seeing persistent growth in the demands for their library of material, while the fragmentation of distribution in the form of new streaming platforms such Netflix, Spotify, Disney+, Apple TV and others have increased Sony's bargaining power to monetise this library. Sony has also been strengthening its content offering in large markets that have unique demand for localised content, evident from its recently concluded merger with Zee Entertainment in India. Within the Games business, Sony launched the fifth generation of its PlayStation gaming console ("PS5") in 2020. The life cycle of a new games console drives both console and new game sales for several years following its release, and we expect PS5 profits to increase until 2025. The biggest driver of the stock during the quarter was the release of “Spiderman: No Way Home” in mid-December, which generated gross receipts of US$260m in United States during its opening weekend, the second largest ever opening weekend box office. Sony co-owns the Spiderman franchise with the Disney-owned Marvel Studios, and the success of Spiderman should provide a tailwind for Sony's earnings as it heads into its fiscal third quarter results which will be released in February. The Fund retains its long position.

While the gain in the quarter came from the long side of the book, there were notable contributors from short positions to Fund performance, including **Fast Retailing** in Japan and **Cosmax** in Korea, which saw their share prices

Quarterly Commentary (continued)

fall 21% and 30% respectively in the quarter. Fast Retailing is a vertically integrated fashion and apparel retailer operating the Uniqlo brand and its eponymous global chain of stores. Supply chain challenges and rising raw material prices have created cost pressures for Uniqlo's business. Uniqlo primarily targets a value-conscious consumer, which makes it difficult for the company to pass these higher costs on to consumers, especially as the business faces increasing competition from lower-priced online competitors such as Shein. Despite this, the company's CFO confirmed in an analyst call in December that it was considering both increasing prices as well as reducing its range of colours and sizes for many of its products to help offset rising prices, moves that are likely to impact sales volumes. Retailers globally are also facing increasing supply chain scrutiny from an ESG perspective, and Uniqlo announced a complete overhaul of its supply chain during the quarter in an effort to improve sustainability and transparency. While laudable, this both creates uncertainty among suppliers and portends further cost increases in an already challenging cost environment. Cosmax meanwhile is a Korean maker and distributor of cosmetics and beauty products. This is a category that saw a spike in revenues during the pandemic but now faces moderating growth. It is also facing many of the raw materials cost pressures being experienced by Uniqlo. Cosmax's sales today are predominantly to South Korean customers, but it has global growth ambitions, including into the key markets of China and the United States. Feedback from the key Double Eleven sales event in China in November suggested a slowing growth trajectory compared to prior years and that, within the cosmetics sector, many of the Korean companies had underperformed relative to global peers. The company also acknowledged in a recent call that they had overinvested in their expansion plans in North America, resulting in overly high fixed costs and a strategy that was targeting what they now deemed to be the wrong consumer base for their brand. While this can be viewed as a teething issue, it's a potentially expensive misstep for the business. The Fund retains both short positions.

We have in recent newsletters discussed the Fund's holdings in the agricultural sector, and many of these continued to contribute to performance. Our holding in Australian grain storage and handling business **Graincorp**, a name we discussed last quarter saw its share price increase by 30% following a full year earnings that hit the top end of (recently upgraded) company guidance, followed by an upgraded forecast from ABARES, the agricultural research arm of the Australian government, for the 2021 wheat crop outlook in late November. This drove a spate of broker upgrades to near- and medium-term earnings, which were then followed mid-December by a positive broker initiation on the name. Earnings expectations for Graincorp's fiscal 2022 are now up more than 200% on where they were a year ago and the stock has had an impressive run. The Fund retains its holding, but we are mindful of the cyclical nature of the business. While the stock does not appear expensive on an earnings multiple basis relative to its history, the earnings being capitalised are at decade-highs and likely to revert in the coming years as crop conditions inevitably normalise. We are accordingly reviewing the sizing of the position.

Also within in the agricultural sector, the Fund has made a number of investments in the fertiliser industry, which is emerging from a challenging few years. In the past 18 months, the supply demand backdrop has reversed from one of weak demand and oversupply to one of tightness. Demand for fertilisers has recovered, while supply, much of which was moth-balled during the downturn has been slower to respond, and more recently has been impacted by a confluence of exogenous shocks which has driven a sharp increase in selling prices. It was against this backdrop that the Fund's holdings in **CF Industries Holdings** and **Nutrien** generated gains of 27% and 16% respectively in the December quarter. CF Industries is North America's leading producer of nitrogen-based fertilisers, while Nutrien is the world's largest producer of potash and a leading supplier of phosphorous based fertilisers. While all fertiliser types have seen strong price increases, the supply of nitrogen-based fertilisers, which rely upon fossil fuels such as natural gas or coal as a feedstock, have been particularly impacted in recent months. Hurricane Ida, which landed in the US Gulf Coast in late August, caused several large fertiliser plants in the southern states of the US to shutter, including CF's major urea production facility in Louisiana. While the storm impacted CF's production volumes, it also drove a spike in fertiliser prices which more than offset the lost volumes from a profitability perspective. This was then closely followed by a European gas crisis where spiking natural gas prices forced the closure of numerous nitrogen and ammonia production facilities in Europe due to production costs that exceeded global prices, exacerbating fertiliser supply shortages, and placing further upward pressure on selling prices. In September, Chinese supply tightened due to Beijing ordering power cuts to its manufacturing industry to meet power quotas and promote energy efficiency, with those cuts affecting the production of local nitrogen-based urea. In October, Russia, one of the few remaining large exporters of fertilisers, announced limits on the export of nitrogen-based fertilisers until the conclusion of the spring sowing campaign, or around mid-2022. The upshot of US storm disruptions, European plant shutdowns, lower

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Quarterly Commentary (continued)

domestic production within China and Russian export curbs was a sharp spike in fertiliser prices, particularly gas-based urea, and with it the share prices of CF and Nutrien. As is the case with Graincorp, these are cyclical businesses facing favourable conditions today which will inevitably normalise. For now, the team sees scope for further short-term improvement given the industry tightness and has retained its long positions.

Conversely, the Fund's holding Hong Kong-listed **China BlueChemical**, one of the largest nitrogen fertiliser producers in China, saw its share price fall by 24% in the quarter. While notionally a beneficiary of the favourable supply/demand dynamics noted above, China BlueChem saw its business impacted by the government-mandated cuts to manufacturing. It is also impacted by coal prices, which it uses as a feedstock for part of its urea production, and which spiked to a record high in China during the quarter, impacting margins. While Chinese coal prices remained elevated at year-end, they are sitting well below their prior peaks. China BlueChem's reliance on coal is also lower than many domestic peers, as it is a subsidiary of CNOOC, China's third largest petroleum company, providing it with cost-effective access to natural gas. This helps to offset the input cost pressure to a degree that the team feels was not recognised in the share price movement. The Fund has accordingly retained a long position in anticipation of China BlueChem's share price recovering to reflect the positive underlying medium-term fundamentals.

Other names that detracted from Fund performance in the quarter were long positions in **Ganfeng Lithium** and **Renesas Electronics**. We discussed both positions in the September quarterly newsletter. Most lithium companies, including Ganfeng, have had very strong share price performance in the past 18 months on the faster-than-expected adoption of electric vehicles and associated need for materials, including lithium, to propel them. However, growth stocks globally had a very challenging finish to the quarter in response to renewed expectations of interest rate increases in 2022 and 2023 in the United States which are impacting valuation multiples. A recent call with the company confirmed that our fundamental thesis remains on track, and we continue to see a very tight supply demand environment for lithium that should persist for some time, with the potential for upside to current earnings expectations. Renesas meanwhile, was impacted by concerns that the nascent recovery in automotive chip supply would be derailed by severe flooding in Malaysia, which is a key manufacturer of chips for the sector. This is a legitimate concern at a sector level that saw Malaysian-based chip suppliers such as BE Semiconductor downgrade production volume and earnings expectations in response to the floods, while Daihatsu and Panasonic announced that their production facilities in the country had been temporarily closed. Fortunately, Renesas does not rely on Malaysian suppliers for its chip supply. Any lingering supply disruption could result in further industry tightness, with Renesas likely to be a relative beneficiary. The Fund retains its long positions in both names.

Portfolio Analysis

COUNTRY	Gross %	Net %
China	10.73%	5.15%
Hong Kong	15.14%	1.53%
Singapore	13.49%	-13.07%
Taiwan	27.09%	2.38%
Korea	10.60%	0.05%
Japan	24.09%	2.64%
Australia	28.80%	20.97%
NZ	0.00%	0.00%
US	14.80%	11.51%
Europe	11.67%	2.07%
Other	9.75%	-2.96%
FUND	**166.16%**	**30.27%**

SECTOR	Gross %	Net %
Cons Disc	32.88%	12.52%
Cons Staples	17.32%	6.39%
Energy	2.81%	2.36%
Financials	13.77%	-8.61%
Real Estate	0.03%	0.03%
Health Care	3.29%	2.74%
Industrials	15.32%	-2.58%
Info Tech	24.67%	-3.40%
Materials	19.68%	15.80%
Communication	8.05%	7.99%
Utilities	12.06%	11.79%
Non sector	16.28%	-14.76%
FUND	**166.16%**	**30.27%**

STATISTICS	%
Current month return	1.62
Current quarter return	0.64
2021 Calendar ytd return	0.10
One year rolling return	0.10
Annualised return (incept)	0.10
Annualised Std deviation	11.13
Sharpe Ratio *	-0.17
Percentage of +ve months	58
Corr to MSCI Asia-Pac	0.05
Corr to S&P 500	-0.11

** Based on Risk free rate of 2% and annualised returns since inception*

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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 80m; Firm USD 236m	**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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