Neutron Asia Absolute Return Fund
Monthly Newsletter November 2020

NAV & Returns

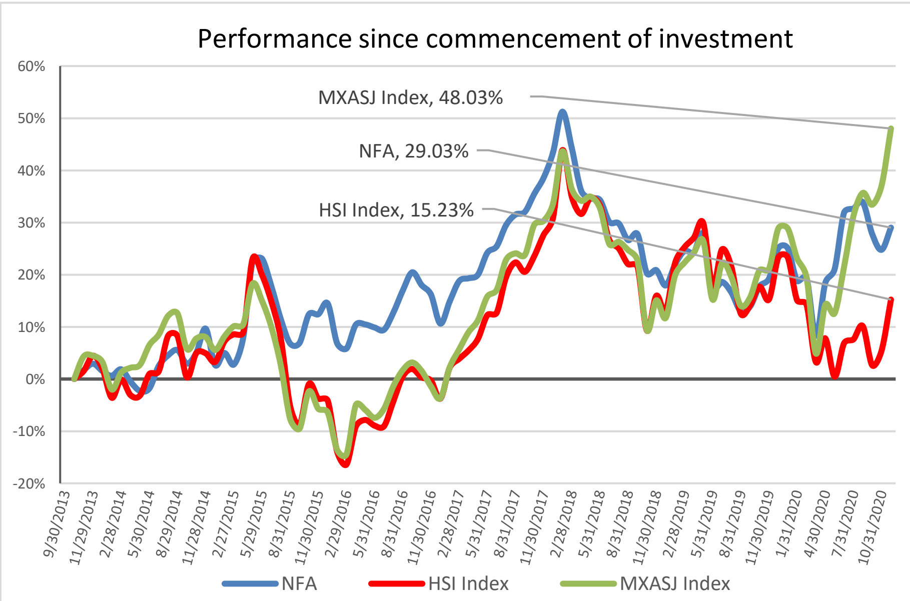
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,140.6480	↑ +3.41%	↑ +3.16%	↑ +29.03%

Historical Monthly Returns

NFA – Net Returns													
MoM	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**YTD**
2020	-5.01	+0.51	-9.32	+9.34	+2.28	+8.91	+0.60	+0.92	-4.55	-2.36	+3.41		**+3.16**
2019	+3.41	+2.13	-0.21	+2.82	-8.13	+1.05	-1.72	-3.08	+0.81	+3.40	+1.24	+4.90	**+6.06**
2018	+5.45	-4.59	-5.68	-1.09	-0.21	-3.13	-0.23	-2.46	+0.90	-5.88	+0.52	-2.45	**-17.78**
2017	+3.86	+3.37	+0.47	+0.56	+3.51	+1.01	+3.23	+1.55	+0.39	+2.62	+2.29	+3.49	**+29.66**
2016	-6.64	-0.96	+4.32	+0.04	-0.53	-0.39	+3.04	+3.73	+2.98	-2.03	-1.55	-4.79	**-3.37**
2015	+2.26	-2.12	+5.02	+13.59	+0.41	-4.31	-5.33	-4.22	+0.12	+5.14	+0.00	+1.83	**+11.49**
2014	-0.88	+1.23	-2.34	-1.79	+0.49	+4.41	+1.98	+0.98	-2.46	+2.00	+4.43	-6.37	**+1.14**
2013										+1.68	+1.24	-1.37	**+1.52**
Hall Park Capital – Gross Returns													
2013	+11.98	+1.76	+2.87	+6.79	+9.71	-7.19	+2.83	-1.79	+2.08				**+31.39**(1)
2012	+2.45	+6.61	-4.36	-1.41	-2.89	+1.28	+3.28	+1.30	+0.63	+3.89	+2.11	+4.24	**+16.61**
2011	-3.10	-4.20	+5.57	+0.28	-0.87	-1.56	-1.53	+3.11	+1.29	-3.73	-0.27	-1.10	**-6.11**
2010	-0.72	-0.29	+1.53	+4.44	-2.93	-0.53	+1.81	+3.26	+11.89	+4.23	+0.96	+8.39	**+29.82**
2009	+1.12	+2.88	+3.77	+1.19	+7.92	+1.26	+1.89	-3.40	+0.86	+0.07	+4.22	+6.91	**+28.36**

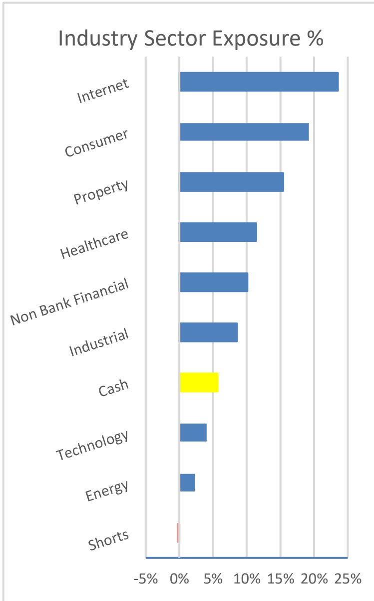
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market conditions prevailing during the period. The account was closed after September 2013, with assets transferred to NFA. Additional information can be provided upon request.

Performance



For further info, please visit Bloomberg ticker: BNNEUTA:KY; or website http://neutronasiaabsolute.bricneutron.com/

Industry Sector Holdings



For short position, investments group as shorts.

Fund Information

Investment Objective	The investment objective of Neutron Asia Absolute Return Fund is to focus on but not limited to Asia ex Japan and aims to generate positive returns in all market conditions.		
Investment Style	It is a concentrated portfolio of stock picks employing a fundamental value approach seeking to take advantage of trading opportunities from both the long and the short side.		
Investment Launch Date	2 October 2013	**Domicile**	Cayman Islands
Fund Size	HK$194 million Approx. US$25 million	**Fiscal Year End**	31 December
Administrator & Custodian	DBS Bank Ltd., Hong Kong Branch	**Auditor**	Ernst & Young Limited
Directors	Vincent Leung Patrick Harrigan (Independent) Sean Flynn (Independent)	**Portfolio Manager**	Jonathan Garrick jonathan@bricneutron.com
Management Fee	1.5% p.a.	**Performance Fee**	15% of profits above hurdle
Dealing	Monthly	**Redemption Fee**	1% for early redemption in the first year

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In November the fund gained +3.41% net of fees. The NAV is 1,140.6480 as of November 30th, 2020 leaving the fund up +3.16% year to date.

For the portfolio, November was a resounding month for global equities. The resolution in the US Presidential election producing a Biden victory with a Republican held Senate was deemed a positive outcome. Further sizeable government stimulus was on the way and the headlines on COVID vaccine developments encouraged investors to adopt an accelerating economic recovery timeline. This sparked a rotation into the forgotten value and cyclical stocks with the high valuation growth names slowing their ascent weighed down by talk of regulatory changes for the mega-cap internet names both in the US and China. Unfortunately, HK/China stocks underperformed the global rally as renewed US-China frictions came from an expanding US government blacklist of Chinese companies with military ties. With regards to our holdings list, our net exposure remained high and increased slightly by the end of the month. With regards to performance attribution, there were broad gains across the portfolio with just a handful of detractions. The main contributors came from internet, online healthcare and non-bank financials. The detractions came from an online games company, a pharmaceutical name and an exporting consumer name suffering from the strengthening renminbi. On the short side, our index futures and single stock shorts provided a small detraction over the month on lower volumes.

In previous newsletters, we have mentioned that the unloved Baidu (BIDU US, mkt cap U$52bn) was turning their operations around led by the strong take-up of their recent App. Further evidence of this was revealed when they surprised the market with stronger than expected 3Q results. Notably, the company returned to revenue growth +1%yoy (+14% qoq) against the consensus view of a continuing decline. Impressively, operating margins expanded by +14%yoy to 27.2% on a significant decrease in traffic acquisition costs due to more app search – an increasingly larger proportion of revenue from their higher margin business. The revenue guidance was also lifted to 3% higher than consensus as the recovery in the online ad business continues. This revived, growing business with higher margin assumptions prompted notable upgrades to analyst's forecasts. Interestingly, Baidu also announced a U$3.6bn acquisition of JOYY's (YY US, mkt cap U$6.8bn) domestic live streaming entertainment business. Unfortunately, this coincided with a Muddy Waters short sell report on JOYY. This deflected attention away from the results and the price reaction was soured. Investors may be spooked, but they are missing the pivotal change in this now growing company with around 20% of the market cap in cash. An ex-cash market cap implies only 4x 2021 p/e for Baidu Core which is now seeing improving metrics. Investors are also now more favourably viewing their other businesses such as the Apollo autonomous driving, cloud and the smart speaker units. These were previously viewed as an expensive weight on the company but now seen as opportunities to realise value. We remain invested. After the 3Q results, we added to a Singaporean holding, Keppel Corp (KEP SP, mkt cap U$5.7bn) which is undergoing a significant corporate reorganisation that management named Vision 2030. The transformation is well underway with a 100-day programme focused on unlocking value by monetizing assets such as property project sales and exploring both organic and inorganic options for their O&M business which was the only business unit that remains unprofitable. Analysts were quick to review their sum of the parts valuation of the separate units and it is increasingly clear that there is a substantial upside of the combined value of the individual parts. Key management positions have changed and the execution of strategy is underway. We remain invested and await the outcome of the 100-day programme started in early October. Finally, Hong Kong Exchange (388 HK, mkt cap U$60bn) reported the 3Q results with revenue inline and an earnings beat on a record high EBITDA margin. Earnings were driven by strong trading +25% qoq, settlement fees +33% qoq and increased turnover ADT +24%. Investment income was also better than expected. Despite the postponement of the huge Ant Financial IPO the pipeline remains robust as the deluge of issuance and southbound trading activity is set to continue. The escalating US political push for further requirements on Chinese ADR companies will hasten more listings and turnover to HK Exchange. The results and subsequent presentation sparked positive revisions from the analysts with the stock gaining +4.1% over the month.

Looking forward, there were several positive headline events in November that will encourage a step up in equity inflows. For Asia, the Biden presidential win with a republican Senate should bring a less volatile and antagonistic US-China relationship. HK/China stocks have been a notable underperformer and a victim to sharp, negative shocks via tweet, so any easing of the friction will be a positive relief. In addition, the likelihood of a larger US government stimulus and spending brings a weaker US dollar that should prompt more equity inflows to emerging markets. The Covid vaccine development and emergency use rollout quickens the economic recovery and for companies, the earnings rebound in 2021 and beyond should be considerable. For us, the economic data and company operating statistics remain encouraging. In Asia, the sentiment, positioning and broad equity valuation metrics remain compelling aided by the overcoming of the recent uncertainty hurdles and the lack of competition from fixed income. Investors should remain optimistic and as a consequence, our portfolio remains domestically focused and positioned to benefit from the policy, corporate and behavioural changes.

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