Neutron Asia Absolute Return Fund

Monthly Newsletter December 2020

NAV & Returns

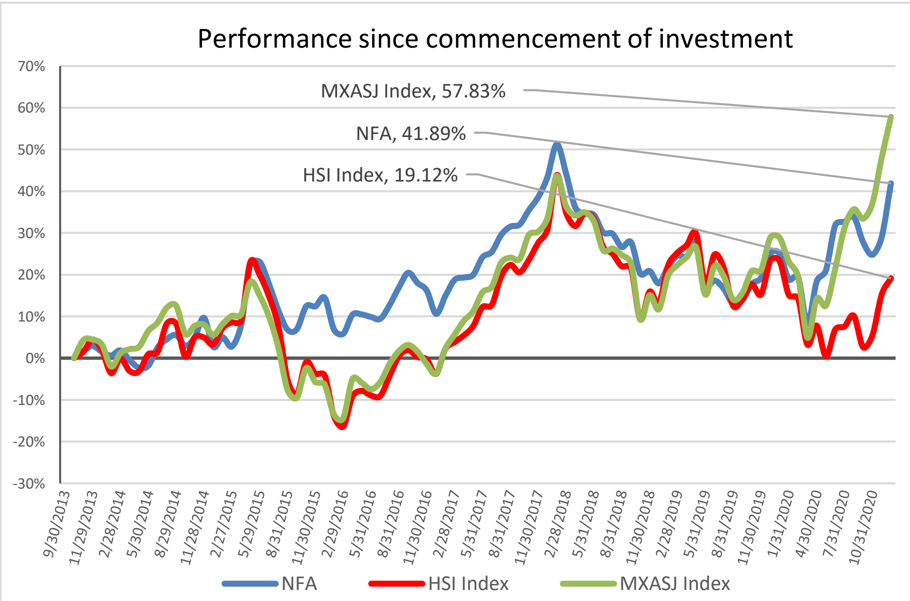
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("**NFA**")	1,254.3240	↑ +9.97%	↑ +13.44%	↑ +41.89%

Historical Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
NFA – Net Returns													
2020	-5.01	+0.51	-9.32	+9.34	+2.28	+8.91	+0.60	+0.92	-4.55	-2.36	+3.41	+9.97	**+13.44**
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**

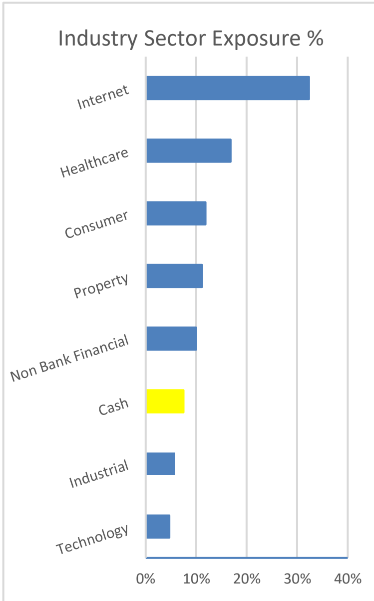
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager's personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$213 million Approx. US$27 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

In December the fund gained +9.97% net of fees. The NAV is 1,254.3240 as of December 31st, 2020 leaving the fund up +13.44% for the year.

For the portfolio, December brought accelerating gains that outpaced the buoyant broader markets. For us, several specific company catalysts were triggered during the month, but the general tailwind of positive news intensified the contributions. Investors cheered the availability and imminent rollout schedule of the Covid vaccines boosting the economic recovery expectations for the year ahead. In addition, the Biden administration is expected to escalate stimulus measures, compounding the unwavering monetary and, for the moment, fiscal policy support. Although US-China relations continue to suffer from the abrasive Trump administration directives, investors may be looking ahead to the new US presidency to be less frictional and more collaborative. 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 lion's share of the contribution came from our holdings in internet, healthcare and non-bank financials. The detractions came from a pharmaceutical holding, a property company and a restructuring play in China that fell through. On the short side, there was the least monthly activity all year. Our index futures and single stock shorts provided a tiny detraction over the month on meagre volumes.

December appropriately brought to a head several catalysts and specific situations in the portfolio. The month finally saw the privatization and relisting proposal of Haier Electronics (HEG, 1169 HK, mkt cap U$13bn) from Haier Smart Home (HSH, 600690 CH, mkt cap U$27bn) through a share conversion ratio of 1.6 to 1 and a special dividend payment of HK$1.95 per share. In our October newsletter, we laid out the clear investment case in more detail. Ahead of the privatization, HEG had underperformed HSH by over 30% with the A-share premium nearing 55% which seemed unjustified especially when compared to other A/H consumer brand names. Since the restructuring, investors perceive the new Haier SH (6690 HK) as offering a more favourable and transparent company. The multi-brand product category and geographical expansion together with margin expansion and efficiency improvements have seen analysts appreciate the previously undervalued growth drivers. The company is also well-positioned to benefit from policy directives to further boost consumption and the upgrade to more environmentally friendly products. We remain invested. One of this month's major contributors was Innovent (1801 HK) who, despite recent headwinds, we believe will be a sector winner in China's emerging Biotech sector. The stock had been under pressure in recent months ahead of the National Reimbursement Drug List price negotiations in which their main drug category, PD-1, was expected by many to see brutal price cuts. The negative share price reaction seemed over focus on this single issue. Although PD-1 is the major revenue source, the company's future will be far larger. Earlier in the year, Innovent signed a transformational multi-billion dollar collaboration with Roche in bispecifics and cell therapies. This is in addition to existing valuable partnerships with Incyte, IASO, Hutchison, Coherus, Alector and Lilly. For us, Innovent is in a pole position in China and has a heavy global drug candidate pipeline. When the price negotiations were finally completed on December 16th, the price cuts would be less than feared, investors rushed back in. The stock rebounded +60% in December. As with many emerging industries at an early stage, it is crucial to select the sector winners. For Innovent, there is certainly an identifiable pipeline of catalysts and top tier collaborations to put the company at the forefront of the sector. We remain invested. Another of the major contributors this month came from Baidu (BIDU US, mkt cap U$62bn). In November's newsletter, we analysed the stronger than expected 3Q results and their pivotal nature of the investment case from the operating metrics. Unfortunately, the good news had been overshadowed by a short sell report by Muddy Waters on JOYY (YY US, mkt cap U$6.8bn). The company that Baidu had announced a U$3.6bn acquisition of their domestic live streaming entertainment business. Investors were initially spooked, however, once the dust settled they focused on a now growing company with dominant market share and around 20% of the market cap in cash. The ex-cash market cap implies only 4x 2021 p/e for Baidu Core which is now seeing improving metrics driven by the recent App. Importantly, investors are now also more favourably viewing their other businesses such as the leading Apollo autonomous driving business, cloud and the smart speaker units. These were previously viewed as an expensive weight on the company but now seen as opportunities to grow and realise value. The stock surged +55% in December and we remain invested.

Looking to the year ahead, the main macro factors look to be increasingly constructive for Asian equities. The Biden administration should bring the benefit of a less antagonistic US-China relationship. The likelihood of a larger US government stimulus and spending together with accommodative monetary policy brings the fair wind of a weaker US dollar that should prompt more equity inflows to emerging markets. Global governments including China will look to ramp up their domestic economic recovery with consumption boosting measures and infrastructure spending. For us in Asia, there is a notable improvement in the economic data and company operating statistics and as a consequence, the earnings rebound in 2021 and beyond should be considerable. For longer-term investors, inflationary pressure is now back in the discussion and that is steepening yield curves to the benefit of the heavyweight financial sector. In addition, policy change which is an area of focus for us is increasingly constructive globally. ESG investing is now an influential factor which is driving the new energy sector and other industries. Our focus on companies undergoing transformation through emerging industries, corporate restructurings or identifiable catalyst for change is providing a rich pipeline of opportunities. Investors should be encouraged and optimistic. As a consequence, our portfolio remains domestically focused and positioned to benefit from the policy, corporate and behavioural changes.

BRIC NEUTRON 尚金資本

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