Neutron Asia Absolute Return Fund

Monthly Newsletter January 2021

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,378.2442	↑ +9.88%	↑ +9.88%	↑ +55.90%

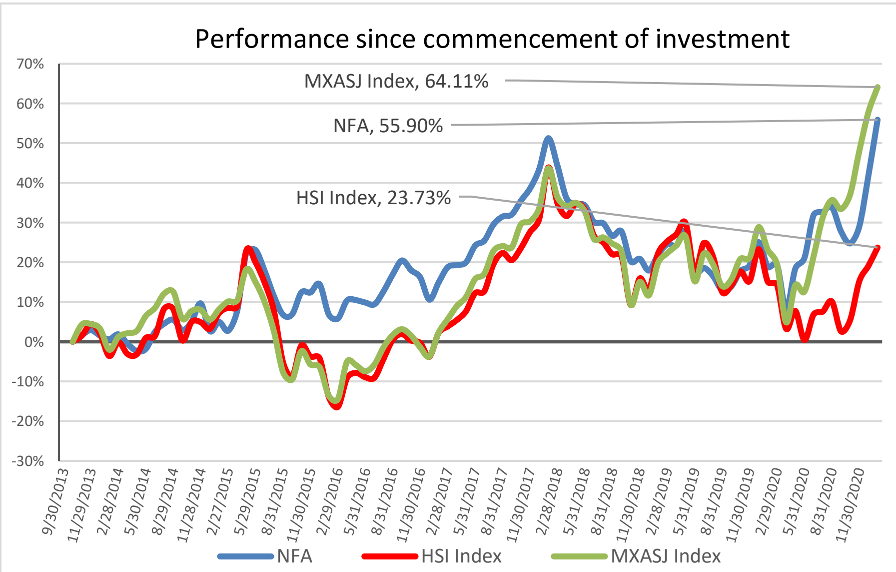
Historical Monthly Returns

NFA – Net Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	+9.88												**+9.88**
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**

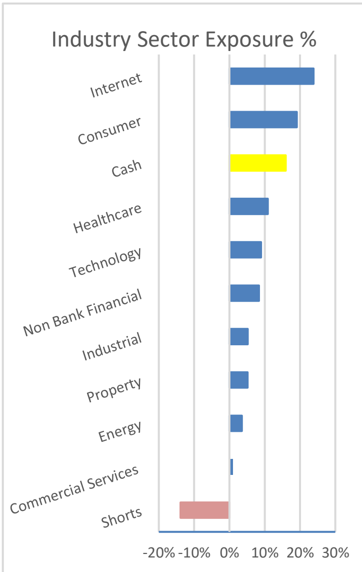
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$234 million Approx. US$30 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 January the fund gained +9.88% net of fees. The NAV is 1,378.2442 as of January 31st, 2021.

For the portfolio, January continued on December's strong run only pulling back towards the end of the month on concern over euphoric pricing, shaken investor confidence on dislocated trading in the US equity market and headlines concerning vaccine delivery delays. HK/China equities saw accelerating fund inflows most notably from an incredible surge in southbound trading. This amounted to a whopping Rmb260bn (U$40bn) in January alone which was 43% of the total inflow in the whole of 2020. The macro newsflow also provided a strong tailwind with the expectation of a huge US fiscal stimulus package from the Biden Administration, companies issuing profit alerts and positive guidance together with the accelerating rollout of vaccinations driving the economic recovery. With regards to our holdings list, our net exposure remained high until the final week of the month when prompted by a deterioration in price action, we took profits and added shorts notably lowering our net long exposure. That said, with regards to performance attribution, there were still broad gains across the portfolio with just a handful of detractions. The main positive contributions came from online gaming companies, HK Exchange, domestic consumption plays and healthcare. The detractions came from Covid recovery plays and property. On the short side, our new index futures position in the final week of the month made a positive contribution as did the single stock shorts but only mitigated the pullback in the portfolio.

The main story for the fund in January was the huge uptick in fund flows into HK/China names that compounded the gains seen in December. There is no clearer example of this than our holding in HK Exchange (388 HK, mkt cap U$60bn) that is a direct beneficiary of the deluge of mainland investor demand for HK listed equities. Mainland investor participation has contributed to higher trading velocity in HK and that volume across a broad number of companies has not gone unnoticed by liquidity hungry global investors. This in turn has led to robust demand for chunky secondary placements and aggressive pricing in the heavy and increasing pipeline of IPOs. In addition, the continuing US political friction towards Chinese ADRs is accelerating the issuance of secondary listings on the HK Exchange. Institutional investors are also increasingly converting ADR holdings into HK listed shares which are seen as a more prudent position to take to trade China names during Asian hours. This is a sooner than expected structural change for the HK Exchange. As a consequence, the spike in the run rate of average daily turnover, stronger participation from southbound connect trading, new exchange-traded products and the hefty listing pipeline focusing on the popular new economy sectors have analysts scrambling to lift their operating estimates. HK Exchange gained +17% over the month and we remain invested.

One of the themes we have refined in recent months was a preference of online games companies over pure e-commerce companies. Looking forward to this year, the heavy marketing and investment in 2020 sets up bumper year over year gains. Our long favoured holding of Netease (9988 HK, mkt cap U$86bn) now traded in HK, provides a clear series of catalysts. For example, Netease has had 4 game launches in January already, including hit blockbuster, 'The Revelation.' This compares to 2 for the whole of Q1 in 2020. Netease has an estimated 22 mobile games in the pipeline including heavily anticipated blockbusters Harry Potter, Diablo & Lord of the Rings. Importantly, 12 games have already monetization approval that should assure generous growth in 2021. A less well-known catalyst is the Netease Cloud Music (NCM) business which has made huge operational gains in recent months. According to Questmobile, NCM has outgrown Tencent Music (TME US) in revenue growth for the past 3 quarters driven by faster net adds and this momentum is expected to continue. Their latest 'Music Talent' initiative to support creators of derivative music content was won over a huge, young user base with 90%+ of users under 29 years old. A view of the industry sees this business transforming into a powerful platform of music, videos, radio, podcasts and playlists. Many analysts have held the value of NCM to meager historical levels, but this news and the upcoming IPO in HK of Tencent Music (TME US mkt cap U$43bn) will shine a light on this developing business. TME is up +33% ytd and +83% over the last 12 months. Industry leader, Spotify (SPOT US, mkt cap U$ 59bn) has more than doubled in the last year. A further positive development happened this month as Alibaba announced it was closing down its competing Xiami Music platform. As a result, we expect Netease Cloud Music to be the main beneficiary in a much less competitive landscape. We expect talk of an NCM spin-off will grow louder throughout the year and that will boost Netease's market cap assumptions – currently at U$85bn in which c80% of revenue from online games. The stock gained over 20% in January.

Despite the dent in investor confidence and noisy degrossing at the end of the month, the main macro datapoints reaffirm a solid positive outlook for equities. The new news this month is the surprisingly strong corporate earnings not only from the US mega-caps, but from a host of profit alerts and positive guidance in Asia. The incremental data on the accelerating pace of Covid vaccinations and the sharp drop in hospitalization rates have brought forward the expectations of strengthening economic recovery. Furthermore, the US government stimulus, spending together with reassuring words on the accommodative monetary policy signals a clear runway for economic growth. The latest GDP upgrades are notable and point to peak savings rates, pent up consumer spending demand compounded by government consumption boosting policies and infrastructure spending. In previous newsletters, we pointed to notable improvements in the economic data and company operating statistics in Asia to illustrate our case for a considerable earnings rebound ahead. There is now stronger evidence to support that view. We have remained focused on companies undergoing transformation through emerging industries, corporate restructurings or identifiable catalysts for change. The current environment is providing a rich pipeline of opportunities. In recent years HK/China equities have been a notable laggard and on current valuations remain so as the Hang Seng Index still trades on a sober forward p/e of 12x and 2.9% dividend yield. Investors in the fund should be encouraged that the portfolio remains domestically focused and positioned to benefit from these policy, corporate and behavioural changes.

BRIC NEUTRON 尚金資本

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