Neutron Asia Absolute Return Fund
Monthly Newsletter February 2021

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,404.5772	↑ +1.91%	↑ +11.98%	↑ +58.88%

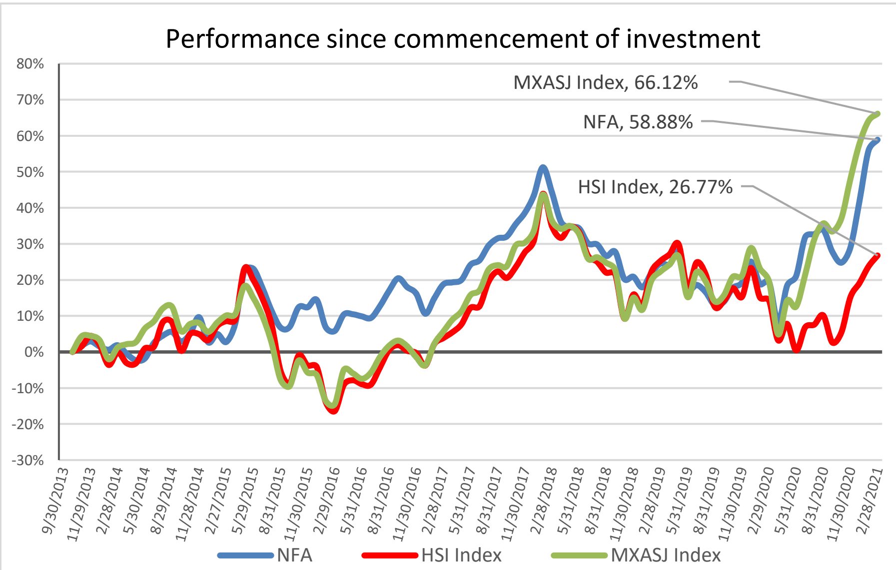
Historical Monthly Returns

NFA – Net Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	+9.88	+1.91											**+11.98**
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**

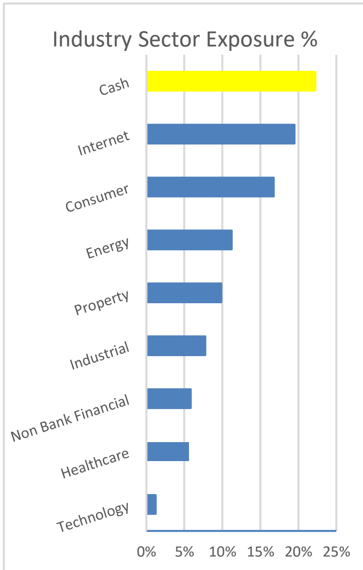
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$239 million Approx. US$31 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 February the fund gained +1.91% net of fees. The NAV is 1,404.5772 as of February 28th, 2021 leaving the fund up +11.98% year to date.

For the portfolio, February brought a strong start to the month, rebounding from January's late dip driven by the optimism of the vaccination roll out, reopening of economies, fiscal stimulus and powerful fund inflows most notably from southbound investors. After the Chinese New Year holiday, the mood soured as the faster global growth and stimulus began to sprout inflation concerns in investors prompting a rapid increase in longer-dated US bond yields. This triggered a strong equity sell-off led by popular, high valuation new economy businesses. The unwind of this extreme dislocation in positioning between Growth and Value sectors had begun. With regards to our holdings list, once again our net exposure remained high until the final week of the month when a sharp deterioration in price action particularly in our heavyweight holdings prompted a reduction in our net long exposure. With regards to performance attribution, this month was decidedly mixed. The main positive contributions came from a China internet holding and our economic recovery plays such as an industrial with a greener new product, consumer goods, property and Macau. The main detractions came from recent strong performers such as HK Exchange, online games companies and healthcare. On the short side, our single stock shorts and index futures positions produced a small detraction.

A major positive contributor this month was Baidu (BIDU US mkt cap U$89bn) whose 4Q20 results beat on both revenue and margin with guidance raised for the quarters ahead. In our November newsletter, we laid out the attractive investment case, which is now turning out to be even better than we expected. More details have been released on the Apollo autonomous driving unit, its clear dominant position and a path to monetization. In addition, there is an appealing partnership with Geely on electric vehicles. The Ai Cloud unit's revenue accelerated to +67% from +41% in 3Q20 with more focus on PaaS and SaaS bringing higher margins and growth. Recently Baidu signed a milestone deal with China Huaneng group to leverage its Ai capabilities to integrate systems to enhance efficiencies in their energy business. Furthermore, there is the integration of the substantial YY live streaming business leveraging off traffic, content and data from the Baidu App. Finally, Baidu is in talks to pursue an exciting stand-alone Ai chip business which the company currently uses internally. Whilst analysts rush to ascribe value to these emerging business units and improve the multiples on the App business, we believe there remains significant upside to consensus valuations. That said, the inclusion of such emerging business units creates a more erratic valuation mechanism, so we can expect more volatility and divergent views going forward. We also look forward to Baidu's upcoming HK IPO when the management will give more business updates. We remain invested.

A major detraction on performance was our long time holding in HK Exchange (388 HK, mk cap U$75bn). The FY20 results release was as solid as it was well expected. In last month's newsletter, we highlighted that the ADT accelerated year to date to HK$234bn, an +81% increase over 2020, whilst the Southbound connect brought Rmb260bn (U$40bn) in January alone which was 43% of the total inflow in the whole of 2020. There was a deluge of secondary placements and a heavy and increasing pipeline of IPOs. What investors did not expect was the government to raise stamp duty on stock trades from 0.10% to 0.13%. This results in a 16% increase in total round trip trading costs. This would negatively impact trading velocity with most high frequency and quant driven investors, however, it was the market sentiment and the influential south-bound investors that saw an oversized reaction. The stock fell -16% from its high in the last 5 days of the month to end February down -4.9%. With government policy so instrumental in a companies fortunes in China, any punitive directive is poorly received. We have reduced our position, but remain constructive due to the overriding strong structural drivers. Most notable of these is the heavy pipeline of companies and products that will attract enormous southbound and global investor participation.

In the year ahead there are some major forces and events set to exert themselves on the global markets. For the next two quarters, the recovery and reflation trade takes off as vaccinations, extended stimulus and rebounding economic activity takes hold. The US 2Q GDP is forecast to grow at up to +11%, releasing the peak savings rates and pent-up consumer spending demand. US households are said to build up savings of approximately $2.4tn, or 11% of GDP by the great reopening. This will be just in time to coincide with government consumption boosting policies and the start of enormous infrastructure spending. Commodities, shipping rates and other asset prices are already swiftly on the move. The sheer scale of the situation produced a disconcertingly rapid rise in long-dated government bond yields. It seems investors were over-extended in Covid beneficiaries and out of position. A glance at the charts shows the rotation from secular growth to cyclicals has just begun. For us in Asia, there remain materially discounted cyclical stocks and recovery plays. The year over year growth numbers will soar especially as many are now producing greener and more efficient products that have government incentives. In China, economic data in the Jan-Feb is always skewed by the CNY effect, but from company sales that we monitor its shows solid expansion. The year on year number going forward may not have the dramatic rebound of the west, but that is due to the lighter economic impact of the Covid pandemic. It was interesting to see China's current account surplus in 2020 actually widened to U$299bn compared with U$141bn in 2019. The huge surplus was due to China's exporters making market share gains at the expense of economies in lockdown and lower oil prices that favoured import costs. In this time, we have remained focused on companies undergoing transformation through emerging industries, corporate restructurings or identifiable catalysts for change. HK/China equities remain a notable laggard over the last couple of years and valuations and international investor positioning remains relatively subdued. The Hang Seng Index is currently trading on a forward p/e of 13x and 2.8% yield. There is a rich source of opportunities set to see catalysts in the next 9 months. Investors in the fund should be encouraged that the portfolio remains domestically focused and positioned to benefit from these policy, corporate and behavioural changes.

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