Neutron Asia Absolute Return Fund
Monthly Newsletter March 2021

NAV & Returns

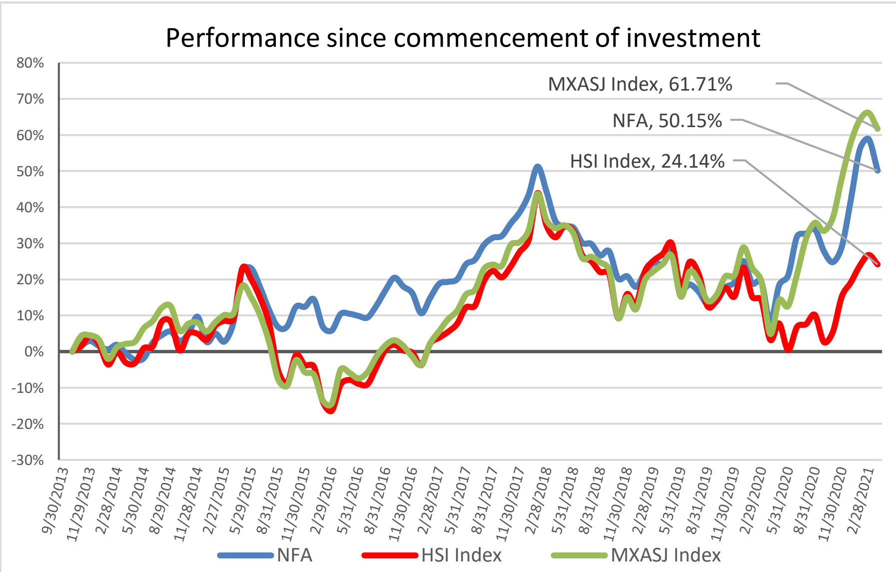
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("**NFA**")	1,327.4146	↓ -5.49%	↑ +5.83%	↑ +50.15%

Historical Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
NFA – Net Returns													
2021	+9.88	+1.91	-5.49										**+5.83**
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**

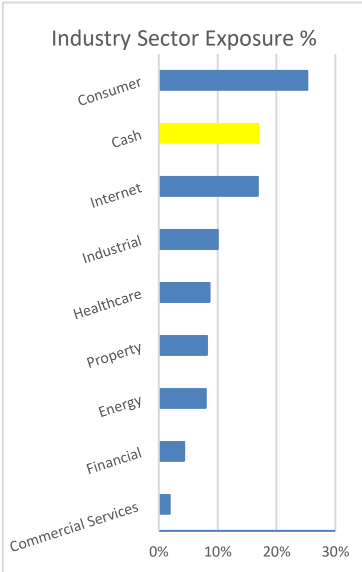
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager's personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$225 million Approx. US$29 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 March the fund fell -5.49% net of fees. The NAV is 1,327.4146 as of March 31st, 2021 the fund remains up +5.83% year to date.

For the portfolio, March continued under the same macro pressures that tormented equities after Chinese new year. Concerns over inflation on the economic reopening and the enormous stimulus programmes prompted a quickening rise in the US government 10 year bond yield to 1.74% from just 0.91% at the start of the year. The sharp rotation out of growth stocks was further intensified in China by tightening regulatory measures on the internet sector. Indeed, investors also felt the punitive risk of regulation change in sectors such as after-school tutoring stocks, e-cigarettes and from the US SEC reinforcing the delisting risk for Chinese ADRs. In addition, murmurings of the phasing out of monetary easing and mutual fund redemptions in China further exacerbated investors confidence to such an extent that Southbound investors posted their first monthly outflows from HK since Feb 2019 totalling U$1.6bn. Finally, the liquidation sale of enormous leveraged blocks of Chinese tech ADRs sparked fierce price declines into the month end. With regards to our performance attribution, we were negatively impacted by an outsized move in a heavyweight Chinese ADR position. Moreover, but to a lesser extent the majority of our holdings weighed on performance whilst there were several names that produced solid gains. The main positive contributions came from our consumer plays, a healthcare name and a property heavy conglomerate with a corporate reorganisation. The main detractions came from our holding in Baidu, our online games companies and energy holdings. On the short side, our single stock shorts and index futures positions produced a small detraction.

The headline story for the portfolio this month was our position in Baidu (9888 HK, mkt cap U$77bn) which we now hold in the HK listing. The stock performance suffered notably from the liquidation sale of enormous multi-billion blocks that eventually cleared at substantial discounts. This was reportedly related to missed margin calls on heavily leveraged positions of Archegos Capital Management. By the month end the stock had fallen -23%. We had reduced our position ahead of the HK IPO, but this was still the main detraction on the portfolio's performance. It was in last month's newsletter that we reiterated our investment case after the 4Q20 results beat on both revenue and margin with guidance raised for the quarters ahead. The management presentation ahead of the HK IPO on March 23rd was also impressive and exciting. That said, this event may take months for investors to digest and Baidu may have to rebuild the positive momentum with new news or solid execution. This event was a hit to investor confidence and contributed to the broad losses in the popular Chinese internet names.

The positive contributions were centred around our value with catalyst names as low valuation, strong balance sheet and a corporate action creating value attracted investors. One example is our renewed holding in Xinyi Glass (868 HK, mkt cap U$13bn) which we view as a low valuation, growth story benefiting from regulation changes. The company beat its own profit alert to grow 2020 earnings up +43% yoy. This implied 2H20 earnings surged +114% yoy to HK$ 5bn, its highest 6 months earnings ever. There has been persistently high float glass price and higher contribution from its 26% stake in Xinyi Solar. The float glass price is expected to stay at high levels as there is strong demand from real estate projects, auto production and current inventory levels are low. Importantly, government regulations have imposed capacity constraints on new lines. Xinyi Glass preempted this move by recently acquiring plants so gaining greater market share. These gains were accentuated by some glassmakers shifting their 5mm float glass capacity to 2mm and solar glass capacity to meet the growing demand for solar panel glass. At 11x p/e, 4% yield, RoE 26% with a solid balance sheet and favourable government regulations we see a strong investment case. This is further reinforced by ongoing share purchases by various top management. We have added to our holding over the month. In March we are left to evaluate the blindsided impact of a liquidation of a fund's leveraged positions and perhaps the known unknown of overnight regulation changes. The US Administration's continued course for use of sanctions after the Alaska meeting is also an incremental negative to many and contributed to a more unfavourable view on HK/China equities. The geopolitical tensions still seem to be simmering in the background with China also targeting perceived offenders. The Chinese government at their NPC guided for an 'above 6%' growth target for 2021 which in the short term will be running less than the US. This new dispirited mood has also overshadowed the year-end HK/China results season which was broadly encouraging on earnings beats and positive guidance. Volumes have notably dropped and deals are less favourably received. This may turn out to be a just short term jolt. For the next two quarters, we expect to see the US recovery and surging reflation trade kick in. The US 2Q GDP is forecast to grow at up to +11%, releasing the peak savings rates and pent-up consumer spending demand. That is a global positive. For us in Asia, this pullback in stock prices could be a glaring opportunity. China has been the relative winner from the Covid 19 pandemic with a much lower impact both socially and economically without the sharply increased debt load and loss of tax receipts that threaten to bankrupt several western democracies. There are also structural positives in that 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. That said, there are many detractions such as regulation risk and corporate governance that keep valuations depressed. The Hang Seng Index is currently trading on a forward p/e of 12.6x with a 2.9% yield. Following the year-end results, earnings forecasts were revised up by around 5% mainly driven by financials and energy. The updated forecast on HSI 2021/22 EPS growth is around +18%/+14%. As we mentioned before, outside of the noise and short term volatility, there is a rich source of opportunities and low valuations 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. In March, we received further inflows into the fund.

BRIC NEUTRON 尚金資本

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