Neutron Asia Absolute Return Fund

Monthly Newsletter April 2021

NAV & Returns

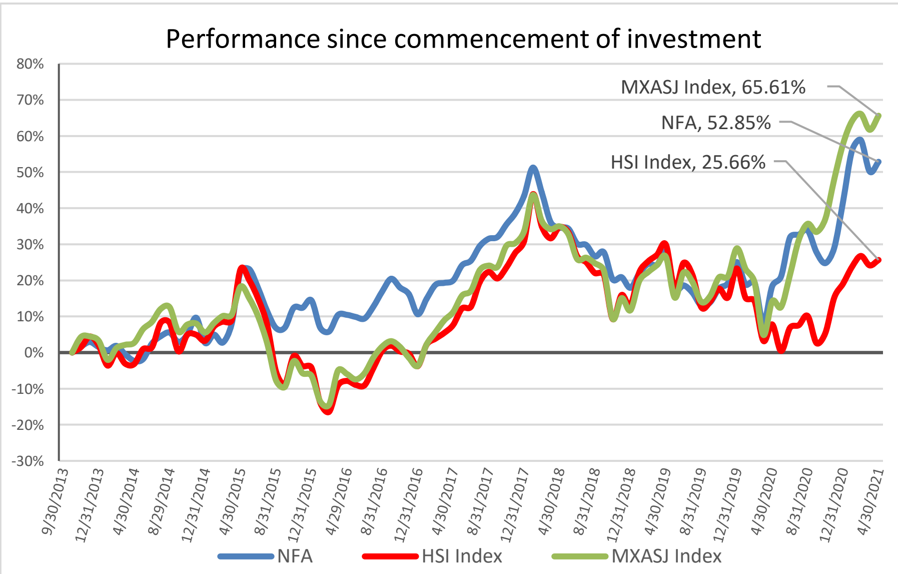
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,351.2282	↑ +1.79%	↑ +7.73%	↑ +52.85%

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	+1.79									**+7.73**
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**

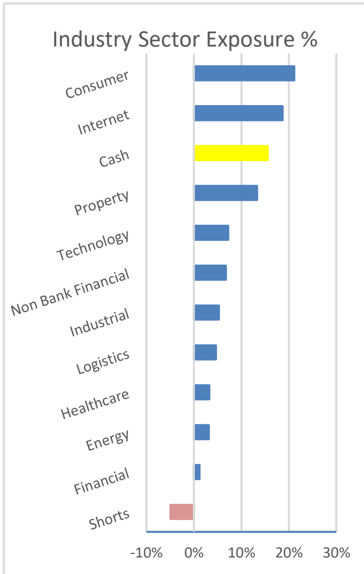
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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 https://athertonmgmt.com/en/portfolio

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$232 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@athertonmgmt.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 April the fund gained +1.79% net of fees. The NAV is 1,351.2282 as of April 30th, 2021 and the fund remains up +7.73% year to date.

For the portfolio, April recovered from the sharp sector rotations and regulation changes in March as the 1Q21 earnings results season broadly re-established a positive corporate outlook. The rapid rollout of vaccines and drop in cases in the US and Europe reassured global investors. In Asia (ex India) the rapidly improving situation resulted in further easing of restrictions which would accelerate the resurgence of reopening and unleash the pent up consumer spending. Investors looked to the long Labour day holidays in China to illustrate this and be indicative of the latest consumer trends. The main detraction from the optimism seemed to be the renewed threat of inflation and the valuations of the new economy companies. This was also true in China where the online regulatory tightening continued and in addition, the Huarong bond default risk situation weigh on banks and some companies with high leverage. As a consequence, price action and investor sentiment were more subdued. With regards to our performance attribution, the majority of our holdings gained over the month and our reduction of tech exposure produced more stable and less concentrated attribution. The main positive contributions were broadly spread over non-bank financial, a shipping company, a conglomerate, consumer and healthcare. The main detractions came from our holdings in Wilmar, Baidu and an energy company. On the short side, our single stock shorts produced a small gain whilst our index futures positions produced a larger net detraction.

The main theme for this month has been the rotation away from the emerging industries to allocate capital to the more compelling companies undergoing transformation through corporate restructurings or identifiable catalysts of change. Several of our holdings saw the management or the company buying stock. One new holding is CK Asset (1113 HK, mkt cap U$24bn). The company announced that intended to purchase four stakes in UK and Dutch infrastructure companies for HK$17bn using new stock from the Li Ka Shing Foundation. To avoid diluting current shareholders, the company will buyback up to 380million shares at HK$51 per share, at the time an 8.4% premium. The circular also included an independent revalued NAV/share of the company of HK$130 as of February 2021 (885 page report). This is 36% higher than the last reported number in December 2020 and means the stock is currently trading at over 60% discount to the new NAV. Importantly, this is deal is dependent on EGM approval – a link on the HK Exchange website gives the clearest transaction overview. CK Asset has been a notable underperformer down almost 30% from April 2019 as the social unrest in HK and their businesses of property, aircraft leasing, pub operations (and the property) have been at the brunt of the pandemic. Many see the timing of this deal as opportunistic for the Li family as their stake would rise to c45% from 36% paying such a steep discount. To counter, the company has promised shareholders higher dividends for 2 years from 2020 and highlighted that these business units should be rebounding hard as part of the recovery play in the years ahead. As investors, we are also encouraged by the buybacks, the promise of raising dividends and the focus on narrowing the discount to NAV which we believe will not stop with this transaction. The fund made good money in 2015 with the Cheung Kong/Hutchison restructuring and we are encouraged that management is taking action now. Many analysts are waiting for the EGM vote, which is not a given, but investors should take the opportunity and position in a steeply discount company where the management has a strong track record of crystalising value.

Looking ahead, the portfolio has positioned away from the structural growth names and into companies with compelling value with catalyst. The US corporate results season is coming to a close and despite a broadly spectacular earnings beat, the subsequent price action in the new economy sectors was conspicuously muted. The high flying tech favourites have corrected globally and in HK/China many of the recent IPOs are significantly underwater. There seems growing concern that the market is seeing peak growth momentum combined with peak liquidity and at these high valuations, this as good as it gets. Experienced investors are looking ahead and selling the exuberant sectors of the market such as the high growth multiple, concept and non-profitable companies and rotating into defensive and intrinsic value. The stalwart Fed reiterates that it will run the economy hot, but the fear is that inflation will be more permanent than transitory and yields will quickly reflect that. The purveyors of inflation risk gained more credibility after Warren Buffett said at the Berkshire Hathaway annual shareholder meeting “We are seeing substantial inflation. We are raising prices. People are raising prices to us, and it's being accepted." Undeniably, one can see the sharp price gains in commodities and shipping rates that will push input costs and force companies to test their pricing power or suffer margin pressure – but is this just temporary? In general, inventories are low and demand is unusually strong so in the short term at least, inflationary pressures are real and robust. The Fed has to choose its words carefully. Many expect the first sign or mention of tapering will send markets into a tailspin. The hot money favourite is at the central bankers meeting at Jackson Hole in late August. For us, we have chosen to position towards the restructuring, clear value with catalyst and the reflationary plays. In Asia, there remains materially discounted cyclical and recovery plays where the year over year growth numbers will soar way above the legacy consensus estimates. We expect upgrades to numbers and favourable pressure on multiples. HK/China equities still remain a notable laggard with valuations and positioning remaining relatively restrained. The Hang Seng Index is currently trading on a forward p/e of 12.6x and 2.9% yield. We see 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 focused and positioned to benefit from these policy, corporate and behavioural changes.

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