Neutron Asia Absolute Return Fund
Monthly Newsletter May 2021

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,364.1427	↑ +0.96%	↑ +8.76%	↑ +54.31%

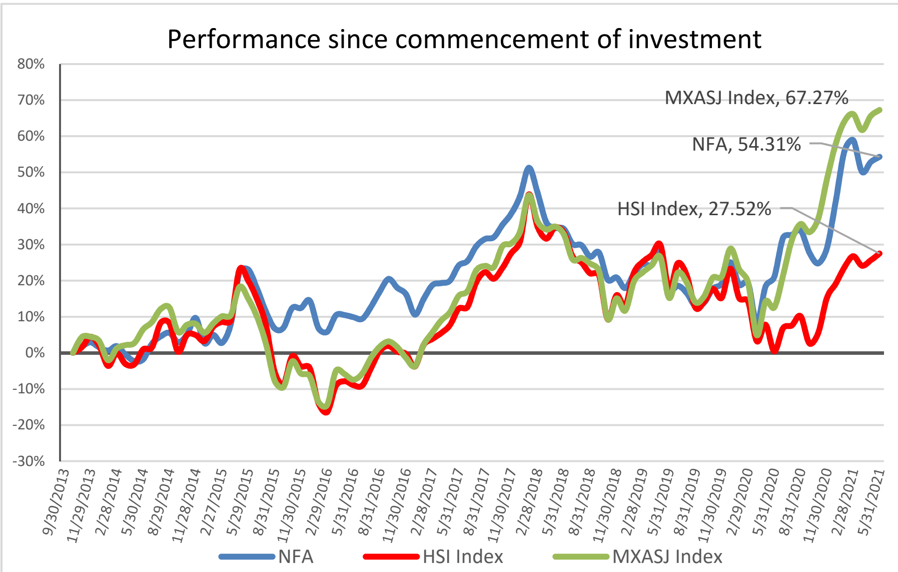
Historical Monthly Returns

NFA – Net Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	+9.88	+1.91	-5.49	+1.79	+0.96								**+8.76**
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**

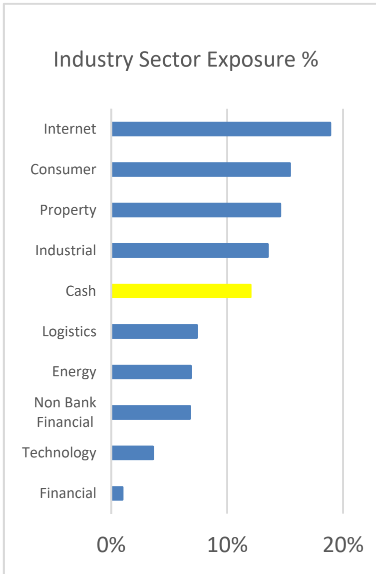
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market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

Neutron Asia Absolute Return Fund

Monthly Newsletter May 2021

In May the fund gained +0.96% net of fees. The NAV is 1,364.1427 as of May 31th, 2021 and the fund remains up +8.76% year to date.

For the portfolio, May started awkwardly sparked by the scrutiny on competition policy and regulation concerns in the China internet sector. This was compounded by fears of escalating inflation driven by soaring commodity prices which would erode corporate margins. Later in the month, Chinese regulators clamped down hard on speculation in commodities which seemed to cool the prices and calm investors' inflationary fears. That said, the investor focus on a company's pricing power and margins has intensified. The positive economic momentum on the Covid situation and further easing of restrictions stalled on news of an outbreak of infections in Guangdong. This was an incremental negative for HK and Asia, whilst the US & Europe continue to rebound economically driven by increasingly high vaccination rates. With regards to our performance attribution, there was a more diverse performance from the portfolio with individual stock movers most noticeable. The main positive contributions came from a company executing a corporate action, a domestic industrial and a shipping company. The main detractions came from our holdings in Chinese internet companies, whilst there was a mixed performance in our online games companies, commodity plays and conglomerates. On the short side, our index futures positions provided a notable positive contribution.

The portfolio has been allocating capital to compelling situations where a company is undergoing transformation through corporate restructuring. This month CK Asset (1113 HK, mkt cap U$24bn) executed on the purchase of stakes in infrastructure companies and buyback transaction which was slightly oversubscribed. This left company shareholders with more recurrent income and a guaranteed minimum dividend of HK$2.07 for the next 2 years which equates to a dividend yield of 4.1% at current prices. This alone should be highly supportive of the share price, but this is a minimum dividend does not allow for any sizeable recovery in existing operations from the pandemic which has impacted CKA's businesses hard. As a comparison, in 2020 CKA's recurrent profit totaled HK$8.7bn, whilst in 2019 it reached HK$15.2bn – around 75% higher. As economies and existing operations recovery, the management has good reason to be confident in guaranteeing dividend payments. Now that the deal is done, analysts will look to revisit their models and revise earnings and NAVs. On consensus estimates, CKA is trading on 9x FY21 p/e, 4.1% yield – guaranteed minimum payout for 2 years – at a 57% discount to NAV with plenty of upside to reach normalized earnings levels. We expect notable positive revisions and remain invested.

The role of regulation change is increasingly impacting corporates in Asia. One case in point is Pacific Basin (2343 HK, mkt cap U$1.5bn) a bulk shipper that has benefitted from the surging commodity demand and a prolonged tight supply producing soaring freight rates that have breached decade-high levels. Although a notoriously cyclical industry, it is the uncertainty regarding the future de-carbonisation regulations has delayed and continues to delay any new capacity build. As a consequence, the industry orderbook-to-vessel ratio has fallen to 5.6% - a historical low. Any new orders are estimated to be delivered with at least a 2-year lag. This leaves supply extremely tight in a growing demand environment prompting a sustained upcycle for freight rates. As we head into the 3Q, seasonal grain demand is expected to intensify and traditionally this pushes rates higher in the second half. Consensus estimates on rates and length of the cycle remain overly subdued although the most recent reports are notable upgrades. Due to the lack of clarity on de-carbonisation regulations, PB's strong earnings potential seems likely to be sustained over a longer period and the results next month with management guidance should reinforce this investment case.

Looking ahead, input cost inflation has become of increasing concern for investors who are rushing to quantify potential margin pressures on their companies. Whilst consumer price inflation is expected to peak in May or June, the heavier pressure has been on the Producer Price index and that is expected to stay elevated longer. This is bad news for corporate China where the spread of selling costs and input costs inflation is already clearly negative indicating margin erosion. It is this situation that prompted the harsh government crackdown on speculation in commodities and commodity-linked products this month with initial success. However, supply chain disruption and chip shortages are also aggravating the situation. For investors, it is clear that pricing power and corporate resiliency are critical. For us, we have chosen to position towards the restructuring, clear value with catalyst and the reflationary plays. As the US markets push all-time highs, 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. There are many corporates that do have pricing power and are operating at full capacity. For several of our holdings, we expect upgrades to numbers and favourable pressure on multiples. 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.

尚金資本 ATHERTON

Investment Manager: Atherton Asset Management Limited
Tel: (852) 2810 5338 **Fax:** (852) 2810 5700
Address: Suite 3601, 36th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong