Neutron Asia Absolute Return Fund
Monthly Newsletter Jun 2021

NAV & Returns

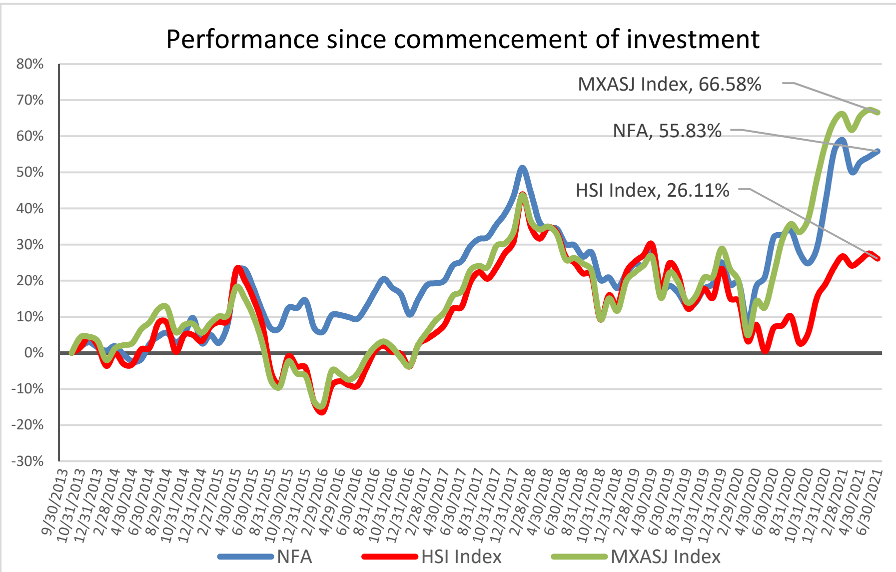
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,377.6104	↑ +0.99%	↑ +9.83%	↑ +55.83%

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	+0.96	+0.99							**+9.83**
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**

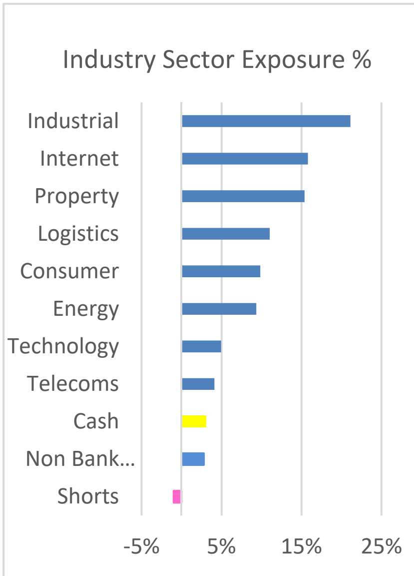
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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 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$236 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 Jun the fund gained +0.99% net of fees. The NAV is 1,377.6104 as of Jun 30th, 2021 and the fund remains up +9.83% year to date.

For the portfolio, June began on a damp note for investors in HK/China as the low take-up rate in vaccinations and the emergence of the delta variant delayed the border reopening with Guangdong and Macau. This is in sharp contrast to the US, UK and to a lesser extent Europe where vaccination rates are high and the economic reopening and activity are accelerating. Despite some weighty nervousness ahead of the FOMC meeting on June 16th, Powell reassured investors that the Fed's accommodative stance would remain and provided credible and compelling evidence that the pick-up in inflation numbers was indeed transitory. This subdued the US 10 year Treasury yield further giving a renewed tailwind to equity markets and sparking a frantic rush into growth and new economy names. In China, the burden of regulatory concerns and competition policy suppressed the mega-cap internet companies whilst smaller tech names surged – the Chinext index hit a 6 year high. At the CCP's 100th anniversary, President Xi gave a patriotic, less economic focused speech that added to the pressure on stocks. With regards to our performance attribution, the portfolio benefited from notable holdings in the reflation trade as economic growth looked to remain robust. The main positive contributions came from domestic industrials, energy and materials, shipping and a conglomerate. The main detractions came from our holdings in financials, Chinese internet companies and a consumer products stock. On the short side, our index futures positions provided a negligible contribution.

There was little movement in the main holdings of the portfolio in June. One of the main contributors this month came from our shipping holdings. Pacific Basin (2343 HK, mkt cap U$1.5bn) which we mention in last month's newsletter, continued to move higher. Not driven just by the surging demand, but it is the regulatory induced supply constraint that will keep handy-sized freight rates higher for sustainably longer than a usual cycle. The uncertainty regarding the future de-carbonisation regulations has delayed and continues to delay any new capacity build. The industry's order book-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. In addition, a recent resurgence of Covid 19 outbreaks have tightened supply chain bottlenecks with port congestion and backlogs worsening the situation. The company is scheduled to report at the end of the month which should reset analysts' forecasts for 2H21 and FY22. The amount of dividend may also provide a further catalyst.

Another positive contributor was Xinyi Glass (868 HK, mkt cap U$13bn) mentioned in March's newsletter which we viewed as a low valuation, growth story benefiting from regulation changes restricting new industry supply. This month the company posted a profit alert where it expects 1H21 net profit to jump +260-290% yoy. The company's prices and volumes continue to surge driven by robust demand for float glass and architectural glass. This was together with upgrades in glass application with more projects opting for double or triple-layered glass for improved and more efficient heat insulation. The company also secured a HK$1bn green loan indicating that their projects and operations are recognized as environmentally friendly by financial institutions and usually carry a lower interest rate. We remain invested and are further encouraged by ongoing share purchases by various top management.

Finally, CK Asset (1113 HK, mkt cap U$24bn) also provided a positive contribution with the company continuing on market share repurchases right after completing the 380m share buyback tender offer. Last month we highlighted that the minimum dividend of HK$2.07 providing a c4.1% yield, does not allow for any sizeable recovery in existing operations from the pandemic which has meaningfully impacted CKA's businesses. In 2020 CKA's recurrent profit fell to HK$8.7bn, whilst in 2019 it had reached HK$15.2bn, a substantial 75% higher. This obviously does not include the purchase of the stakes in the UK/European infrastructure companies. So despite the stock pushing new 52 week highs, at a 57% discount to NAV with plenty of upside to reach normalized earnings levels we remain invested.

Looking ahead, the growing concern of a more active and heavy-handed corporate regulation policy is prompting investors to flee not only from the mega-cap tech heavyweights, but from China names in general. This may be too broad-based and short-sighted. As mention earlier, the Chinext index is hit 6 year highs and other industries are being helped by regulatory directives. An additional positive incremental change since last month is that the harsh government crackdown in speculation in commodities has largely worked. The spiraling input cost inflation is bad news for corporate China as it fiercely erodes already thin margins and impacts debt servicing ability. That situation has improved and companies are now feeling some relief. In fact, it is clear from our holdings that there is pricing power for some companies and margins have not only been resilient, but improved. Investors will be able to evaluate the full impact of this in the upcoming earnings reporting season together with the management guidance for the year ahead. 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. 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 favorable pressure on multiples. The macro noise and headwinds mean that investors have to be more selective and broad price declines are an opportunity. As a consequence, investors in the fund should be encouraged that the portfolio remains focused and positioned to benefit from clear structural, regulatory and behavioral changes.

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