Neutron Asia Absolute Return Fund
Monthly Newsletter July 2021

NAV & Returns

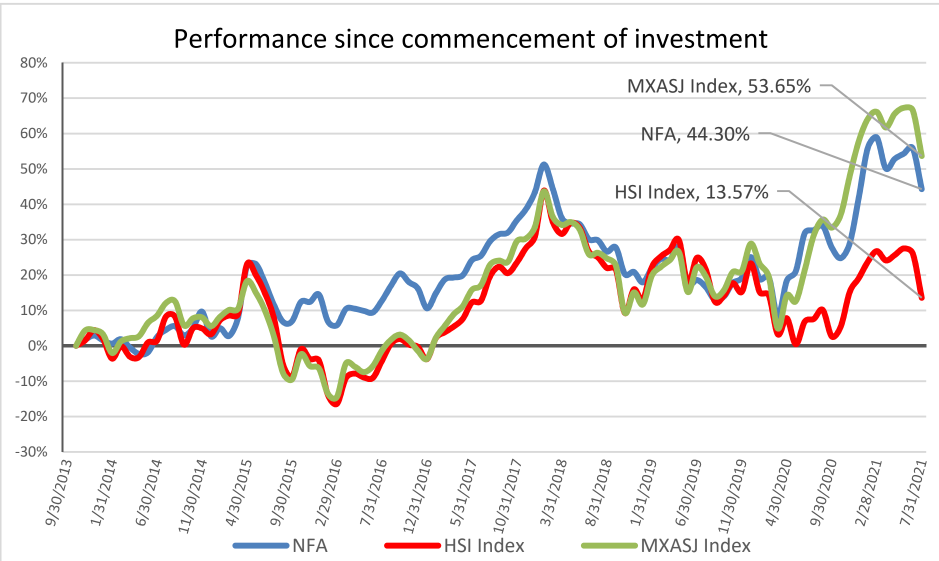
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,275.6296	↓ -7.40%	↑ +1.70%	↑ +44.30%

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	-7.40						**+1.70**
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**

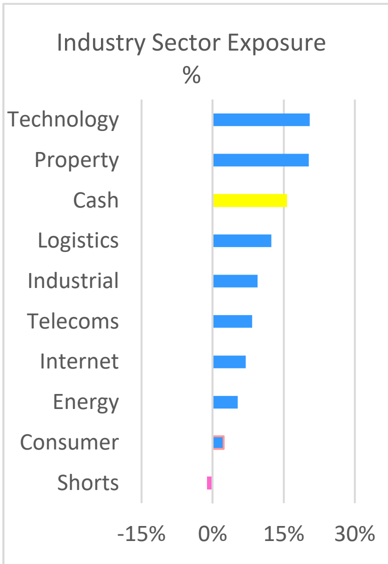
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$219 million Approx. US$28 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 July the fund fell -7.40% net of fees. The NAV is 1,275.6296 as of July 31st, 2021 and the fund remains up +1.70% year to date.

For the portfolio, July was a brutal month. A series of regulatory bombshell announcements from the Chinese government that targeted the education, internet, property and healthcare sectors prompted a panic sell-off in broad China assets. Widespread concern amongst foreign investors remains. The policy risk that the government will simply impose overnight directives to satisfy their social objectives at the expense of entire sectors is a menacing overhang. It also highlighted the fragility of the shareholder position in the common VIE structured companies. As a result, it was the worst month for the Hang Seng (-10.0%) since Oct 2018 and HSCEI (-13.5%) since Jan 2016. Investors stampeded for the exit as HK saw its largest day of turnover (US$46.5bn) on July 27th. In the US, there were record monthly declines for China ADRs with KWEB ETF -27.7%. Mainland investors intensified the rout and net sold $8.1bn in July with a heavy 10 day straight net selling of $5.8bn to finish the month. If you are looking for capitulation, this could well be it. With regards to our performance attribution, the portfolio suffered from broad weakness with the main weight of detractions coming from our Chinese internet and online gaming companies. In addition, there was weakness in our industrial and energy holdings. There were positive contributions from our shipping companies, a Taiwanese technology company and a Singaporean restructuring play. On the short side, we were active in index futures and our positions provided a notable positive contribution. Single stock shorts were a positive, but contributed less.

The regulatory risk of investing in Chinese equities has certainly returned to the forefront of investors' minds. All our internet and online gaming holders are listed in Hong Kong and suffered notable falls in July. We have certainly underestimated the extent of the regulatory crackdown and the provocative disregard of the economic interests of foreign investors. In our last newsletter, we mentioned that at the CCP's 100th anniversary, President Xi gave a patriotic, less economic-focused speech that commentators identified as a policy shift away from the pursuit of economic growth and more towards common, social benefits. We did not heed the warning. Netease (9999 HK mkt cap U$61bn) fell over -11% with its small education spin-off Youdao (DAO US mkt cap U$1.2bn) falling -62% in July. In addition, Xinyi Glass (868 HK, mkt cap U$13bn) gave back much of its gains falling -8% in the month on fears that new regulation may come to their sector and address the surging prices. Investors are now expecting more regulatory directives to come and broadly discount Chinese equities as a result.

One of the positive contributors was our holding in Capitaland (CAPL SP, mkt cap U$14.8bn) who released its scheme document on the proposed restructuring where CAPL's property development business is privatized and shareholders will a cash consideration and shares in CICT and CLIM. Post restructuring CLIM will likely be Asia's largest listed real estate investment manager. Interestingly, an independent financial adviser conducted a sum of the parts analysis for shareholders and valued the resulting CLIM at S$4.47-4.90 per share which was a 17-29% upside. Shareholder approval will be necessary at an EGM on August 10th and will be the next catalyst. After which CAPL will be delisted and CLIM listed in mid-September. The stock rose over +8% in July and plenty of value still remains. The management presents an overt growth strategy for CLIM going forward and any evidence of that may expand the current implied price to book multiple from 0.89x to the levels of real estate management peer group 1.1-8.7x. We remain invested. We must also mention Pacific Basin Shipping (2343 HK mkt cap U$2 bn) who reported 1H results at the end of July with profits notably higher than consensus raising dividend with an implied payout ratio of 54%. We have stated our investment case in recent newsletters so the new news was the management's confident positive outlook with rates staying higher for longer than consensus expects. Analysts notably raise their eps forecasts, but consensus remains at a considerable discount to sober predictions over the next 12-18 months.

Looking ahead, what's next after the heavy-handed regulatory directives have sparked an investor panic dash for the exits? As mentioned earlier, July 27th was the heaviest turnover day in HK and may be looked back on as capitulation day. Chinese regulators did try to calm the markets with positive articles in the state media and a CSRC initiated meeting with international banks for further reassurance. That said, it may be more structural time. The US SEC's push for audit compliance from Chinese ADRs looks only to accelerate the secondary listings in HK rather than achieve a workable solution. For the variable interest entities (VIEs) most notable the mega-cap internet companies, US institutional investors are reexamining their actual and effective legal position. With the rise of ESG investing, much is made about the E and the S, but how would VIEs score under the scrutiny of governance? In addition, US-China trade tensions look to escalate further and perhaps the incremental unknown is any further US policy on Chinese companies. These are dark days and babies are definitely being thrown out with the bathwater. That said, it is worth remembering that a strong, growing economy is fundamentally in the interest of the CCP. Targeting profiteering investors in socially sensitive areas and humbling the tech tycoons is likely a separate issue. Strong, growing, innovative and efficient industries are essential in China's future plans. For us, the market now offers materially discounted companies where the year over year growth numbers will soar way above the legacy consensus estimates. There are many companies that are exhibiting pricing power and are operating at full capacity. As the earnings season in HK is underway, we expect upgrades to numbers and favorable pressure on multiples for several of our companies. The policy directives and geopolitical noise mean that investors have to be more selective and align with government objectives. In this case, the broad price declines are an opportunity. Throughout the fund's term, it has paid off to hold onto companies that are benefitting from a clear structural, regulatory and behavioral change.

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