Neutron Asia Absolute Return Fund

Monthly Newsletter August 2021

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,312.7636	↑ 2.91%	↑ +4.66%	↑ +48.50%

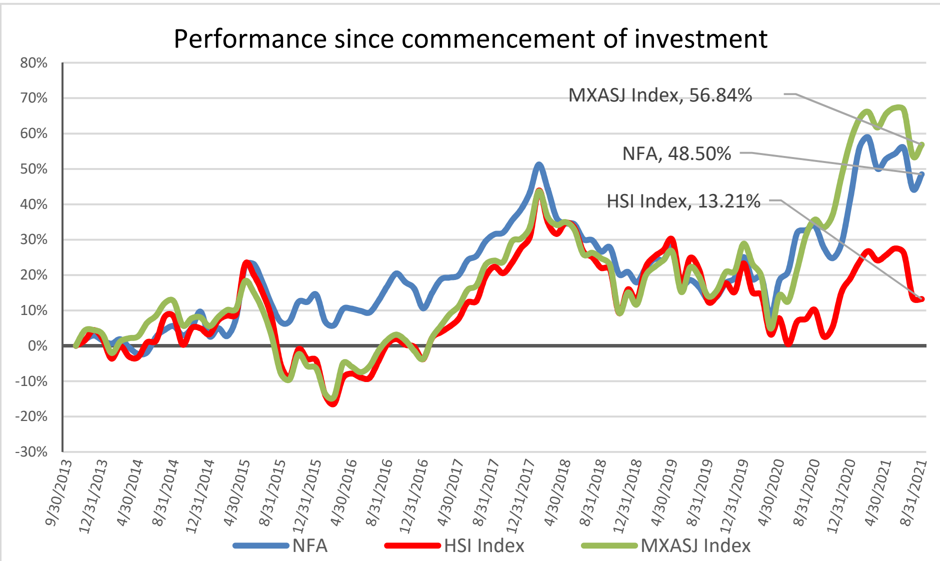
Historical Monthly Returns

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	+0.99	-7.40	+2.91					**+4.66**
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**

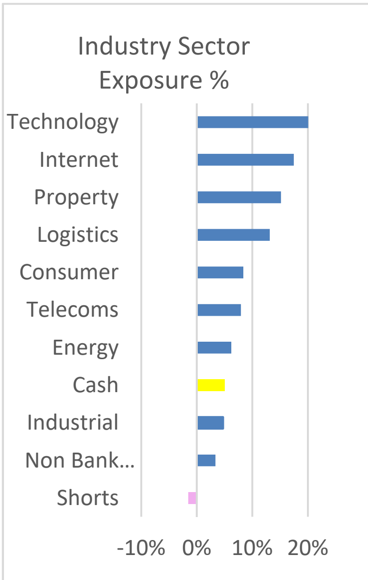
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$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@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 August the fund gained +2.91% net of fees. The NAV is 1,312.7636 as of August 31st, 2021 and the fund remains up +4.66% Y year to date.

For the portfolio, August produced somewhat of a rebound after a brutal July. This was largely led by companies exposed to the broad reflation theme and helped by policymaker's subtle attempts to ease investors' concerns. The strength of Chinese government regulation directives did not soften, in fact they broadened to include more sectors with an increasingly onerous tone. President Xi stressed the need for 'common prosperity' a narrowing of the wealth gap and making schooling, housing, healthcare and other expenses less costly and more available. Commentators concluded that economic growth was now a notably lower priority than the social goals of common prosperity. The renewed impact of Covid infection outbreaks took the blame for weaker economic data and economists continue to revise down GDP forecasts. As a result, there seems to be no rebound in investor sentiment. With regards to our performance attribution, the portfolio was broadly mixed with positive contributions from our shipping holdings, energy and technology names. The main detractions came from our Chinese internet holdings and pullbacks in the property and telecom companies that outperformed in July. On the short side, our index futures positions and single stock shorts weighed on performance over the month.

One of the themes that has become more noticeable during earnings season is that some companies were raising their guidance for 2H21 and FY22 despite analyst's consensus forecasting a peak out in the recovery cycle and decline in demand and pricing. One such company is Taiwan's ASE Technology (3711 TT, mkt cap U$18bn) which had traded range-bound for months going into 2Q results at the end of July. The 2Q results were a clear beat +22% qoq and +49% yoy, but the surprise came in much stronger guidance. The capacity tightness was set to continue and 3Q21 revenue was guided to be up+19% qoq with rising ASP and margin expansion. The management then estimated that balanced supply across the supply chain would be achieved at 2023 at the earliest. The management also mentioned productivity improvements through the implementation of automation and ongoing synergies from the SPIL merger. Investors can conclude that revenues and operating margins are on the rise notably above the current consensus. At the end of the month, ASE was trading on 9x FY22with a 4% dividend yield with the demand and pricing being stronger for longer.

Another sector where pricing is set to stay higher for longer is shipping. We have mentioned in previous newsletters the supply constraints in the dry bulk shipping market. This is due to the unclear decarburization criteria that has compounded the acceleration of the BDIY freight rate index to surge up over 180% this year much to the benefit of our holding, Pacific Basin Shipping (2343 HK, mkt cap U$2.4bn). Container shipping, however, was widely expected to see rates crash back as demand normalizes and notable supply comes into the market. That said, results from OOIL (316 HK, mkt cap U$14.9bn) showed that the tight demand and supply situation will be prolonged into at least 2022 as this rebound in supply is likely overestimated. In addition, turmoil in the supply chain and bottlenecks at ports in China together with heavy congestion at West coast US ports are prolonging any normalization. Demand has disproportionally spiked with the US and EU being 85% of incremental demand vs 40% normally. These problems are exacerbated by the pinch point situation onshore and extra supply of shipping capacity will not resolve the issue. As a result, spot rates continue to climb to new record highs and backlogs increase. OOIL recorded their strongest ever 1H and declared a special dividend U$2.65/share together with its interim U$1.75/share. The sheer size of the payout was a surprise. Looking ahead, rates are higher in 2H21 and if the company pays out in the same proportion the dividend yield in FY21 alone would be over 40%. The sharp collapse in container freight rates looks to take longer than expected.

Looking ahead, investor concerns over heavy regulatory directives in China will remain. That said, the regulation of big tech and other industries is not limited to China, in fact, regulators around the globe have similar concerns. The obvious difference is that China acts by instant government decree and not a lengthy administrative process which adds to the surprise impact to overseas investors. The enormous corporates fines or contributions to common prosperity is a new, significant step up. Historically, fines for corporate infractions have been negligible. Furthermore, the blatant directed investment for the good of society rather than solely for profit will undoubtedly reprice the affected companies lower. The companies are putting on a brave face on it. On Meituan's (3690 HK, mkt cap U$179bn) earnings call, the management of the food delivery platform talked of the manageable impact of increases in labour costs from social security and put a floor under the current cutthroat pricing model. That brought relief and encouragement to investors and the stock has since rebounded from its 60%+ drop from the peak in February. Given time the companies will adapt to the new directives and find workable solutions to the issues involved. This should ease investor concerns somewhat. As it stands, we reiterate that Asia offers materially discounted and unaffected companies where the growth numbers will be higher for longer compared to the current consensus estimates. Asia has many companies that are exhibiting pricing power and are operating at full capacity. Post earnings season, investors can expect further buybacks, tender offers and value unlocking corporate restructurings. We will position the fund to benefit from these clear structural, regulatory and behavioral changes.

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