Neutron Asia Absolute Return Fund

Monthly Newsletter September 2021

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,258.4581	↓ -4.14%	↑ +0.33%	↑ +42.35%

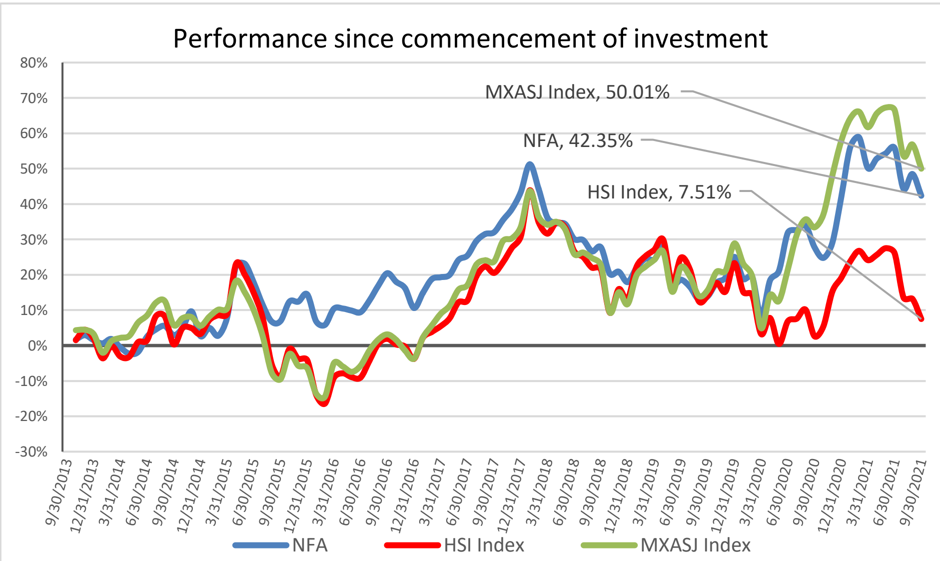
Historical Monthly Returns

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	-4.14				**+0.33**
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**

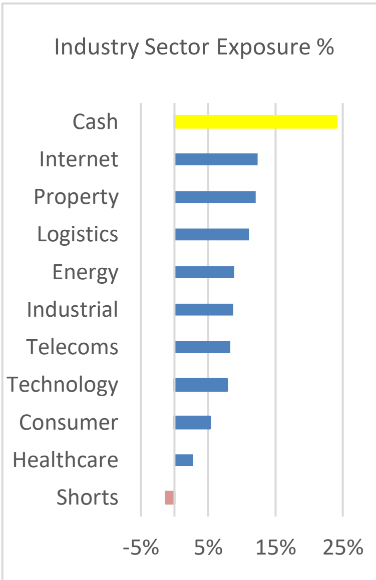
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$216 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) Brian Burkholder (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 September the fund fell -4.14% net of fees. The NAV is 1,258.4581 as of September 30th, 2021 and the fund remains up +0.33% year to date.

For the portfolio, September brought a renewed negative stream of headlines. China's weakening growth outlook intensified as several provinces implemented power rationing in a desperate attempt to meet the government's decarbonisation goals and this sharply restricting industrial output. The Evergrande property collapse and bond default have triggered concerns about sector contagion and punitive consequences for the broader economy and homeowners. In addition, the Covid restrictions remain in place in HK/China whilst the US and Europe see a positive tailwind from opening up. As a result, more cuts to China's GDP forecasts and sector downgrades littered the month as investors positioning and sentiment took a step lower. With regards to our performance attribution, the portfolio saw sharply diverse share price reactions with the major detractions coming from our shipping holdings, industrials with some exposure to the property sector and technology names. The main positive contributions came from our energy company and a Singapore restructuring play. On the short side, our index futures positions and single stock shorts had a notable positive contribution to performance across the month but outweighed by movements in the long positions.

The concerns over the consequences of China's power cuts contributed to a sharp sell off in our shipping holdings that weighed heavily on the fund's performance. The adverse knee-jerk reaction from investors came from the increasingly severe power outages that would reduce output and in turn the flow of international trade. It was the first negative shock headline for a booming sector seeing bumper profits and soaring share prices. In reality, this had little effect on container spot or bulk freight rates as the demand led by the surging US economic rebound and the supply constraints led by on-land bottlenecks remain. Looking longer-term, the self-imposed power outages are unlikely to last more than a few months and only look to accelerate the diversification of supply chain reliance away from China. The sharp fall in share prices seems to be an overreaction and without a notable detrimental effect on the operations of the companies. We look towards the 3Q21 trading updates from OOIL and Pacific Basin in early October. These updates should indicate higher than consensus earnings and confirm the higher for longer trade narrative.

September delivered the listing of Capitaland Investment (CLI SP, mkt cap U$13bn) after the restructuring deal of Capitaland (CAPL SP, mkt cap U$14bn). As we mentioned in our July newsletter, post the restructuring CLI will likely be Asia's largest listed real estate investment manager and third largest in the world with a valuation at a substantial discount to its peers. Interestingly, an independent financial adviser conducted a sum of the parts analysis pre-deal for shareholders and valued the resulting CLI at S$4.47-4.90 per share which was at the time a 17-29% upside. Investors were previously skeptical over the growth outlook, but with the 'right of first refusal' on CapitaLand's group assets and an ambitious management team the sentiment is improving. The share price has risen over 14% since its first listing on September 20th.

Looking forward, the policy of 'common prosperity' continues to broaden its reach and influence. After the heavy regulatory directives imposed on big tech and other industries, the Chinese government has taken another step to illustrate the priority of social goals at the expense of economic growth. The strictly imposed power outages broadly affecting industries may turn out to be just a short-term inconvenience or could be the trigger for a renewed acceleration of diversification of reliance on China with longer-term ramifications. The reaction from the Chinese population to these measures seems to be widely supportive and positive. Interestingly, the troubles in the property sector led by, but not limited to, Evergrande adds to downward pressure on economic growth and perhaps more importantly, confidence. This will be harder to control. The consensus view on the mainland seems to be for an orderly restructuring by central and regional governments, but overseas investors see a far more precarious situation and have reacted accordingly. That said, it is important for investors to remember that China will be wary not to bring social hardship to the growing middle class. The burden is to be directed onto China's own monopolies and robber barons. The situation of sharply falling property prices and rising unemployment is highly undesirable and many expect supportive policies for consumption and the domestic economy. The situation may seem uncertain, but the companies will adapt to the new directives and find workable solutions to the issues involved. Investors should focus on this area. In this turmoil, 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. In this environment, 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 behavioural changes.

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