Neutron Asia Absolute Return Fund
Monthly Newsletter October 2021

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,281.6671	↑+1.84%	↑ +2.18%	↑ +44.98%

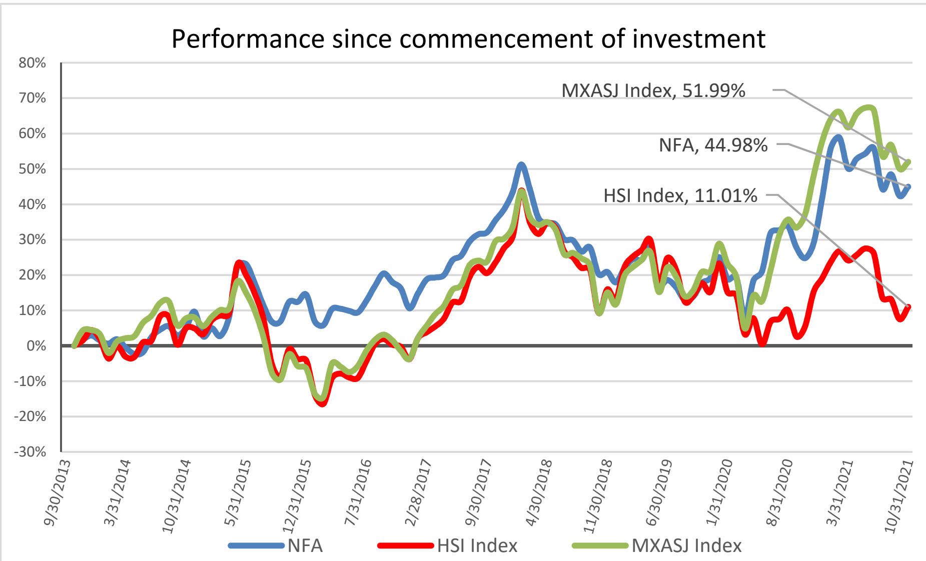
Historical Monthly Returns

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	+1.84			**+2.18**
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**

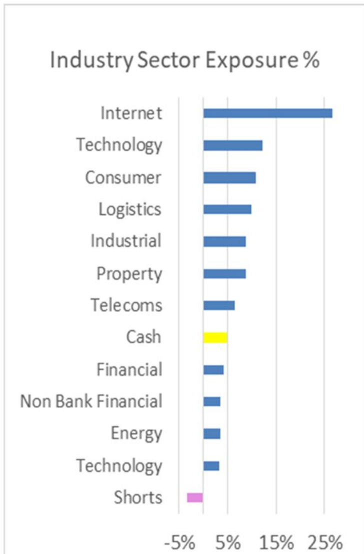
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$220 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 October the fund gained +1.84% net of fees. The NAV is 1,281.6671 as of October 31st, 2021 and the fund remains up +2.18% year to date.

For the portfolio, October brought a rebound as there was some relief from the negative headline trend. Notably, for the beaten-down Chinese internet sector, corporate fines were imposed and investors assumed a resolution to the anti-trust investigations and bought back in. In addition, HSBC kicked of the 3Q earnings season with better than expected results, positive guidance and a buyback programme that also encouraged investors. That said, the economic data remained a serious headwind with weak consumption, rising input prices and supply chain issues weighing on GDP growth forecasts. The slowdown in property sales, power rationing, political frictions together with a lack of a RRR cut kept the mainland investors in a more somber mood. With regards to our performance attribution, the portfolio saw the main positive contributions from our online games, internet names and conglomerates holdings. The main detractions came from Taiwanese technology companies and Chinese industrials with a mixed performance in our shipping holdings. On the short side, our index futures positions and single stock shorts were reduced early in the month but still detracted from performance.

In times of broad market downturns, we have focused on companies whose operating data remains strong or resilient. This month the first sign of positive news is seeming to trigger an oversized reaction in the beaten-up HK-listed China companies. One of the main performers in October was our holding in Netease (9999 HK, mkt cap U$ 68bn) which suffered sharply in previous months due to regulation in broad internet, gaming for minors and online education. In contrast to other China internet names, the recent data revealed that NTES was operationally performing well. The long-awaited blockbuster game, Harry Potter, drove global mobile revenue up +50% mom in September and by around +15% qoq for 3Q21. The extent of this growth acceleration refocused analysts and investors on the scale of the industry and the quality of the company's blockbuster pipeline. Analysts generally assume conservative run rates for new releases and in fairness, there have been some delays in these titles. That said, now Harry Potter is off to a strong start and the other major titles in the pipeline such as Diablo Immortal and Lord of the Rings amongst several others, indicate that the consensus forecasts for game revenue growth and earnings do not reflect the robustness of the recent revenue acceleration. In addition, there are other positive drivers such as the narrowing losses in the education and music businesses where the excessive sales and marketing expenses had weighed on earnings for years. In contrast to the sector earnings downgrade cycle, we expect analysts to lift earnings expectations going forward. This would set Netease apart from many in the China internet space and we have added to our position.

The fund also saw positive contributions from our deeply discounted conglomerates holdings which are accelerating the pace of their stock buybacks. We have mentioned before that Asia has materially discounted and largely unaffected companies and as the results season finishes, we expect more buybacks, tender offers and value unlocking corporate restructurings going forward. Interestingly, our Taiwanese holdings also produced record 3Q results and operating data above guidance, yet investors chose to focus on moderating capex and conservative guidance prompting a sell-off. Analysts actually raised their earnings estimates in the face of the selldown leaving the valuation at the low end of the post-crisis range. Management stated that the sales outlook is solid together with higher margins so we have added to these positions post result

Despite the rebound in HK-listed China stocks, the latest policy directives continue to illustrate that the Chinese government has clearly set a priority of social goals at the expense of economic growth. Some commentators also point out that some punitive policy directives are targeted at political rivals or some opposing factions to force compliance with President Xi's plans. This has been most notable in the internet and property sectors with investors the unfortunate collateral damage. Regarding the property sector, weak sales and the overhang of large developer defaults continue to weigh broadly on the economy. Together with the resurgence of Covid and power rationing have combined to exert further downward pressure on economic growth. Interestingly, the much hoped for RRR cut did not materialize and the PBOC talked down chances of rate cuts, so there seems no near-term relief. Could this be a policy mistake? Investors are fleeing to other Asian countries that are more insulated or benefiting from the renewed acceleration of the diversification away from China. Economic growth rates are being revised higher, companies are seeing an earnings upgrade trend and Covid is increasingly behind them. As a consequence, we have repositioned more capital to companies in more countries where we see clearer opportunities. We maintain a focus on companies benefitting from clear structural, regulatory and behavioural changes and have added exposure during the month.

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