

Neutron Asia Absolute Return Fund

Monthly Newsletter (February 2018)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("NFA")	1,434.6465	↓ 4.59%	↑ 0.60%	↑ 44.29%

Historical Monthly Returns

NFA – Net Returns

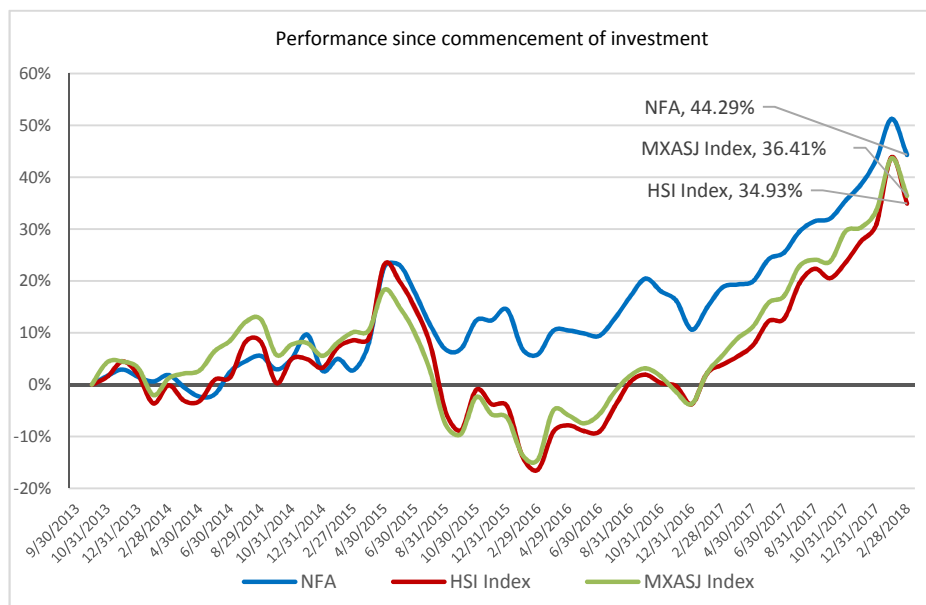
MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	+5.45	-4.59											+0.60
2017	+3.86	+3.37	+0.47	+0.56	+3.51	+1.01	+3.23	+1.55	+0.39	+2.62	+2.29	+3.49	+29.66
2016	-6.64	-0.96	+4.32	+0.04	-0.53	-0.39	+3.04	+3.73	+2.98	-2.03	-1.55	-4.79	-3.37
2015	+2.26	-2.12	+5.02	+13.59	+0.41	-4.31	-5.33	-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

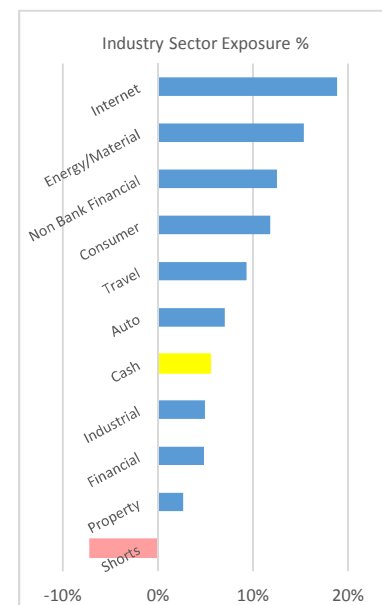
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager's personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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 information, please visit Bloomberg ticker: BNNEUTA:KY; or website <http://neutronasiaabsolute.bricneutron.com/>


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\$565 million Approx. US\$72 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@bricneutron.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 February the fund fell -4.59% net of fees. The NAV is 1,434.6465 as of February 28th, 2018 to leave the fund up +0.6% year to date.

February was an erratic and damaging month in markets with Hang Seng and HSCEI falling -6.2% and -8.7% respectively. For the portfolio, this provoked further repositioning and managing of exposure. The portfolio rotation saw the exit from three existing holdings and the initiation of two new names. However, the more significant developments came from the changes in levels of exposure of existing holdings. For the first time in a while, the portfolio saw active trading on the short side. As a result, both the net and gross of the portfolio reduced significantly early in the month and although slowly increased, remained notably lower by month end. With regards performance attribution, the portfolio ended the month with only six long positions making a positive contribution, whilst thirteen detracted. The detractions were broad and led by non-bank financials, internet and several of our special situation positions. The positive contributions were confined to a basic materials company, internet and travel plays. On the short side, we ended the month with four single stock short positions. Our index futures activity made a positive, but limited contribution.

One positive contributor was China's dominant online search company, Baidu (BIDU US, mkt cap U\$87bn). Long in the shade of Tencent and Alibaba, they reported encouraging results in which revenue grew +29% matching estimates and earnings soared +146% exceeding forecasts. For us, there were multiple positive drivers. Online marketing revenues (86% of revenue) accelerated +26% with the number of customers growing +2% and revenue per online customer growing +25%. Traffic acquisition costs accounted for only 10.7% of revenues compared to 14.5% yoy so as a consequence non-GAAP operating margin expanded +9% to +24%. The company's drive for implementation of artificial intelligence (AI) is proving to be both attractive and effective for their customers. Forward guidance for Q1 was also increased. For us, this was evidence that the company's focus on AI and use of big data has been underappreciated by investors. Interestingly, one sour point was the rising content acquisition costs of the video streaming platform, iQiyi. In the race to be dominant against rivals Tencent and Alibaba, their push for high growth strategy has come at a cost of huge losses. In 2017, iQiyi revenue surged +55% to U\$2.7bn with losses widening to U\$574m. This business has persistently weighed on Baidu's margins. The service has over 50 million paying subscribers with 420 million monthly viewers making it the market leader. The good news for shareholders is that iQiyi - 70% owned by Baidu - looks set to repay their commitment after filing for IPO on the Nasdaq. Initial valuation talk is around U\$10 billion market cap. In addition, Baidu has sold its remaining stake in Ele.me, the food delivery startup to Alibaba in a deal reportedly worth up to U\$9.5bn. These proceeds will add further resources to develop AI, autonomous driving and other big data applications. Alternatively, content will be key for iQiyi and they may choose to expand on their licencing deal with Netflix that was signed in April 2017. That would prove an immediate hit for both companies. For us, this is another company reorganization and refocus situation that will unlock value and improve operational performance going forward. Previously, the strategy of heavy investment iQiyi has weighed on Baidu, however, it will now crystallise significant value that will leave both entities and shareholders better off. The stock rose +2.2% in February and we remain holders.

For the majority of the portfolio, what a difference a month makes. Investors started the year encouraged by buoyant corporate earnings, sober valuations and accelerating fund inflows. The headlines now focus on the quickening pace of interest rate rises, China's deleveraging and the sharp reversal now leading to fund outflows. Since the market peak in late January, foreign investors have net sold US\$11bn in EM Asian equities. This reversal in sentiment saw the Hang Seng fall -9% from its peak on Jan 26th to the end of February. Despite these jitters, we look to the forthcoming results season to reaffirm our investment case and reestablish investor confidence. We continue to target structural growth and companies reorganizing and restructuring. We see this as a clear opportunity. The news flow on macro issues has undoubtedly brought more volatility and will make the upcoming months a rougher ride. There is valid concern over the effects of China's deleveraging, however, we believe the government's wide-ranging reforms are gathering momentum and will bring structural improvement in many areas of the economy. On a micro level, companies are increasingly incentivized and directed to reform and create value. We remain confident in our selective strategy with a focus on structural growth and value with catalyst. The fund received a further subscription this month.



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