

Neutron Asia Absolute Return Fund

Monthly Newsletter (July 2018)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("NFA")	1,147.7517	↓ 0.23%	↓ 9.48%	↑ 29.83%

Historical Monthly Returns

NFA – Net Returns

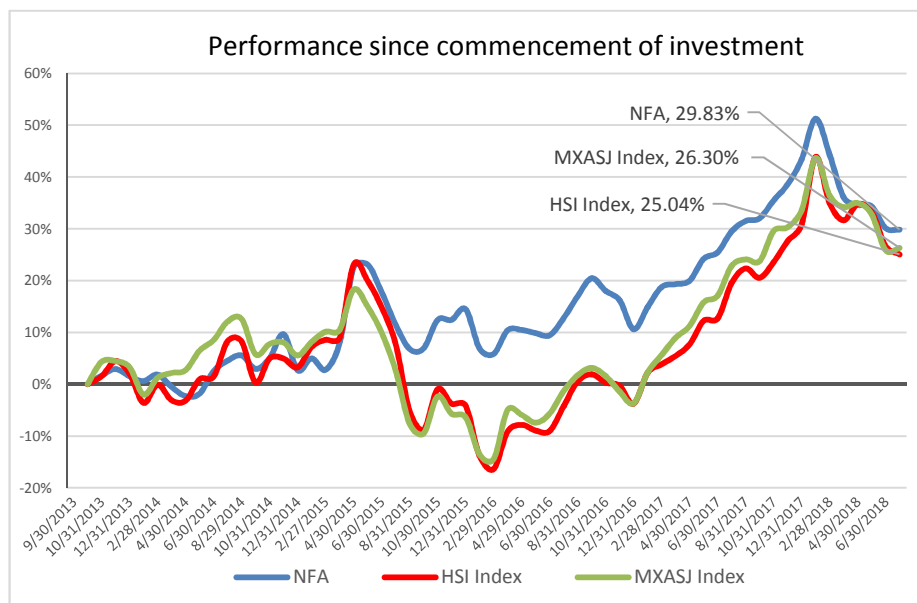
MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	+5.45	-4.59	-5.68	-1.09	-0.21	-3.13	-0.23						-9.48
2017	+3.86	+3.37	+0.47	+0.56	+3.51	+1.01	+3.23	+1.55	+0.39	+2.62	+2.29	+3.49	+29.66
2016	-6.64	-0.96	+4.32	+0.04	-0.53	-0.39	+3.04	+3.73	+2.98	-2.03	-1.55	-4.79	-3.37
2015	+2.26	-2.12	+5.02	+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

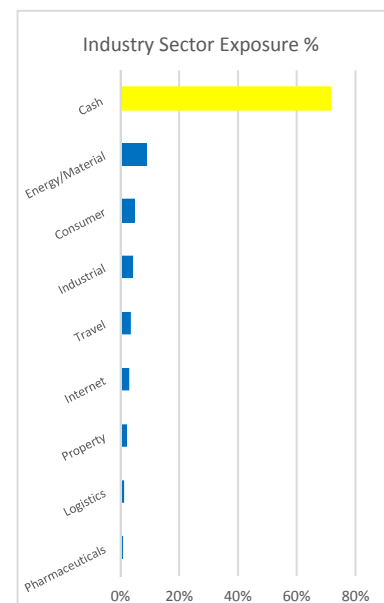
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager's personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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\$412 million Approx. US\$53 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 July, the fund fell -0.23 % net of fees. The NAV is 1,147.7517 as of July 31st, 2018 to leave the fund at -9.48% year to date.

For the portfolio, trading activity was low in July as we maintained a high cash level. By the end of the month, the portfolio rotation saw the sale of two existing holdings replaced by two new names. The portfolio remained with ten long positions. Both the net and gross exposure of the fund saw a slight increase from the previous month. With regards to performance attribution, the portfolio ended the month with six long positions making a positive contribution, whilst four detracted. Of the new additions, both provided gains, whilst both of the exited positions weighed on performance. On the plus side, the major contributors were our oil names and gaming. On the negative side, the detractions came from our pharma names, internet and a logistics play. On the short side, our index futures positions provided little positive contribution, whilst the net result of our single stock shorts was negligible.

One of the new additions to the portfolio was CK Hutchison Holdings (CKH 1 HK, mkt cap US\$43.7bn). Earlier in the life of the fund, CKH has been a regular holding due to its history of acquisitions, disposals and re-organisations. Last month, CKH agreed to buy-out the remaining 50% stake in Italian telecom group, Wind Tre for E2.45bn. It is estimated that the deal is immediately ebitda and earnings accretive to the group by 10% and 11% respectively. This sounds like a good deal, yet there was little share price reaction. Investor perception allocates the group to the slow growth, boring, old economy sector. Namely, infrastructure, retail, oil, ports and telecoms. That perception has the stock trading at the lowest levels on the valuation metrics - price to earnings, price to book and discount to NAV - since the financial crisis. Given the current environment, notable earnings accretive acquisitions combined with stable cash flows with only 10% ebitda from mainland China, plus 3% from HK should become attractive. Investor attention eventually arrived on the release of strong 1H results. Revenues grew +16%, Ebitda +19%, EPS +13% and the dividend was raised +11.5%. At the briefing, the management was in a confident mood. They highlighted the strong free cash flow generation and reaffirmed commitment to grow earnings and dividends whilst maintaining prudent, solid balance sheet. Once the Wind acquisition is done, their gearing is lifted to 34%. As a consequence, the expectation is now for asset disposals or restructuring to bring the gearing back down. The management has a successful track record for unlocking value and at the current valuations, there is plenty of discounted value available in the business divisions. We expect catalysts ahead.

For the portfolio, the HK/China equity markets continued to weaken in July with the focal point still the US-China trade tensions. The first batch of tariffs took effect on July 6th and on July 11th the US proposed an additional US\$200bn worth of imports that could be subject to a 10% tariff by September. This may have been to preempt the deliberate policy of ongoing depreciation of the Renminbi which continued its steady slide. There was an additional 3% drop in July. This is a punitive weight on the earnings expectations for HK listed China names. For the fund, we maintain our view that an early resolution remains improbable. Trump's tough stance on China seems to be a vote winner and the US midterm elections are not until November. In response, China has taken targeted policy steps to boost domestic demand. The State Council declared that fiscal policy should become 'more proactive' after the release of tax cuts and supportive measures for the private sector. In addition, the PBOC relaxed guidance measures on wealth management products that sparked a rally in the financial sector. These targeted measures are aimed at relieving the stress points in the economy and not detract from the ongoing policy of deleveraging. Indeed one positive for the investor is that this environment may quicken the pace of government's drive for wide-ranging economic reforms. For the corporates, as the 1H18 results season is underway, the evidence of better operational performance is unmistakable. However, the outlook and guidance are less clear. The valuations reflect that. At this point in time, the trade tensions are in an escalation phase. The currency has depreciated further and this may materially impact GDP and earnings. Broadly, we see the risk distinctly to the downside. We are cognizant of running such a high cash level, but deem it appropriate at the current time. That said, we are analysing several attractive opportunities and continue to monitor a shopping list of companies where we identify structural growth and clear value with catalyst. We stand ready to position the portfolio accordingly.



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