Neutron Asia Absolute Return Fund

Monthly Newsletter (August 2018)

NAV & Returns

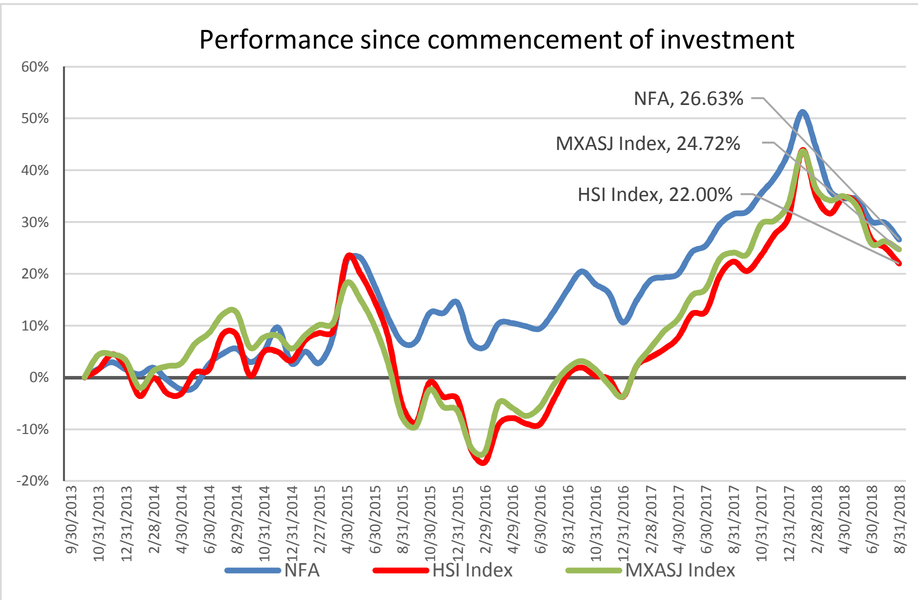
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("**NFA**")	1,119.4756	↓ 2.46%	↓ 11.71%	↑ 26.63%

Historical Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
NFA – Net Returns													
2018	+5.45	-4.59	-5.68	-1.09	-0.21	-3.13	-0.23	-2.46					**-11.71**
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**

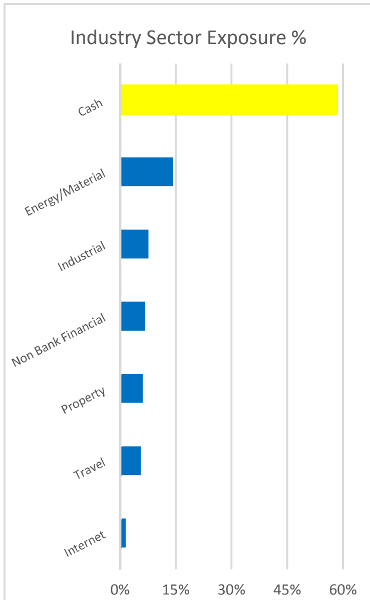
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager's personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$190 million Approx. US$24 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 August the fund fell -2.46 % net of fees. The NAV is 1,119.4756 as of August 31st, 2018 to leave the fund at -11.71% year to date.

For the portfolio, the corporate reporting season in August prompted a pickup in trading activity. By the end of the month, the portfolio rotation saw the sale of four existing holdings and the addition of one new company. As a result, the portfolio was reduced to seven long positions which are more concentrated, but with an increased weighting in some existing names. Both the net and gross exposure of the fund increased from the previous month. With regards to performance attribution, the portfolio ended the month with three of long positions making a positive contribution, including the new addition, whilst four detracted. All of the four exited positions weighed on performance. On the plus side, the major contributors were our conglomerate holding, insurance and an oil play. On the negative side, the detractions came from our internet holdings, an oil company and our logistics names. On the short side, our index futures positions provided a notable positive contribution, whilst single stock shorts helped to a lesser extent.

Our new addition to the holdings list is Ping An Insurance (2318 HK, mkt cap U$170bn). It is a familiar name in the portfolio, however, since January the stock has persistently declined on the concern of macro headwinds, a weakening bond and equity market, regulation change and increasing competition. Nevertheless, in August the company revealed a surprisingly strong set of results, well ahead of consensus across all the key metrics. Importantly, margins expanded in all retail segments despite well-publicized intensifying competition. As a result, the operating profit surged +23% yoy – which was 10% above consensus. The interim dividend was lifted in line with the operating profit by +24% yoy, again well above consensus. In this environment of multiple headwinds and uncertainty, these were indeed impressive results. For investors, Ping An reinforced its best in class position in a structurally growing industry. They illustrated their ability to leverage their dominant technology and distribution capability – they have 1.4 million agents - to provide efficiency gains and superior execution. At the analyst briefing, the management committed to increasing the dividend based on a more sustainable operating profit. For us, Ping An is a quality large cap that is actually benefiting from the industry trends and regulatory changes. Their dominant competitive advantages of technology implementation, distribution and credibility of integrated financial products places them in pole position for further structural growth.

In August, the turbulent times continued for the portfolio with the HK/China markets accelerating their decline. The US-China trade war is firmly in the escalation phase as the first two batches of US tariffs have kicked in with a further $200bn expected in early September. Low level trade talks resumed on August 22-23rd, but with no definitive progress. We maintain our view that a near-term resolution remains improbable. The US administration’s stance seems deliberately combative rather than constructive. As time goes on, investors are seeing the developing impact on Chinese domestic economic data which is surprising on the downside. Recently, this is led by infrastructure FAI growth that came in at 5.7% oya in July. That is a record low rate since 2012. The total social financing (TSF) growth rose 10.3% oya which is the lowest rate on record driven by the sharp contraction in shadow credit. In addition, the consumption sectors suffered as retail sales (ex-auto) fell -0.5% mom. Furthermore, the HK banks announced an increase in mortgage rates in August and despite the fall in SHIBOR, the undoubtable trend is for more expensive financing. For analysts, the domestic slowdown coupled with the heightened macro uncertainty has prompted downward revisions to GDP assumptions for both HK & China. Investors remain fearful with SHCOMP falling -5.25% and southbound investors net sold HK$21.9bn in August. In response, the Chinese government is active in policies to boost domestic demand and mobilise the excessive savings rates. The latest policy change saw the lifting of the threshold on individual income tax rates. This should, in theory, provide a consumption boost. The concern is that they in fact save more given that the most pessimistic people we speak to are our mainland contacts. For us, the deteriorating economic data and start of GDP downgrades, all point to the risk being distinctly to the downside. We continue to run a high cash level, and still deem it appropriate at the current time. We are monitoring and analysing a shopping list of good companies that exhibit structural growth or a clear value with catalyst. We remain patient to position the portfolio accordingly.

BRIC NEUTRON 尚金資本

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