

# Neutron Asia Absolute Return Fund

## Monthly Newsletter (September 2018)

### NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("NFA")	1,129.5913	↑ 0.90%	↓ 10.91%	↑ 27.78%

### Historical Monthly Returns

#### NFA – Net Returns

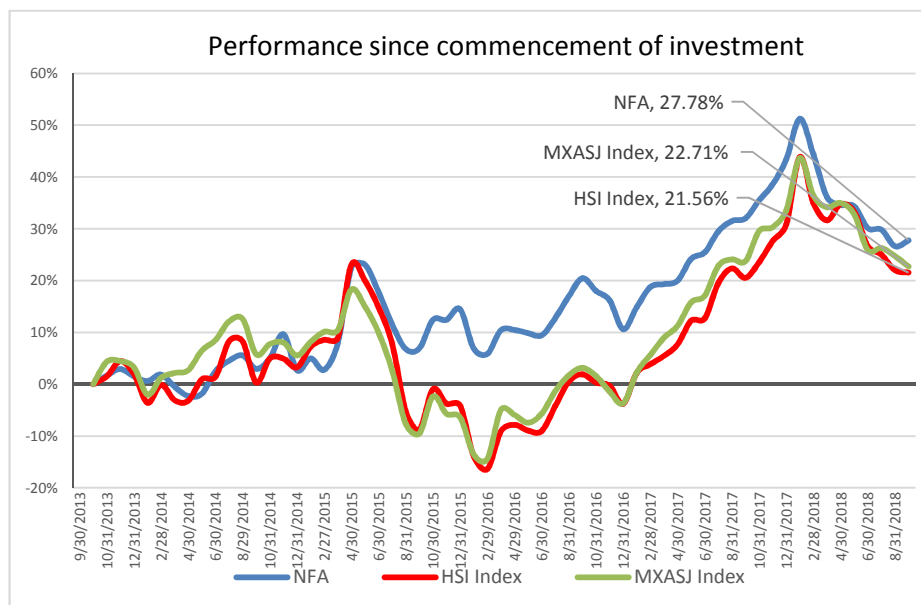
MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	+5.45	-4.59	-5.68	-1.09	-0.21	-3.13	-0.23	-2.46	+0.90				<b>-10.91</b>
2017	+3.86	+3.37	+0.47	+0.56	+3.51	+1.01	+3.23	+1.55	+0.39	+2.62	+2.29	+3.49	<b>+29.66</b>
2016	-6.64	-0.96	+4.32	+0.04	-0.53	-0.39	+3.04	+3.73	+2.98	-2.03	-1.55	-4.79	<b>-3.37</b>
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	<b>+11.49</b>
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	<b>+1.14</b>
2013										+1.68	+1.24	-1.37	<b>+1.52</b>

#### Hall Park Capital – Gross Returns

2013	+11.98	+1.76	+2.87	+6.79	+9.71	-7.19	+2.83	-1.79	+2.08				<b>+31.39<sup>(1)</sup></b>
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	<b>+16.61</b>
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	<b>-6.11</b>
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	<b>+29.82</b>
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	<b>+28.36</b>

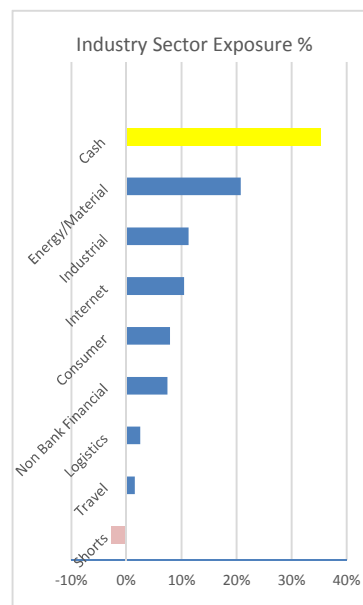
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager's personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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

<b>Investment Objective</b>	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.		
<b>Investment Style</b>	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.		
<b>Investment Launch Date</b>	2 October 2013	<b>Domicile</b>	Cayman Islands
<b>Fund Size</b>	HK\$192 million Approx. US\$25 million	<b>Fiscal Year End</b>	31 December
<b>Administrator &amp; Custodian</b>	DBS Bank Ltd., Hong Kong Branch	<b>Auditor</b>	Ernst & Young Limited
<b>Directors</b>	Vincent Leung Patrick Harrigan (Independent) Sean Flynn (Independent)	<b>Portfolio Manager</b>	Jonathan Garrick <a href="mailto:jonathan@bricneutron.com">jonathan@bricneutron.com</a>
<b>Management Fee</b>	1.5% p.a.	<b>Performance Fee</b>	15% of profits above hurdle
<b>Dealing</b>	Monthly	<b>Redemption Fee</b>	1% for early redemption in the first year



## Neutron Asia Absolute Return Fund *Monthly Newsletter (September 2018)*

In September the fund gained +0.90% net of fees. The NAV is 1129.5913 as of September 30th, 2018 to leave the fund at -10.91% year to date.

For the portfolio, September saw a further pick up in trading activity after the previous month's clear out to only seven long positions. By the end of the month, the portfolio rotation saw the addition of seven new positions and the exit of one existing holding. As a result, the portfolio broadened to thirteen long positions and two single stock shorts. In some cases, these were initial size positions, however, this resulted in both the net and gross exposure of the fund increasing notably from the previous month. With regards to performance attribution, the portfolio ended the month with nine of long positions making a positive contribution, including four of the new additions. Four stocks detracted from performance including three new positions. On the plus side, the major contributors were our oil companies holdings that benefited from a +4.9% rise in the oil price, geopolitical uncertainties and ongoing positivity on domestic reforms. In addition our insurance play and internet gaming company made notable contributions. On the negative side, the main detractions came from our consumer play and our logistics names. On the short side, our index futures positions provided a slight negative contribution, whilst single stock shorts were mixed.

One new position was a short on Anta Sports (2020 HK, mkt cap U\$11bn). The company is widely held and has been a popular 'market darling' in the structural growth sportswear industry in China. We should disclose that we have taken short positions in the company on previous occasions and not been successful. Our previous short thesis was that the stock was priced to perfection, the brand was weakening, losing market share and now discounting. This view was contrary to street consensus of 35 buys, 4 holds and zero sells. However, we accessed some compelling reports from an independent research provider to illustrate the case. The company exhibits abnormally high industry margins (gross margin c50% and an operating margin c24%) combined with forecasts of surging revenue and earnings growth at +32% and +24% respectively. The growth is derived not only from their own brand, but driven by their high end Fila China business. Admittedly, the company has kept delivering the results and persistently mentioned using their cash pile – some of which came from recent equity raisings – for further acquisitions. On September 12th, Anta announced it would lead a consortium to make a non-binding offer to acquire Finland's Amer Sports (AMEAS FH, mkt cap U\$4.4bn) for Euro 40 /share in cash, implying 25x 2019 price/earnings. Even at 51% of the amount this is a large acquisition. The company were quick to state that they can borrow the money they need at only 4%. Big picture synergies aside, this is an expensive acquisition that would increase leverage and produce a combined net margin of c10% versus Anta's current c18%. As a consequence they would likely reduce or eliminate the 70% payout ratio dividend. Furthermore, this is an expensive acquisition with slower growth, heading into a weakening consumer environment with the operational uncertainty of running a global business. The consensus view of being priced to perfection is now facing serious headwinds and the heavy risk of de-rating.

In September, the ongoing US-China trade conflict dominated the headlines as the latest batch of US trade tariffs took effect. The US Administration's vocally combative stance on China has intensified. In the near term, there should be no let up as the political spin perceive the rhetoric to be a broad vote-winning strategy and the US mid-term elections are not until November. After which, there may be more of a constructive tone. The G20 meeting in Buenos Aires on November 30<sup>th</sup> has been earmarked as the next possible meeting between Trump and Xi. In China, the Shanghai Composite bounced off a 52 week low in September as the government stepped up measures to offset the impact from the trade war with a focus on domestic consumption. There was a muted, but positive response with retail sales coming in stronger than expected at +9% oya compared to +8.8% the previous month. Online retail sales continued seemingly unaffected at +28.2% oya. That said, there is still the effect of the ongoing local government deleveraging with FAI growth slowing to 5.3% oya, which is the lowest reading since 1990. Importantly, the manufacturing PMI posted weaker than expected at 50.8 in September which does not bode well. Economists continue to tick down their GDP forecasts and lending rates are undoubtedly moving higher. In HK, HSBC increased their prime lending rate for the first time in 12 years. For investors, the sentiment and positioning is definitively bearish. In HK, the short selling turnover as a percentage of total turnover is the second highest on record. The first being back in May 2016. That said, valuations have come down significantly. The Hang Seng Index is trading on 10x forward P/E with 3.8% dividend yield. To put in perspective, over a 10 year basis, the HSI P/E - hi: 18.1x lo: 9.5x ave: 12x. Although one could argue that the earnings forecasts have yet to fully adjust. With that in mind, we are analyzing several attractive opportunities and have increased our exposure with a focus on solid companies that exhibit structural growth or clear value with catalyst. We are cognizant of the volatile nature of markets and stand ready to position the portfolio accordingly.



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