Neutron Asia Absolute Return Fund

Monthly Newsletter (October 2018)

NAV & Returns

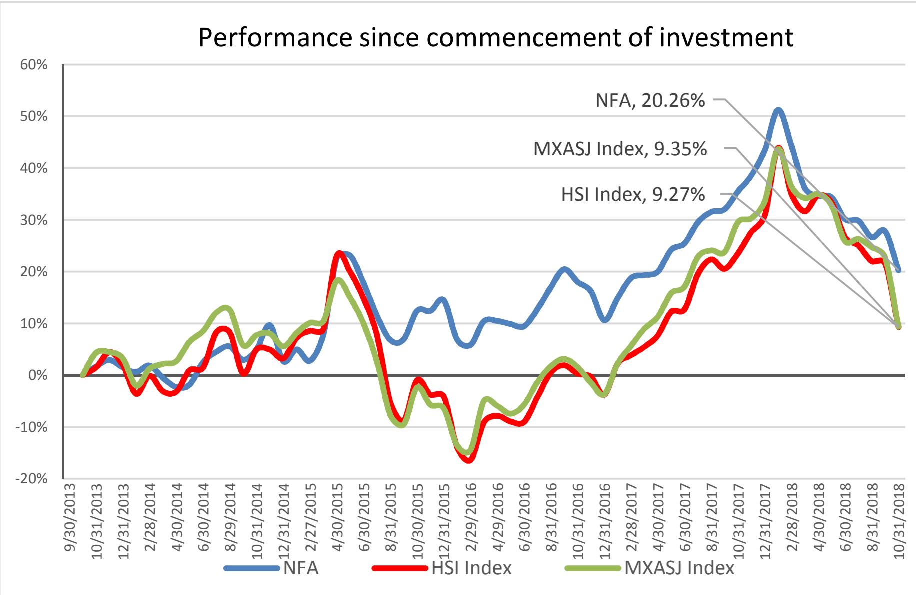
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,063.1646	↓ 5.88%	↓ 16.15%	↑ 20.26%

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	+0.90	-5.88			**-16.15**
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**

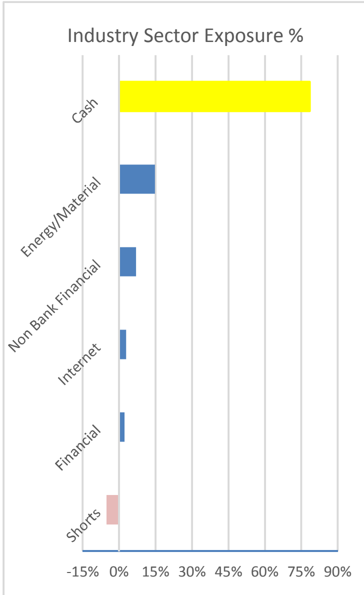
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$181 million Approx. US$23 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 October the fund fell -5.88% net of fees. The NAV is 1,063.1646 as of October 31st, 2018 to leave the fund at -16.15% year to date.

October was a brutal month for Asian equity markets. The Hang Seng fell for the sixth consecutive month plunging over -10%. This is the longest streak of monthly losses in 36 years. Similarly, MSCI China fell -11.3% and MSCI Asia ex Japan dropped –10.8%. For the portfolio, the sharp and erratic price movements triggered broad stop losses and a renewed focus on risk management. By the month end, the portfolio rotation saw the exit of eight existing holdings and the addition of two. As a result, the portfolio ended with seven long positions and two stocks short. Both the net and gross exposure of the fund reduced notably from the previous month. With regards to performance attribution, four of the remaining long positions and the eight exited positions all detracting from performance. Three of the remaining long positions made a positive contribution, including the two new additions. On the negative side, there were broad detractions across all sectors, whilst on the plus side, the positive contributions were restricted to our new addition positions and the two stocks short. In addition, our index futures positions provided a notable positive contribution but was far outstripped by the magnitude of fall in the long positions.

For our individual holdings, October was a punitive month. Several companies reported their 3Q results and despite largely delivering on expectations any wavering comments or softening in guidance was savagely punished. The ongoing trade dispute, macro issues and currency concerns are clearly overshadowing any individual company's operating performance. One such case was Ping An Insurance (2318 HK, mkt cap U$174bn) which delivered a solid set of 3Q results demonstrating its superior technology, execution and earnings structure and notably outperforming its peers. Operating profit grew +12% yoy driven by Life +22%, Banking +23% and Fintech +370%. Other impressive growth metrics were the number of individual clients and internet users which both grew +19% to 182m and 513m respectively. The company announced a share buyback scheme and importantly an investor day to provide an update on their Fintech businesses. In the current stormy environment, this was a reassuring set of results. The surging growth of the fintech businesses and the company's superior execution should attract investors. The company inferred that the update to their Fintech businesses would enhance transparency and demonstrate their added value. Going forward, this value will likely be unlocked by an IPO of each business. Ping An is clearly operating well with sizeable catalysts ahead, however, the stock remained under pressure due to its broad ownership and heavy macro concerns. The stock fell -7.1% over the month.

With geopolitical headlines and macro concerns driving the price action, the month did not start well for Asian markets. The US Vice President Pence's speech at the Hudson Institute on October 4th was an aggressive affirmation of the US administration's combative stance towards China on trade. He expressed animosity over China's trade policies and behaviour to such an extent that the current situation is deemed a national security threat. Similarly to Navarro's address at the Hudson Institute earlier this year, this speech was not given much global coverage. That said, it was clearly received by Asian investors who took it as an antagonistic racket up in the damaging trade dispute. Whether this was pre-midterm election vote winning rhetoric or more 'Art of the Deal' positioning ahead of the Trump-Xi meeting at the G20, the pressure on China has undeniably intensified. Indeed China is already hurting. Expectations for China's GDP are being lowered and by and large the economic data continues to deteriorate. Although the Chinese government is introducing consumption boosting measures they seem to have dwindling impact against policies imposed and set to be imposed by the Trump administration. Interestingly, October saw the new NAFTA agreement between the US, Canada and Mexico which had a clause that specifically restricts trading with any 'non-market economy.' Investors took note. As the US moves to negotiate new trade deals with the EU, Japan and the UK, it seems set to become a regular policy clause that any non-market economy may be further restricted on trade going forward. This is all extra pressure to coerce an opening up of the Chinese economy on reciprocal terms. In the near term, a full resolution remains improbable. In the meantime, HK/China equity markets continue to suffer with the Hang Seng is down –25% from the end of January. For investors, it is a difficult time. Traditional valuation metrics are not providing any support. Investor sentiment and positioning remain bearish in the extreme and the markets have seen notable outflows and fund redemptions. There is a historically large short base that waits uncomfortably for the next downdraft. They fear a headline risk that could see the market rip higher. The blanket pessimism is driving down valuations to cycle lows producing attractive opportunities for the longer term investor with a stomach for volatility. For us, the policy risk, deteriorating economic data, the GDP downgrades and currency concerns, all point to the risk still being to the downside. We maintain a high cash level and 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. This list is growing and we remain vigilant to position the portfolio accordingly.

BRIC NEUTRON 尚金資本

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