Neutron Asia Absolute Return Fund

Monthly Newsletter (November 2018)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,068.7225	↑ 0.52%	↓ 15.71%	↑ 20.89%

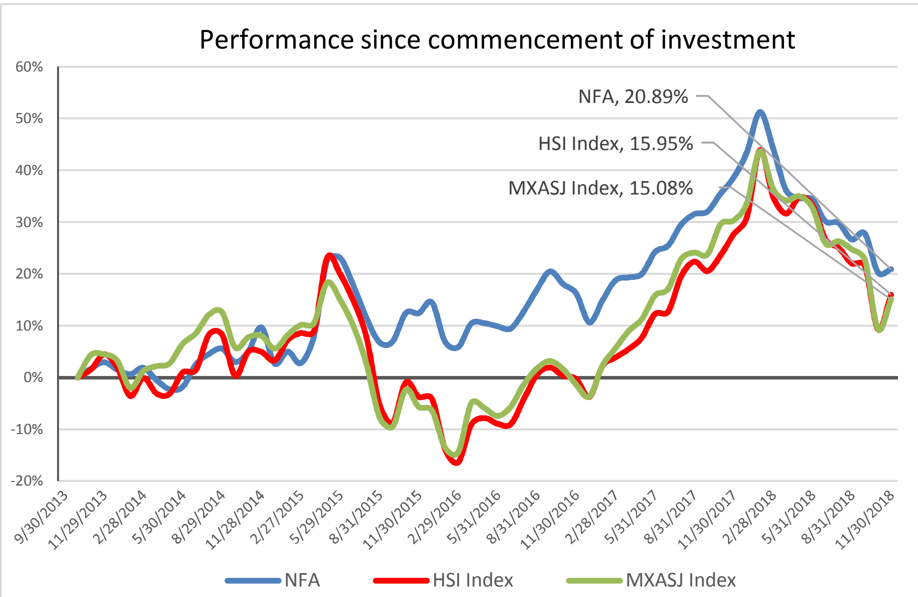
Historical Monthly Returns

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	-5.88	+0.52		**-15.71**
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**

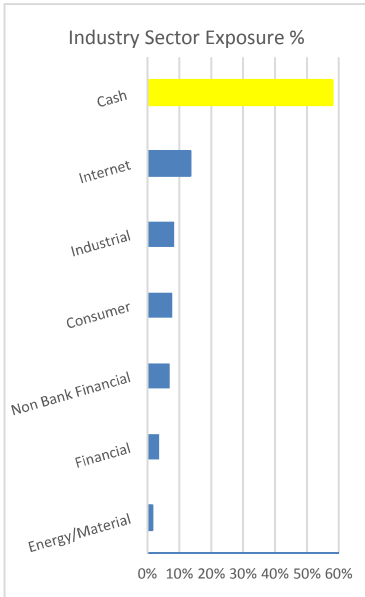
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$182 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 November the fund gained +0.52% net of fees. The NAV is 1,068.7225 as of November 30th, 2018 to leave the fund at -15.71% year to date.

November saw the HK and China markets rebound after falling for six consecutive months. Investors had glimpses of renewed, guarded optimism off a low base as talks began ahead of Trump-Xi meeting at the G20. That said, the markets remained volatile reacting to tweets, soundbites from the Fed or any geopolitical headline hitting the tape. For the portfolio, by the month end, the trade rotation saw the addition of eight new positions and the exit of four. As a result, the portfolio ended November with twelve long positions and no single stock shorts. Both the net and gross exposure of the fund increased notably from the previous month. With regards to performance attribution, nine of the remaining long positions made a positive contribution whilst three of the existing holdings and the four exited positions detracted from performance. On the positive side, there were broad gains from the remaining holdings with major contributions from our gaming, industrial and internet names. On the negative side, the main detraction came from our energy positions which were exited during the month. In addition, our index futures positions detracted from performance and we closed our single stock positions by the end of the month.

For individual holdings, November was a mixed month. We sold our long-held energy names after geopolitical events sparked a sharp fall in the oil price. Whereas we added to our Macau holdings as industry results came in better than feared to reverse October's sharp decline. There was new positive data and a CEO purchasing additional shares that helped drive momentum. Indeed, it was another purchase of stock by a Chairman of an industrial company that had fallen -48% year to date that prompted us to initiate a position there. We also added back some familiar names to the portfolio. Netease (NTES US, mkt cap U$31bn) has returned to the portfolio after posting a surprisingly strong 3Q results and having fallen -34% from the January highs. We became more positive on NTES after its strong 3Q game revenue surged +30% QoQ aided in part by a reacceleration of sequential growth of the legacy titles. Importantly, the outlook improved with deferred revenue gaining +16% QoQ in 3Q reversing the -10% QoQ decline in 2Q. NTES also launched two new successful titles and revealed an exciting pipeline for 2019 including the mobile version of the blockbuster, Diablo Immortal. NTES is also having gaming success in overseas markets which now accounts for 10% of total revenue due to substantial participation in Japan. These results were especially eye-catching given their competitor, Tencent's relatively poor quarterly gaming performance. In addition, positive catalysts lie ahead with the game licence approval suspension seemingly coming to an end. A new feature, Netease Cloud Music, is beginning to be priced into many analyst's models at around U$3.5bn in line with the latest Series B financing valuation. A spin-off listing is expected after Tencent Music's IPO in December which is aiming for a market capitalization of U$29-31bn. The valuation remains subdued and investors should expect revenue and earnings to reaccelerate in 2019 prompting further upgrades.

Undoubtedly the main driver for positive price action was the renewed optimism on the resumption of US-China trade talks and the run-up to the G20 meeting. Consequently, the outcome and the optics of the Trump-Xi meeting were a clear positive. The immediate announcement that the US had postponed the step up in tariffs from 10% to 25% scheduled for January 1st for 90 days whilst negotiations were ongoing was a welcome relief. After the dinner, headlines emerged of agreements in principle to open up markets and for China to buy a substantial amount of agricultural, industrial and energy products. The mood was encouraging. Indeed both sides said the meeting was successful. The initial reaction was a jump in Asian markets and cautious optimism. However, many financial commentators were frustrated with the lack of concrete measures and details. Despite the optics, nothing had been signed and this was merely a 90-day reprieve. That said, further comments from Chinese officials on having confidence in implementing their side of the bargain may help to assure investors. For us, we continue to pose the question of whether the Trump administration is constructive or combative. In addition, is it realistic to expect full compliance with US demands including significant behavioural change? For now, this is a positive step, a lowering of the octane level and constructive outcome for Asian markets although the impact on individual sectors may differ. An early resolution to all issues remains improbable. Some commentators expect a new cold war to be fought on many fronts from trade to security, technology and cyber warfare. Indeed at the time of writing, the arrest of the Huawei CFO suggests an escalation and extension in combative operations. The US administration is now energetically driven to halt China's alleged bad behaviour on all of these fronts. For the investor, this will be highly disruptive to all financial markets. We have increased our exposure in companies which are executing well and trading on valuations driven down to cycle lows. Here lies the opportunity. This environment is producing attractive opportunities in quality companies for the longer term investor with a stomach for volatility. We are monitoring our list of good companies that exhibit structural growth or a clear value with catalyst. We remain vigilant to position the portfolio accordingly.

BRIC NEUTRON 尚金資本

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