Neutron Asia Absolute Return Fund

Monthly Newsletter (December 2018)

NAV & Returns

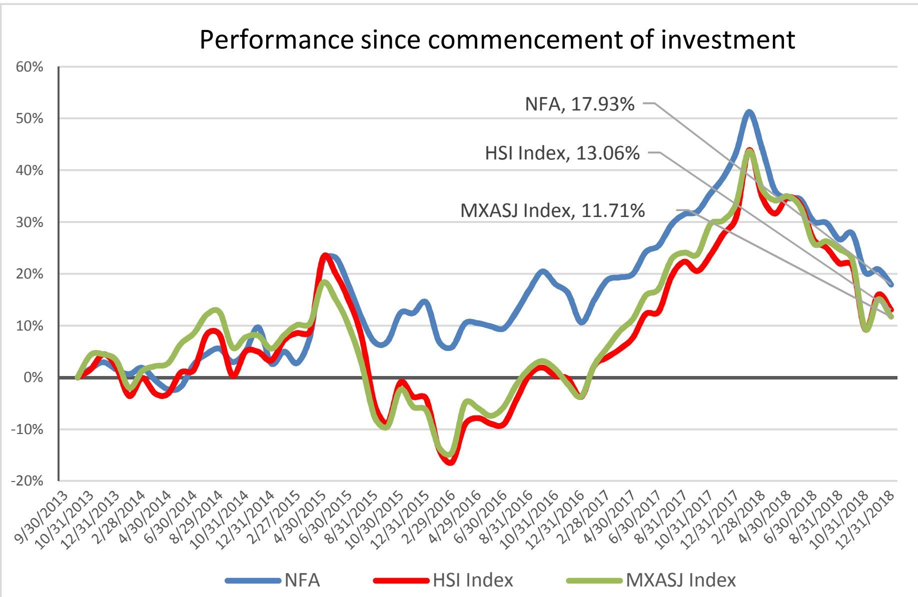
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,042.5444	↓ 2.45%	↓ 17.78%	↑ 17.93%

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	+0.52	-2.45	**-17.78**
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**

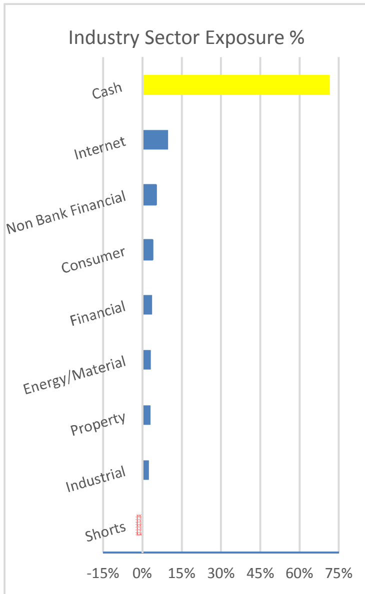
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$177 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 December the fund fell -2.45% net of fees. The NAV is 1,042.5444 as of December 31st 2018 to leave the fund down 17.78% for the year.

For the portfolio, the rebound in November proved to be short-lived. Despite the positive optics from the Trump-Xi G20 meeting, the lack of details or concrete measures quickly dimmed investor enthusiasm. In addition, the major negative driver for markets came when the Federal Reserve increased rates with a hawkish tone and set out their quantitative tightening program to shrink the balance sheet. Investors were startled into a panic of recessionary fears and the S&P 500 dived -9.2% in the month. This move reverberated around markets globally. With regards to our portfolio, both the net and gross exposure of the fund were reduced notably from the previous month. By the month end, the trade rotation saw the exit of eight existing positions and the addition of five new holdings. As a result, the portfolio ended December with nine long positions and two single stock shorts. Regarding performance attribution, three of the remaining nine long positions made a positive contribution, whilst six holdings detracted from performance. On the positive side, the main contributors were gains from our internet names and a Taiwanese listed consumer products company. On the negative side, there was broad weakness with the main detractions concentrated on our non-bank financials, energy and industrial names. On the short side, by our index futures positions contributed positively to performance across the month as did our single stock positions.

For the individual holdings, the few areas of positivity were overshadowed by the macro headwinds weighing on the majority of our names. We added to our internet gaming companies after positive monthly data and as the licence approval suspension came to an end. We also added a Taiwanese listed health and beauty products manufacturer who is seeing their revenues surge in China due to the Wechat sales network. The theme for the remainder of the portfolio is focused on solid, large-cap companies with a strong balance sheet and attractive dividend yield. Nevertheless, for the fund, 2018 has been our worst year since we started back in 2009. We are disappointed with our performance and determined to rectify the situation.

As we look ahead to 2019, investors begin from light positioning and a pessimistic outlook. The ongoing macro concerns of a trade war, slowing global growth and tightening liquidity conditions have depressed valuations and forecasts. The Fed's hawkish rate hike in December together with the schedule for quantitative tightening was enough to push the prospect of a recession. However, since then the Fed has softened its tone and declared itself to be more sensitive to data and market conditions. Importantly for investors, the forward-looking market pricing of Fed interest rate hikes in 2019 has fallen from approximately 2-3 at the start of December to almost zero at the timing of writing. If that plays out, it is good news for emerging markets who will benefit from the relief from a rising dollar.

For HK/China, the impact of the trade war has been destructive. China ends the year as worst performing major equity market of 2018. In recent weeks, however, the octane level of the US-China trade friction has definitely moderated. Ironically, the turmoil in the US equity market may have been a factor in what is widely perceived to be a more constructive and productive dialogue. The markets have demonstrated that it is in both parties mutual interested to find a working resolution. Considerable progress is expected by the March deadline. That said, the prospect of a fractious ongoing cold war on many fronts from trade to security, technology and cyber warfare remains the most probable outcome. For China, the economic indicators have continued to deteriorate. From the December PMI to industrial production, retail sales and exports, it undeniably points to a slowing economy. In response, the government is pushing a reform driven policy offensive with tax cuts and incentives supported by a targeted loosening of monetary conditions. Investors remain unconvinced. As the earnings season approaches, investor sentiment and positioning remain bearish in the extreme and the markets have seen notable outflows and fund redemptions. According to the Investment Company Institute, mutual fund outflows surged to U$56.2bn for the week ending Dec 19th – the highest level since 2008. The blanket pessimism is driving down valuations to cycle lows. History seems to suggest a blow out of redemptions precedes a market bottom. For us, we once again maintain a high cash level and deem it appropriate at the current time. We are encouraged by valuations, recent insider buying and that the macro concerns, especially in Asia, will diminish. 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.

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