

Neutron Asia Absolute Return Fund

Monthly Newsletter (January 2019)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("NFA")	1,078.0744	↑ 3.41%	↑ 3.41%	↑ 21.95%

Historical Monthly Returns

NFA – Net Returns

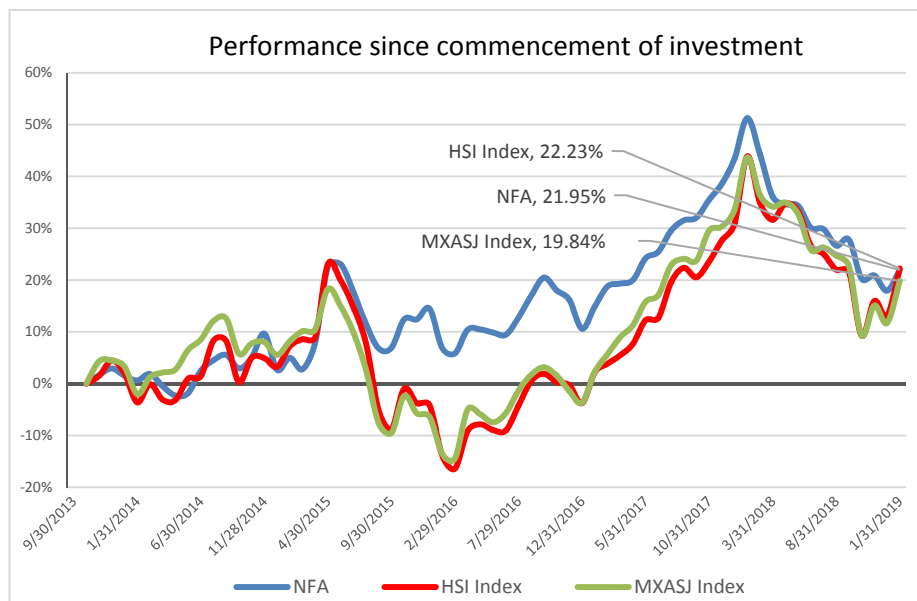
MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	+3.41												+3.41
2018	+5.45	-4.59	-5.68	-1.09	-0.21	-3.13	-0.23	-2.46	+0.90	-5.88	+0.52	-2.45	-17.78
2017	+3.86	+3.37	+0.47	+0.56	+3.51	+1.01	+3.23	+1.55	+0.39	+2.62	+2.29	+3.49	+29.66
2016	-6.64	-0.96	+4.32	+0.04	-0.53	-0.39	+3.04	+3.73	+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

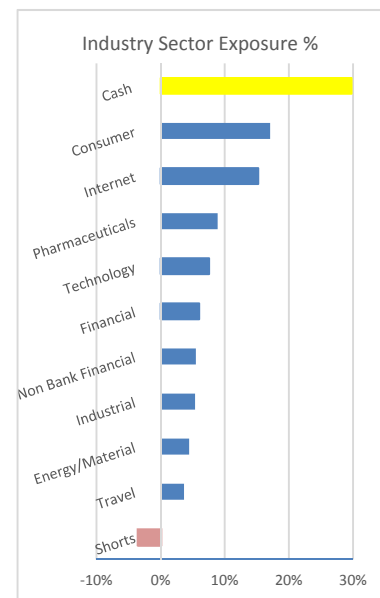
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager's personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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\$183 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 January the fund rose +3.41% net of fees. The NAV is 1,078.0744 as of January 31st 2019.

For the portfolio, January saw a rebound from the sharp sell-off in December that was driven by the Federal Reserve's hawkish tone after lifting rates and setting out their quantitative tightening program. However, after the S&P fell -9.2% in the month and demonstrating a sensitivity to the market's reaction, Powell quickly softened his tone and declared a focus on data dependency that subsequently soothed rate expectations. This was to such an extent that the market pricing of Fed interest rate hikes for 2019 fell from approximately 2-3 at the start of December 2018 to almost zero. For HK/China, the additional constructive tone of US-China trade negotiations accompanied by an increase in domestic easing and growth stimulating measures helped push the positive price action. With regards to the portfolio, substantial changes were made as capital was deployed. As a consequence, both the net and gross exposure of the fund were notably increased in January. By the month end, the trade rotation saw the exit of six existing positions and the addition of twelve new holdings. As a result, the portfolio ended January with fifteen long positions and two single stock shorts. Regarding performance attribution, thirteen of the fifteen long positions made a positive contribution, whilst two long holdings detracted from performance. On the positive side, the main contributors were gains from our new Macau position, our pharma holdings, internet names and a Chinese industrial company. On the negative side, the main detractors concentrated on our financials holdings and an internet company. On the short side, by our index futures positions were a slight deduction on performance across the month as were our single stock positions.

For the individual holdings, the main story was the broad increase in long positioning with twelve new holdings. As you can see from our industry sector exposure list that the deployment of capital was in several sectors where we have been encouraged by valuations, news flow and insider buying. We added notable Macau exposure after better than feared data on gross gaming revenue lifted the previously depressed valuations. In addition, we increased our position in a consumer food company that is focusing on the higher margin branded products business and will be a major beneficiary from any trade resolution between the US-China. We returned to the Pharma sector after sharp sell-off on regulation changes. We also added to our deep value, beaten up HK industrial company where the CEO had made significant stock purchases.

For Asia ex-Japan, January has seen a rebound from the light positioning and pessimistic outlook at the start of the year, however, the economic data in Asia has yet to materially improve. That said, the reversal in US interest rate expectations and more constructive dialogue in the US-China trade negotiations have helped repair investor sentiment. Furthermore, as we mentioned in December's newsletter, investor positioning had moved to an extreme, illustrated by heavy global equity redemptions. According to the Investment Company Institute, mutual fund outflows surged to US\$56.2bn for the week ending Dec 19th – the highest level since 2008. On this point, we are encouraged by the blow out of redemptions as history shows this often precedes a market bottom. Moreover, on the Chinese domestic front, the government has implemented meaningful, supportive monetary measures starting with a 100bp RRR cut and perpetual bond reform for banks. There was also targeted MLF operations with re-categorisation of SME loans to inject much-needed liquidity. This is coupled with policies to stimulate consumption growth which are initially targeting home appliances and autos. With the earnings season underway, it is also interesting to note the price action post the release of results for many companies. In several cases, despite an earnings 'miss' the stock price has traded better on the belief the worst may be over. For us, we have begun to redeploy capital and are encouraged by valuations, growth supportive measures, recent insider buying and constructive view on the trade tensions. In this environment, we are now optimistic and are well underway with our shopping list of good companies that exhibit structural growth or a clear value with catalyst.

Kung Hey Fat Choy!

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