Neutron Asia Absolute Return Fund

Monthly Newsletter (February 2019)

NAV & Returns

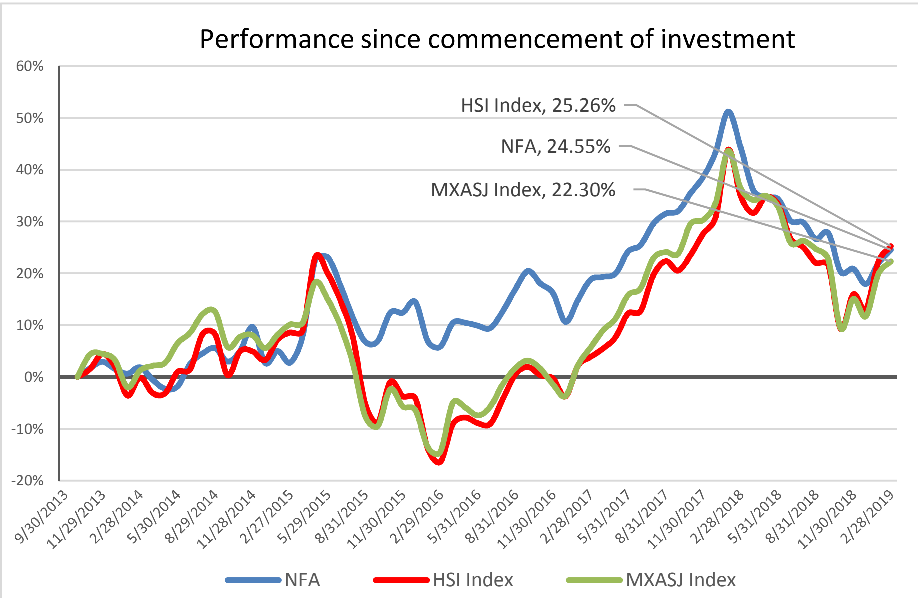
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("**NFA**")	1,101.0318	↑ 2.13%	↑ 5.61%	↑ 24.55%

Historical Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
NFA – Net Returns													
2019	+3.41	+2.13											**+5.61**
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**

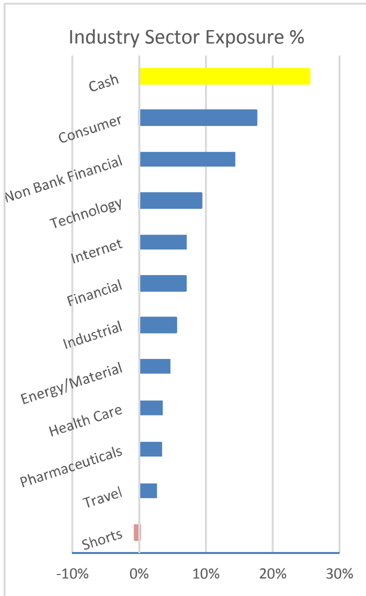
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager's personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$187 million Approx. US$24 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 February the fund rose +2.13% net of fees. The NAV is 1,101.0318 as of February 2019 to leave the fund up 5.61% year to date.

For the portfolio, February continued January's positive tone driven by ongoing developments in the US-China trade negotiations and Chinese domestic policies. There were three high-level US-China trade meetings between January 30th and February 22nd each providing a favourable progress report culminating in an extension to the step up in tariffs scheduled for March 1st. In addition, the Chinese government continued to implement domestic monetary easing policies producing in a record monthly credit expansion ending a long decelerating trend. With regards to the portfolio, the main adjustments were a further deployment of capital and the reduction in our short positions. As a consequence, our net long exposure was increased, whilst the gross was slightly reduced. By the month end, the trade rotation saw the exit of five holdings which were replaced by four new positions. As a result, the portfolio ended February with fourteen long positions and two single stock shorts. Regarding performance attribution, nine of the fourteen companies made a positive contribution, whilst five detracted. On the positive side, the main contributors were a technology holding, a Chinese insurance company and two US-owned consumption plays in China. On the negative side, the main detractions were from two financials holdings and our internet companies. On the short side, our index futures trading was much reduced and provided a slight net addition on performance, however, our single stock positions were covered at a loss.

One of our themes for the portfolio this year has been to focus on the US managed or influenced companies with exposure to China. In general, the management teams are invested and more focused on shareholder value creation. In the past, these companies have often been hindered in China by both hard and soft trade barriers. Going forward, the environment will most likely improve. We are seeing evidence of this, with companies exhibiting better execution and positive guidance for the future. An example of this is from our tech holding, which is ideally positioned in growing business segments, but also stands to benefit greatly if foreign companies can do more business in China. Further evidence came from the better than expected results of another US managed consumer-company operating in China. The share price had been down around -20% since October 2018 as sentiment weighed, however, business is clearly improving. On the conference call, the management provided an exciting outlook for their business in China with run rate in one segment currently up +60% yoy. Furthermore, our consumer food company continued to recover with the move to higher margin branded products and the benefits of any trade resolution become more apparent to investors. On the domestic front, our insurance company holdings are benefitting from new management, the surging A shares market and government's reform agenda for the sector. Our Pharma names continued to recover from the sharp sell-off with improving sales of key drugs and rising activity in the sector. On the negative side, a couple of our internet holdings weighed on performance as investors were unimpressed with the recent data points in gaming, e-commerce and advertising.

For Asia, the main story for the first two months of the year was the surging China mainland equity markets. Nowhere had the optimism of the positive developments in the US-China trade negotiations been more impactful than here. In February with the Shanghai and Shenzhen Composite indices rose an additional +14% and +21% respectively. Ahead of the MSCI indices inclusion news, northbound trading hit an all-time high of U$9.2bn in January and further accelerated in February. This, however, was only a small portion of the enormous local trading volumes that saw margin financing surge to Rmb 795bn (U$118bn) by the month end. The Hang Seng Index benefited to a lesser extent, up +2.5% and in fact endured notable southbound net outflows during this period. On the economic data front, relevance is somewhat distorted by the Lunar New year holidays. Nevertheless, the PMI and trade data releases were seen as mildly positive. The most positive feedback reaction from our mainland contacts was on the surprising, record Total Social Financing of Rmb 4,460bn (U$666bn) in January. This was a rise of +10.8% from a year ago, ending a seventeen-month deceleration trend. Importantly, this was perceived as the end of China's deleveraging and a signal of massive monetary support. To put this in perspective, that monthly amount is larger than the GDP of Taiwan (US613bn). For us, we have continued to redeploy capital. We are encouraged by valuations, growth-supportive measures, regulatory reform and progress in the trade negotiations. We are mindful of the fears of a global slowdown, especially in Europe, however, the recent results and dialogue with companies have made us more constructive. We are adding to our list of good companies that exhibit structural growth or a clear value with catalyst.

BRIC NEUTRON 尚金資本

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