Neutron Asia Absolute Return Fund

Monthly Newsletter (March 2019)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,098.6985	↓ 0.21%	↑ 5.39%	↑ 24.28%

Historical Monthly Returns

NFA – Net Returns

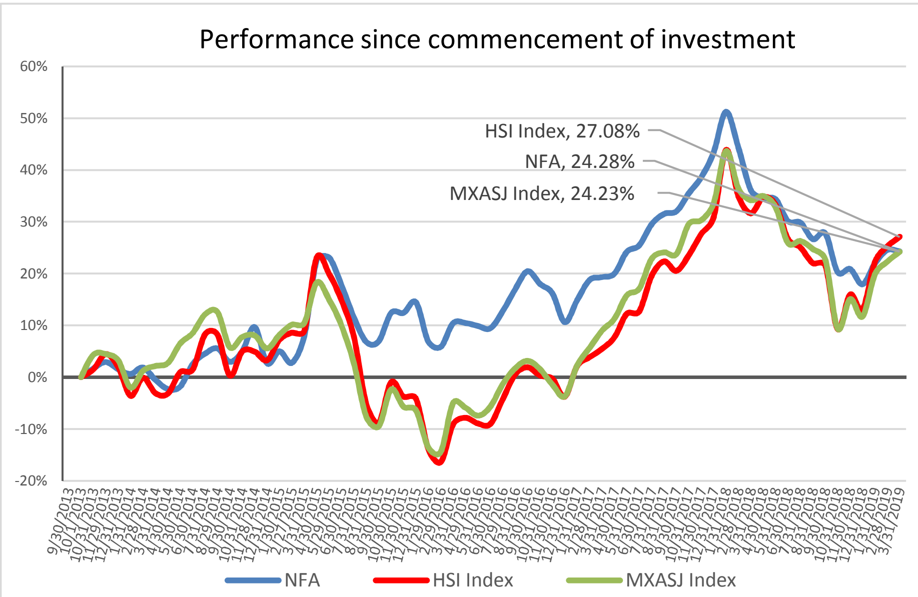
MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	+3.41	+2.13	-0.21										**+5.39**
2018	+5.45	-4.59	-5.68	-1.09	-0.21	-3.13	-0.23	-2.46	+0.90	-5.88	+0.52	-2.45	**-17.78**
2017	+3.86	+3.37	+0.47	+0.56	+3.51	+1.01	+3.23	+1.55	+0.39	+2.62	+2.29	+3.49	**+29.66**
2016	-6.64	-0.96	+4.32	+0.04	-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

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
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**

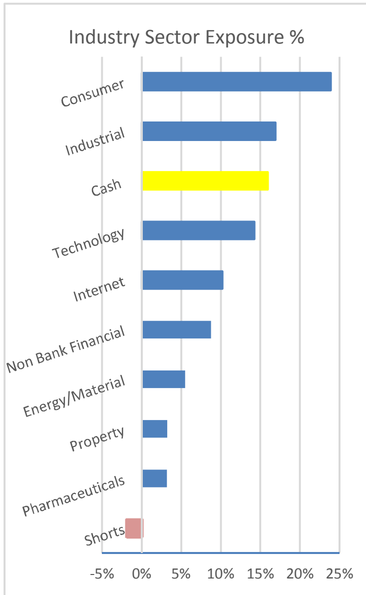
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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 March the fund fell -0.21% net of fees. The NAV is 1,098.6985 as of March 31st, 2019 to leave the fund up 5.39% year to date.

For the portfolio, March was a mixed month. There was disappointment from certain company earnings releases which detracted from the broadly positive operating metrics and macro data. The Chinese government confirmed its growth policy directives at the National People Congress and the news flow on the US-China trade negotiations maintained its constructive tone. The Fed's signaling of no further interest rate hikes this year was temporarily overshadowed by concerns about the inverted yield curve. Financial stocks across the globe were most impacted by this. With regards to our portfolio, we further deployed capital on both long and short positions increasing our net and gross exposure to the highest levels in over a year. By month end, our trade rotation saw the exit of five holdings and the introduction of seven new positions. As a result, the portfolio ended March with sixteen long positions and two single stock shorts. Regarding performance attribution, nine of the sixteen companies made a positive contribution, whilst seven detracted. On the positive side, the main contributions came from a technology holding and two US-owned consumption plays focused on China. On the negative side, the main detractions were from our Macau play, our financial holdings and two energy companies. On the short side, our index futures trading contributed a slight net positive, whilst our single stock positions, notably in autos, provided further detraction.

In our previous newsletter, we mentioned that one of our themes for the portfolio this year has been to focus on the US managed or influenced companies with exposure to China. One expected outcome from the US-China trade negotiations is that the hard and soft barriers that hindered trade in China will diminish. We are increasingly encouraged by comments from various managements on the exciting outlook for their business in China. One CEO of a consumer holding gave clear positive guidance and mentioned 'decades of growth' ahead of them. In addition, it seems that on an operating level, companies are executing better and with more effective sales and marketing expenditure driving revenue and margins. Our main holdings in consumer and technology remain largely the same and performed well in March. One of our new positions is in a company that we previously owned in 2015. We exited the position after the company decided to start an education business with an organic growth strategy. They had the cash, but it would be years of heavy investment, crushing margins before any hope of a return. Fast forward to this month and the latest results exceed expectations with the education business, after a couple of acquisitions, now 54% of the company's revenue. Although still loss-making, management expects the high margin subscription fees for tutoring services to start in 2H19 and grow quickly from there. This should substantially revalue the education business, in which some analysts hold at a historic valuation from the last round of financing in 2015. Elsewhere down the pecking order, the performance was more mixed. For our Macau holding, the stock weakened prompted by the disappointing March gross gaming revenue data highlighting weakness in the important VIP segment despite a solid mass. In addition, our insurance and financial holdings declined as competitor results were soft and concern grew on the US inverted yield curve with its foreboding effect on global growth. We also had unsatisfying results from a branded consumer company that suffered margin compression from forex losses and a surge in costs. Finally, our energy holdings had a disappointing month despite the rise in the oil price.

For Asia, the macro data points continue to clearly indicate improving economic activity. For China, the industrial production grew at +5.3% yoy for Jan-Feb and the well-followed manufacturing PMI unexpectedly expanded at the fastest pace in eight months in March. For us, the critical pivot in China's economic policy was the end of deleveraging seen in January with the record increase in Total Social Financing. In addition to supportive monetary policies, the compounding momentum effect of the surging equity market and a recovery in property sales must be positive for consumption. At least one notable economist raised their China GDP forecast for the 2019 to +6.4% yoy from +6.2% and that is before the potential resolution in the US-China trade conflict. Despite the gains in the equity markets, sentiment and positioning in several of our main holdings remain sober. When we analyse the consensus forecasts for revenues and earnings we are more encouraged than fearful. The sharp pivot in global markets driven primarily by the reverse of US Fed interest rate hikes position, China's monetary stimulus and potential resolution in the US-China trade frictions have not filtered through to consensus estimates. That said, it has arguably forced multiple expansion in certain sectors, most notably in tech. There is a clear upside risk to earnings estimates in several of our names. We remain 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

Investment Manager: BRIC Neutron Asset Management Limited
Tel: (852) 2810 5338 **Fax:** (852) 2810 5700
Address: Suite 3601, 36th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong

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