Neutron Asia Absolute Return Fund

Monthly Newsletter (April 2019)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("**NFA**")	1,129.6433	↑ 2.82%	↑ 8.35%	↑ 27.78%

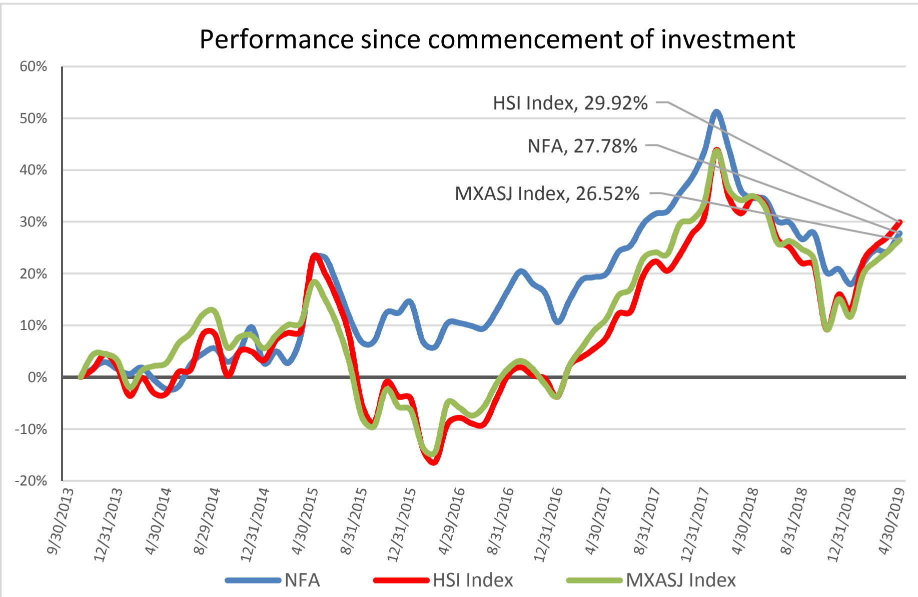
Historical Monthly Returns

NFA – Net Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	+3.41	+2.13	-0.21	+2.82									**+8.35**
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**

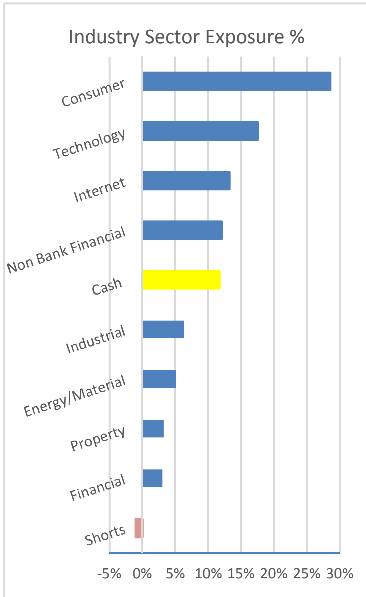
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager's personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$192 million Approx. US$25 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 April the fund gained +2.82% net of fees. The NAV is 1,129.6433 as of April 30th, 2019 to leave the fund up +8.35% year to date.

For the portfolio, April was a predominantly positive month benefiting from a handful of encouraging earnings reports and supportive macro data. There was a promising start to the month with a better than expected 1Q China GDP growth of +6.4% followed by other data points providing ongoing momentum. So much so that investors began to fear a softening in the stimulus program and enthusiasm was tempered, particularly in China shares. For us, we further increased our net long position encouraged not long by specific reassuring earnings releases, but importantly the guidance for the second half of the year. By the end of the month, our trade rotation saw the exit from four holdings and the introduction of four new positions. As a result, the portfolio ended April with sixteen long positions and one single stock short. Regarding performance attribution, ten of the sixteen companies made a positive contribution, whilst six detracted. On the positive side, the main contributions came from a technology holding, an internet play and China-focused consumption companies. On the negative side, the main detractions were from our oil names, a financial holding and a previously strong performing industrial company that saw Chairman sell the stock. On the short side, our index futures trading detracted from performance, but exposure and trading were reduced over the month. Our single stock short also provided a small detraction.

Our focus area of foreign managed or influenced companies with exposure to China saw further capital deployment. This was the case for our main technology and consumer holdings which continued to perform well in April. Better than expected results with improving operating metrics accompanied by upbeat guidance drove the share prices higher. The growth outlook is accelerating and it seems that on an operating level, the companies are improving their execution with more effective local sales and marketing expenditure driving revenue and margins. An example of this is our main consumer holding that has now teamed up with Alibaba for delivery, has a loyalty reward program with around 9 million members and will add mobile order and pay by the end of this year. The impact of these measures in China should be significant and it seems clearly underestimated in the current sales forecasts. In addition, our non-bank financials have provided positive contributions this year. A longtime holding, Ping An (2318 HK, mkt cap U$208bn) reported encouraging earnings and operating metrics with the value of new business rising +6.1% yoy to Rmb 21.6bn (U$3.1bn). The adjusted product mix and focus on higher value products brought a surprise +5.9% rise in NBV margin. The company presentation was once again impressive providing both clear data and strategy for each of their business ecosystems. Encouragingly in 1Q19, they gained 11 million new customers, 31% of which were sourced from internet users within the group's ecosystems. It is this ecosystem and the power of crossing selling together with the best in class technology and distribution that set Ping An Insurance apart and creates a dominant sustainable position. Interestingly, the fintech and health tech segments saw a surprising -24% drop in Q1 profits. That said, we still view Lufax and the other fin/health tech businesses as significant, underappreciated catalysts going forward. Elsewhere in the portfolio, there were some detractions to performance. Perhaps most surprisingly was our HK industrial company which had been one of the best performers so far this year. The stock price dropped -8% this month after the Chairman who bought a chunk of the stock ending just in January began to sell. Notable insider buying or selling is an area we watch. Indeed, one of our new names we added this month saw the largest shareholder and another senior director buying what on closer inspection seems a company now trading at an extended discount. Finally, our energy holdings suffered further poor price action despite reporting strong QoQ results driven by the surging oil price. Policy overhang, the spin-off expectations for certain segments and more recently the oil price continue to deteriorate. We have cut the position.

For Asia, the data points in April continue to embolden investors. China's better than expected Q1 GDP showed an accelerating sequential rebound to +6.7% QoQ. Industrial production also accelerated to +8.5% in March compared to a +5.3% run rate in Jan-Feb. Furthermore, the all-important retail sales numbers rose +8.7% in March which shows a +1.5% gain mom. Even the beaten down auto sales numbers are beginning to improve. As alluded to earlier, the broader earnings releases in April saw the Hang Seng Index EPS forecast revised up by c2% this month. For investors, the raising of company earnings and GDP forecasts should be a decisive signal. The Hang Seng index valuations now stand at 11x p/e with 3.7% dividend yield – slightly below the 10 year average of 12x p/e. Yet the trade negotiation and domestic stimulus issues are of overbearing importance. Investors are now concerned the data may be running too hot and that the policy push for credit growth and stimulus will all be front end loaded. The northbound A shares saw heavy outflows in April of Rmb18bn – the second highest monthly outflows on record. In addition, the pick up in short term funding costs in both Shibor & Hibor looked too halt the rush for leverage and intensified the selling pressure. With regards to US-China trade negotiations the 10th round finished in Beijing on May 1st. The signal was that resolution was close and the debate concentrated on how much has the market priced in. At the time of writing, we know that 11th round in Washington did not bring about a favourable outcome. That said, on a company basis, when we analyse the consensus forecasts for revenues and earnings for our portfolio we are more encouraged than fearful. There is a clear upside risk to earnings estimates in several of our names. On the one hand, we remain reassured by valuations, growth-supportive measures, regulatory reform, however, we are uneasy about a break down in trade talks and fears of a global slowdown. On the whole, the recent results, guidance and comments from companies have made us more constructive. We are adding to our list of solid companies that exhibit structural growth or a clear value with catalyst.

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