Neutron Asia Absolute Return Fund

Monthly Newsletter (May 2019)

NAV & Returns

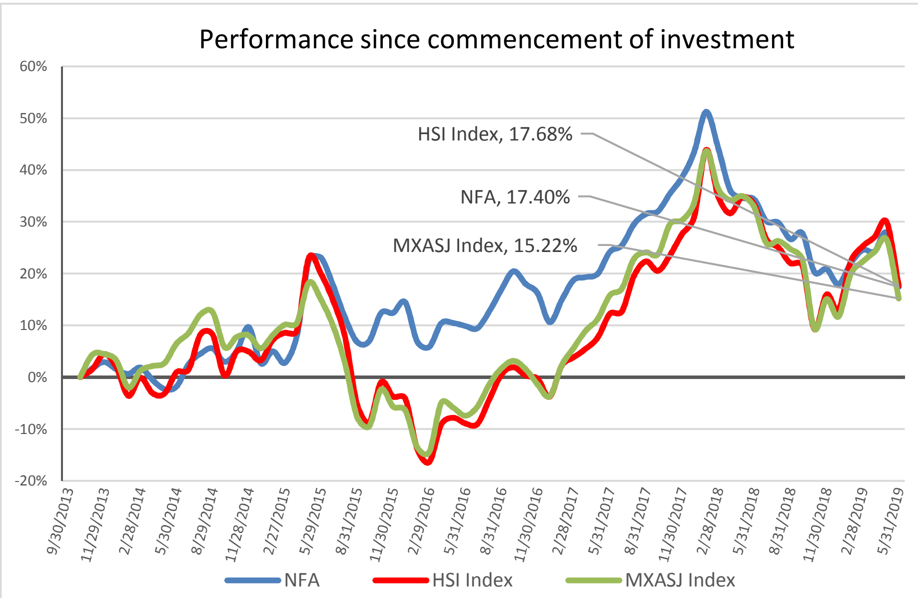
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,037.8277	↓ -8.13%	↓ -0.45 %	↑ 17.40%

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	-0.21	+2.82	-8.13								**-0.45**
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**

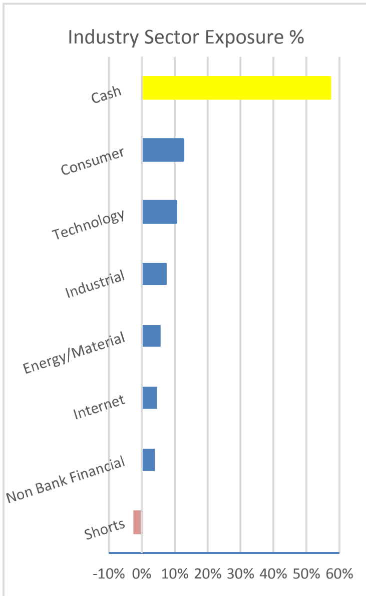
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$176 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 May the fund fell -8.13% net of fees. The NAV is 1,037.8277 as of May 31st, 2019 to leave the fund at -0.45% year to date.

For the portfolio, what a difference a month makes. After an encouraging start to the year helped by the recent better than expected 1Q China GDP data of +6.4%, the indices plummeted on a sharp deterioration in US-China trade negotiations. Over the month of May, the MSCI China index dived -13.6% and the Hang Seng fell -9.4%. After all the positive jawboning and constructive soundbites, the negotiations stalled. President Trump tweeted his disapproval and on May 10th, the US raised tariffs from 10% to 25% on $200bn of Chinese goods. In addition, there was a clear indication that a further 25% tariff would be imposed shortly on $325bn of untaxed goods. For us, the price action had a dramatic effect. In April, we had just increased our net log position encouraged by reassuring earnings releases, guidance for the second half of the year and more positive macro data. This news caught us out of position. The trade negotiations narrative reversed from constructive to destructive. Furthermore, the executive order restricting US businesses dealing with Huawei sets a damaging trajectory going forward. As a result, by the end of the month, we substantially reduced our gross and net long position by selling holdings and increasing short exposure. Our trade rotation saw the sale of ten existing holdings and the introduction of only two new positions. Consequently, the portfolio ended May with only eight long positions and three single stock shorts. As a consequence, our net long position closed at the lowest level for over 18 months. Regarding performance attribution, all of the long positions held detracted from performance. The main negative contributions were driven by our heavyweight tech, financial and consumer holdings. On the positive side, our index futures and single stock shorts made a positive contribution, but significantly outweighed by the declines.

So far this year, our portfolio has been increasingly populated by foreign managed or influenced companies operating in China. We had been encouraged by the improving operating metrics and positive guidance, Interestingly the FT highlighted this point in an article on May 15th. They stated foreign companies operating in China 'bucked the country's slowdown trend.' In data provided from FactSet; the revenues of 2,891 foreign non-financial companies grew +19.8% last year compared with +13.9% in 2017. The clear majority seeing accelerating growth rates against a deceleration or revenue decline in the rest. That environment, however, is clearly under threat. For our individual holdings, any company specific news was heavily overshadowed by the US-China trade situation. In short, we sold down and moved into defensives with an increased short exposure from futures and Chinese stocks with high multiples and extended growth forecasts. As the facts change, so we must change. Importantly for investors, this was not a one-off event, but a sharp adjustment in the course in the relationship of the world's two largest economies. Furthermore, there was a hardening stance on both sides. Later in the month, President Xi Jinping made a speech to rally the nation to embark on a new Long March and to 'start all over again.' Indicating to the world that under the current US proposals there was little chance of a resolution. China promised 'necessary countermeasures' and created an 'Unreliable Entity List' in response to the US imposed restrictions on Huawei via the 'Entity List.' The Huawei restrictions are already having a profound effect on the whole global technology supply chain. The effects of China's countermeasures have yet to present themselves. In recent years, China has been no stranger to trade spats, although they have been almost petty in comparison with the current situation. Japan, Korea and Thailand have all upset China in one way or another. The commercial impact in all cases was notably damaging even if relatively short-lived. The Chinese authorities calmly find the sensitive pinch points and press them without creating waves elsewhere. In addition, the Chinese consumer, stirred up by nationalist slogans makes the supportive gesture with their purchasing decisions. Any way we look at this, the US and foreign companies are in for a rough ride in the domestic China market although the extent of the damage will differ.

In April's newsletter, we mentioned the accelerating sequential rebound in Q1 GDP to +6.7% QoQ. There were also incrementally positive readings in industrial production and retail sales. The Hang Seng Index EPS forecast was revised up c2% and we mentioned how the raising of company earnings and GDP forecasts should be a decisive signal. Fast forward and under the current circumstances, we have analysts now revising down both their China GDP growth forecasts and their MSCI China year-end index targets. In addition to the drop in the indices, Northbound trading of China A-shares plunged to a record outflow of RMB 45bn (U$6.5bn) in May. On a company and sector level, the newsflow deteriorated materially. The Huawei case indicates that the whole technology sector and its supply chain is an established battleground area in its own right. In the financial sector, the regulator took over Baoshang Bank due to serious credit risk. Kangmei Pharma (6005128 CH) fell -56% in May as it fraudulently inflated its cash deposits by a huge U$4.4bn and falsified business certificates to inflate its income. In response, the government has ordered an audit of 77 randomly selected foreign and domestic pharma companies. As a result, we can expect a focus on Chinese corporate accounting practices and standards going forward. Currently, the toughest penalty for false financial disclosures is a RMB 600,000 (U$87,000) fine. An asymmetrical risk incentive if ever there was one. On a purely political level, this crisis can be used by both country's leaders to garner personal support. It is also a chance to opportunistically flush out any issues or problems that were previously under wraps. The foreign power can be conveniently blamed for a multitude of wrongdoing or the issues are buried under the bigger headlines. For investors, they must adapt to the changes of circumstances imposed on them. There may be bouts of constructive talks and stimulus in certain industries, but the current playbook is about inflicting pressure on each other. Going forward, both economies will seek to cut reliance on each other which will weigh on the global economy. Undeniably, history has shown that a crisis will bring opportunities. There will be price dislocations from huge outflows and spikes in negative sentiment. We will focus our energies and continue with our investment process of a fundamental value approach identifying solid companies exhibit structural growth or a clear value with catalyst.

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