Neutron Asia Absolute Return Fund

Monthly Newsletter (Jun 2019)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,048.6896	↑ +1.05%	↑ +0.59 %	↑ +18.62%

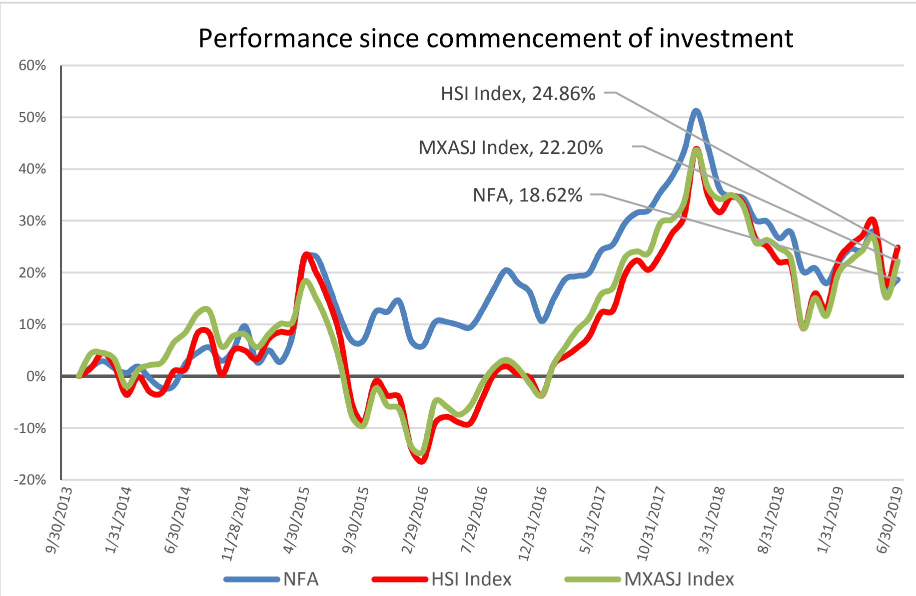
Historical Monthly Returns

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	-8.13	+1.05							**+0.59**
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**

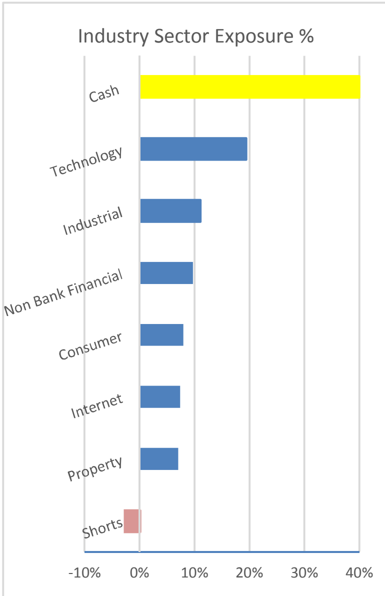
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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 info, 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$178 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 June the fund gained +1.05% net of fees. The NAV is 1,048.6896 as of June 30th, 2019 to leave the fund up +0.59% year to date.

For the portfolio, June was a month to rebuild after the sharp declines in May. The markets rebounded driven by a series of events, notably an easing in the US-China trade relations as the leaders came face to face at the G20 meeting in Japan. They decided to resume talks without the previously threatened additional tariffs and investors were further encouraged by the surprise dialling back of some sanctions on Huawei. This news brought much-needed relief to the tech sector and boosted sentiment in general. Furthermore, on a macro level, both the US Fed and the ECB moved to a more dovish stance and indicated a bias for looser monetary policy going forward. Finally, the Chinese government implemented more domestic fiscal policies to encourage consumption focusing on autos and infrastructure development. In contrast to May, these news points provided investors with a new string of meaningful drivers and repositioning followed. As a result, by the end of the month, we had increased our net long position by adding to our companies list and reducing our previous short exposure. Our trade activity saw the sale of four holdings and the introduction of seven new positions. Consequently, the portfolio ended June with eleven long positions and three single stock shorts. Our net long position rebounded from the previous low levels to our average net exposure. Regarding performance attribution, all of the remaining long positions provided a positive contribution. The main drivers of performance were our consumption plays and large-cap tech holdings. On the negative side, we exited our energy, mid cap domestic plays and our index futures and single stock shorts also detracted from the gains.

One of the main positive contributors this month was from our large cap consumer holdings. Given the current situation, one clear strategy against the impact of the trade war on the Chinese economy is to boost domestic consumption. The recent policies are perhaps beginning to have an effect. In May, retail sales rebounded +2.1% mom after a -0.6% decline in April although the Labour day holiday extension would certainly help boost consumption. We have previously been concerned that the Chinese consumer, stirred up by nationalist pride, may boycott or penalize US and foreign brands. Early feedback seems to be that it is not necessarily the case. In fact, recent interviews with two particular CEOs stated that the growth outlook is accelerating. One of our holdings is in a race to expand its coverage and delivery program in China. Having previously teamed up with Alibaba for delivery, it now has a loyalty reward program with around 9 million members and is rapidly rolling out mobile order and pay through its growing network. In a recent breakthrough, they are now rapidly developing ghost kitchens. These have no front of house, but are in convenient locations. They have initially combined with local supermarket chains for the space to process and fulfil delivery orders. This is a highly effective solution to expanding their reach, improving overall customer service and driving revenues. This is not yet appreciated by the consensus. Another CEO of a luxury consumer goods company stated ‘We aren’t going to be affected by tariffs.’ He sees China being 50% of the industry growth over the next 5 to 10 years. In addition, the brand is building real customer traction with repurchase rates running at 50 to 60%. In their industry, the average Chinese consumer currently spends U$23 a year, whilst the average US consumer spends $255 a year. The growth opportunity is enormous. In reality, the trade tensions have not yet bitten certain consumer brands. It seems that the growth opportunity is overriding and on an operating level, the best companies are using more effective local sales and marketing tools to drive revenue and margins. We have added to our positions during the month and remain positive on premium consumption trends in China.

For Asia, despite the rebound in markets, it is hard to identify incremental positives in the broader indices. The economic data remains decidedly mixed and earnings forecasts continue to come down. The Hang Seng Index 2019 EPS forecast was revised down a further -0.4% in June mainly driven by the oil companies. As we approach the half-year reporting season, expectations are low and the likelihood is for further cuts. September is traditionally the busiest revision month although, with sentiment so low, some may start to focus on guidance and valuation. With regards to valuation, it could be argued that it is largely in the price. On a price to book basis, Hang Seng Index is currently at 1.23x versus a 10 year range hi: 2.15 lo: 1.02 ave: 1.44. For HSCEI, it currently trades on 1.04x p/b versus a 10 year range hi: 2.53 lo: 0.79 ave: 1.35. Both data points would be encouraging for the longer term investors as the probability of a positive return over 12 months is above 80%. Furthermore, investor positioning remains light with global investors shunning China. Institutional weightings in emerging markets are the lowest since 2001 and within EM, Asia ex-Japan is the biggest underweight. That is driven by China and although we saw Northbound trading of China A-shares rebound in June it did compensate for the record outflow of RMB 45bn (U$6.5bn) in May. Finally, credit conditions and loan growth remain relatively stable despite a deceleration in bond issuance and expectations for a rise in defaults. For investors, the dominant issues at this time, remain the trade negotiations, monetary policy and Chinese domestic stimulus. The uncertainty will create opportunities. This month we have added to our holdings that exhibit pricing power and growing revenues. We remain focused on a fundamental value approach identifying solid companies exhibiting structural growth or a clear value with catalyst.

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