Neutron Asia Absolute Return Fund

Monthly Newsletter (Jul 2019)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,030.6166	↓ -1.72%	↓ -1.14 %	↑ +16.58%

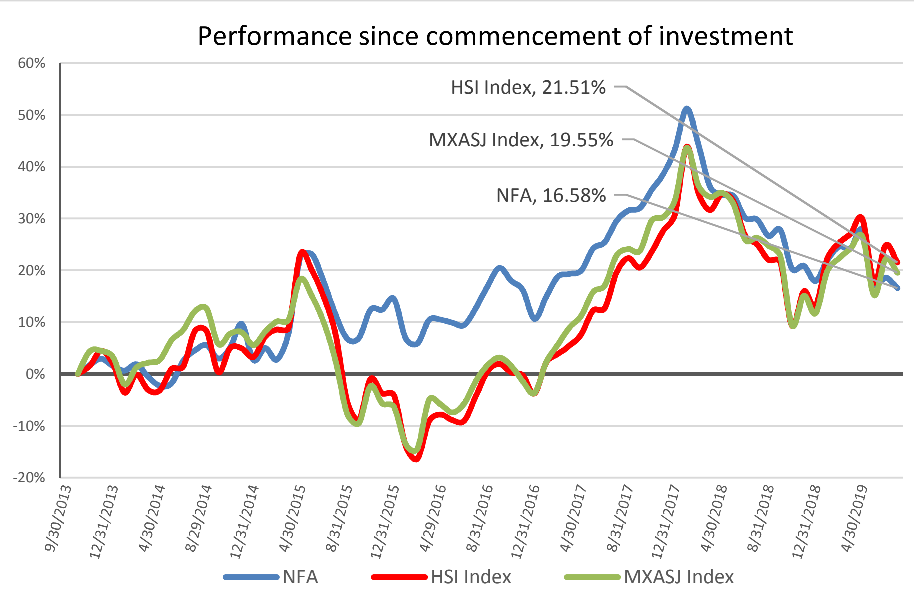
Historical Monthly Returns

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	-1.72						**-1.14**
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**

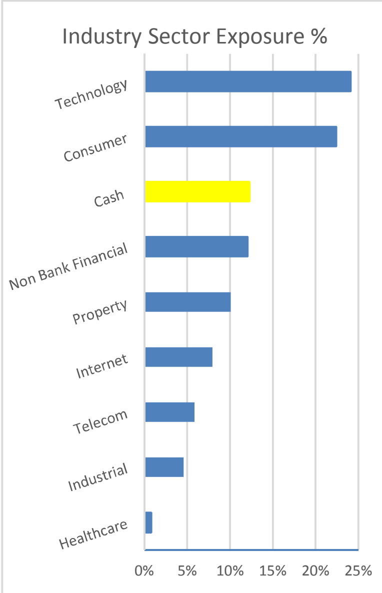
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$175 million Approx. US$22 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 July, the fund weakened -1.72% net of fees. The NAV is 1,030.6166 as of July 31st, 2019 to leave the fund down -1.14% year to date.

For the portfolio, it was a disappointing end to the month. The US-China trade negotiations in Shanghai concluded with the customary 'constructive' update from the White House press secretary. This was misleading as it soon became clear that the fundamental structural divisions remained and these talks only provided more friction. The US President was far from impressed and subsequently announced the imposition of a 10% tariff on $300bn of goods starting on September 1st. In Hong Kong, the violent escalation in the protests increased concerns over the economic slowdown driven by a drop in tourist arrivals and consumer spending. These provided a negative impact on the portfolio most heavily felt in the HK/China names. Regarding performance attribution, by the end of the month, seven of the remaining long positions provided a positive contribution whilst ten detracted. On the negative side, the majority our Hong Kong listed holdings suffered a broad sell-off late in the month with additional weakness from some tech and 5G plays. The main positive drivers were concentrated in our consumption plays and large-cap tech holdings. On the short side, our index futures weighed on performance whilst our single stock shorts were more mixed.

Further to last month's newsletter, our large-cap consumer plays provided an ongoing positive contribution with companies reporting better than expected results, raising their outlook and accelerating their expansion plans. The consumer growth opportunity in Asia remains enormous. Given the current situation, one clear strategy to address the impact of the trade war on the Chinese economy is to boost domestic consumption. This should be a reliable policy going forward. Another holding that we increased this month was Wilmar International (WIL SP, Mkt cap U$18bn). In July, the China Securities Regulatory Commission (CSRC) accepted its application for the proposed listing of its China business, Yihai Kerry Arawana Holdings (YKA) on the Shenzhen Stock Exchange. This is significant as YKA is one of the largest agribusiness and food processing companies in China. They have market leadership in oilseed crusher and rice miller business, a 45% market share in consumer pack edible oils and number three position in producer pack dry noodles. The prospectus was published on the CSRC website on July 12th revealing improved disclosure and indicated that the Kitchen Food Product segment generated a net profit of U$583m in 2018. This was notably higher than some analysts estimates of U$303m. Whilst each of the business units is valued differently, Wilmar has the attractive business model of being vertically integrated and more importantly, a brand owner for multi-category of consumer products. The initial valuation range is estimated at 20-23x price to earnings - with 23x p/e reportedly the maximum limit set for a China IPO. That said, when looking at comparables, we would expect a quality company such as YKA that is listed on the A-share market to trade at a higher multiple than that. Undoubtedly, this listing would be a significant crystallization of value for Wilmar and it is suggested that a special dividend of 50% of the IPO proceeds (cU$2billon) will be paid. With regards timeline, there is usually a 2-4 month wait for final approval so we are on track for a 4Q19 Shenzhen listing. We see the value crystallization from the listing still significantly underappreciated by investors as it leaves the stub trading at 8 x p/e - the cheapest amongst the peer group. We see clear upside in this situation.

For Asian investors, the lack of progress and indeed increased friction in US-China trade negotiations is a worrying sign. Western commentators have realized that China's one clear competitive advantage is that it can withstand more 'pain' without political instability than the United States. Consequently, the longer the trade negotiations go on, the more ineffective Trump's administration is and the weaker his support base, particularly the agricultural industry, becomes. This ongoing pressure may impact the probability of Trump's reelection and enhance their bargaining position. That said, China's economic activity continues to weaken with 2Q19 GDP slowing to 6.2% from 6.4% in Q1. China's manufacturers seem most impacted with July PMI coming in at 49 and new orders at 49.8. Both stay below 50 for the third month in a row. On the other hand, retail sales delivered a solid gain of +1.0% mom in June adding to the +2.0% mom gain in May. In addition, industrial production came in better than expected at +0.8% although industrial profits declined -3.1%. One commentator stated that the economy is 'worsening less quickly.' At the time of writing, the situation intensified as China reset its currency weaker and importantly through the psychological 7.00 threshold. This complicates matters further and has global consequences. In last month's newsletter, we noted that valuations for HSI and HSCEI indices on a price to book basis were trading towards the bottom of the 10-year range. Investor positioning remained 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. We have undoubtedly moved lower on all metrics from there. The increased uncertainty will create opportunities and price dislocations for those with a longer-term horizon. We have maintained 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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