Neutron Asia Absolute Return Fund
Monthly Newsletter (Sep 2019)

NAV & Returns

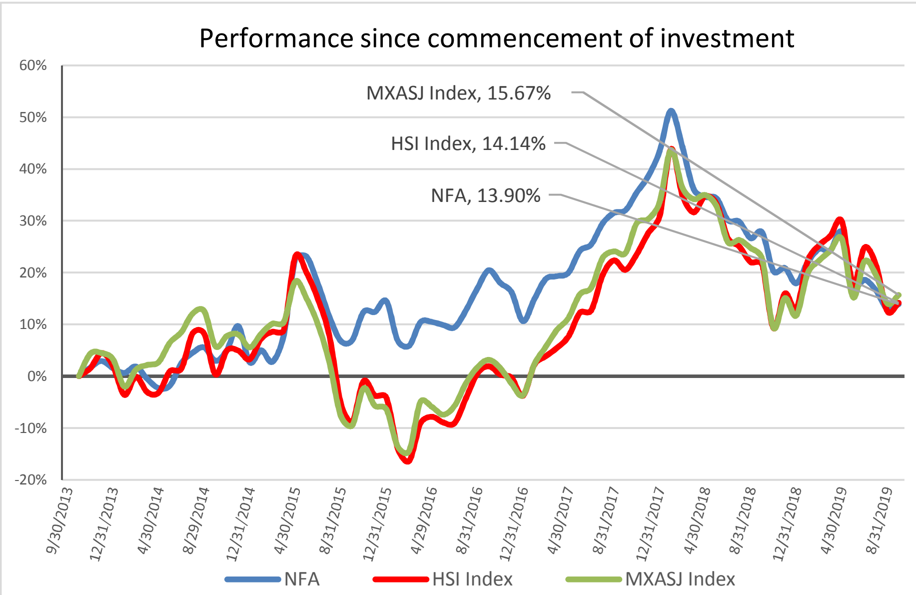
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,006.9311	↑ +0.81%	↓ -3.42 %	↑ +13.90%

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	+1.05	-1.72	-3.08	+0.81				**-3.42**
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**

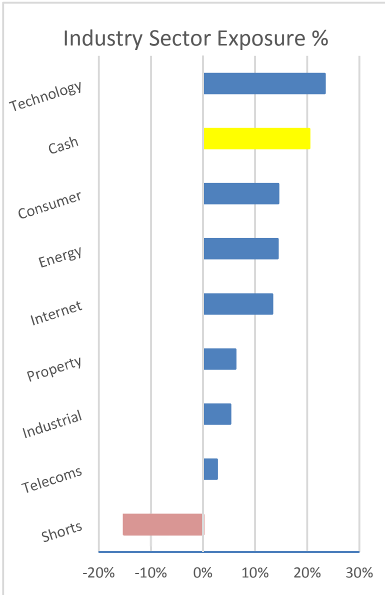
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$171 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 September, the fund gained +0.81% net of fees. The NAV is 1,006.9311 as of September 30th, 2019 to leave the fund down -3.42% year to date.

For the portfolio, the positive contribution in September was reliant on a handful of specific stocks with a domestic China or international focus and catalyst to drive performance. The Hong Kong names continued to provide headwinds for performance despite the HK government formally announcing the withdrawal of the extradition bill early in September. This failed to quell the ongoing social unrest that continues to escalate in violence and economic impact. With regards to the US-China trade war, sentiment improved and tensions de-escalated with a confirmation of the next round of trade talks in Washington in early October. In a display of mutual goodwill gestures, the tariff date was pushed back from October 1st – the 70th anniversary of the establishment of the PRC – to October 15th importantly after the scheduled trade talks. That said, optimism for any material progress in the trade war remains low. This was illustrated by the talk of imposing US accounting standards and the potential restrictions on portfolio investments into Chinese equities that sparked an ADR sell-off into the end of the month. Recession fears continue to linger. As a result, global monetary easing continued with the US Fed cutting interest rates on Sept 18th for the second time this year and many forecast a further two cuts before year end. Regarding performance attribution, there was broad firmness in our technology and consumer stocks, particularly in the smartphone supply chain. In addition, there were gains to a lesser extent in our energy and industrial names. On the negative side, the main detractions came from the HK focused names particularly non-bank financials, internet education and one corporate restructuring play. On the short side, our index futures and our single stock shorts both detracted from performance.

One of our main positive contributors this month was AAC Technologies (2018 HK, Mkt cap U$7bn). In August, they reported an even worse than feared set of results with a sharper decline in the gross margin that shocked investors. On the 2Q conference call, the management suggested that earnings had bottomed and guided for a rebound in the second half. At the time, investors were sceptical of a recovery in smartphone component sales, citing increased competition and the headwind of the trade war. Subsequently, the share price was driven to a four year low. This seemed like the final flush out as investors did not like the negative surprise. The management was not so despondent declaring a 40% payout ratio dividend and had been buying back shares in 1H19. With the resilience of the consumer both in US and China in premium products, we believed that the consensus numbers for new iPhones sales which had been uncharacteristically cut in January by Tim Cook now had the risk clearly to the upside. For AAC, their historical customer sales breakdown was around 50-55% for Apple, Huawei 10-15% and Vivo, Oppo and Xiaomi 5-10% each. With the higher unit sales, the new innovative components with higher ASPs and gross margins should drive a sharp rebound in earnings growth. Interestingly, we note that for new Huawei Mate 30 pro, which is selling well – a million units in 3 hours apparently- AAC is pretty much the sole supplier of the new edge haptics design - the virtual side buttons. Given the cyclicality rather than structural growth of the industry, these component makers may deserve a lower multiple than previously held. That said, the 5G adoption and the notably better than expected recent demand will likely drive earnings at higher rates than consensus estimates. We have added to our position this month.

For investors, the fear over a global slowdown and upcoming recession continued. For HK and China, the crippling social unrest and the impact of the trade war saw the economic data continue to deteriorate. China's industrial production fell to +4.4% in August which is the weakest pace since January 2009. Retail sales came also in below expectations at +7.5% with auto sales the main detractor. Tariffs and the movement in the supply chains are having an increasing impact as China's exports to the US fell a -5.8% mom in August, worsening from the -3.4% decline in July. We continue to see economists soften their China GDP forecasts although surprisingly corporate earnings revisions were largely flat in September. In response, the Chinese government rolled out further monetary policy easing with both RRR and LPR cuts. For us, the price action in September in many of our names was encouragingly resilient. The push back of further tariffs to after the US-China trade talks and the hardiness of the consumer was taken as a positive sign. As we mentioned last month, our value screening – although old-fashioned – is increasingly filled with larger caps as opposed to the small-mid cap names, especially in Hong Kong and China. Corporates are raising dividends, buying back stock and we expect more corporate actions and even privatisations in the months ahead. For the longer-term investor, the data points of sentiment, positioning and valuation are clearly in your favour. There is no doubt that the imposition of further tariffs or directive action would be impactful. Yet the increased uncertainty has created opportunities and extreme price dislocations for those with a longer-term horizon willing to stomach the daily turbulence. Consequently, our portfolio is positioned in companies where we have identified clear fundamental value with a positive catalyst.

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