Neutron Asia Absolute Return Fund

Monthly Newsletter (Oct 2019)

NAV & Returns

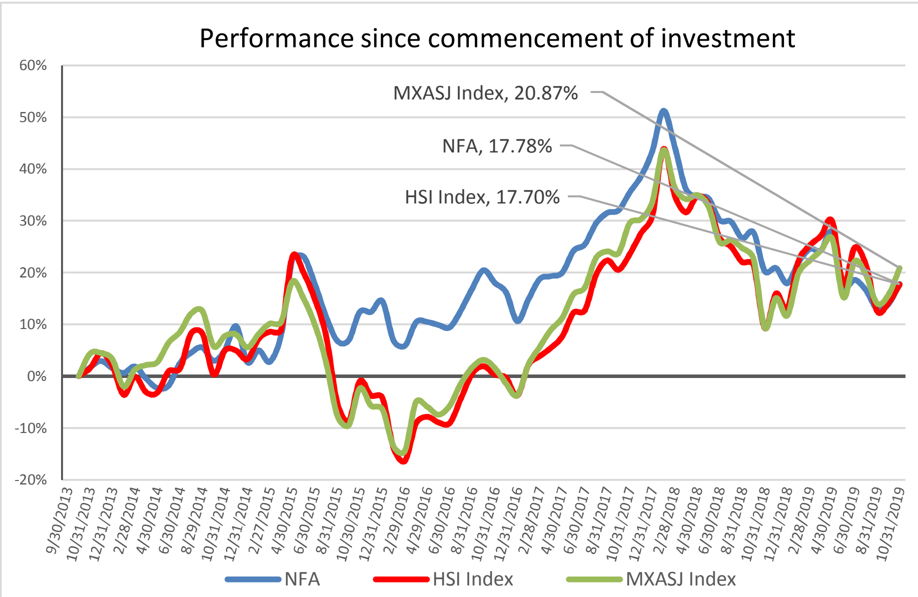
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,041.2051	↑ +3.40%	↓ -0.13 %	↑ +17.78%

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	+3.40			**-0.13**
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**

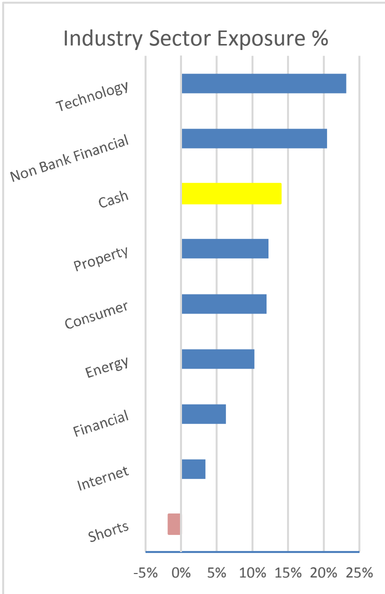
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$177 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 October the fund gained +3.40% net of fees. The NAV is 1,041.2051 as of October 31st, 2019 to leave the fund down -0.13% year to date.

For the portfolio, October delivered fairer sailing conditions as many of the headwinds affecting Asian markets abated. There was a notable breakthrough in the US-China trade negotiations in that both sides suggested that a phase 1 of the deal could be signed at the APEC summit in Chile. As yet the date and location have yet to be decided. The Federal Reserve cut rates as expected and importantly signalled a stable accommodative policy for the foreseeable future as inflation remains benign. Consequently, the US dollar softened and the Chinese Renminbi stabilised firmer bringing a much needed a tailwind to Asian markets. In addition, corporate earnings both in the US and Asia came in broadly better than expected with more optimistic guidance and firmer capex for 2020. These factors had a notable impact on our holdings. With regards to the portfolio's performance attribution, there were notable positive contributions from our smartphone supply chain names, our oil services company and Macau play. In addition, there were solid gains from our larger-cap heavyweight positions in technology and two non-bank financials. On the negative side, the main detractions were concentrated in an internet holding, an energy company and a consumer name. On the short side, our index futures positions and our single stock shorts provided a small detraction using lower volumes.

Over the month, we increased our net long exposure by adding to beaten down HK listed companies and our event-driven names. Several of our holdings posted better than expected (or feared) results driven by themes of a resilient consumer, rising demand, increasing capex. One event-driven holding is Postal Savings Bank of China (PSB, 1658 HK, mkt cap U$53.5bn). It has been many years since the portfolio has held a Chinese bank as a major holding, however, it was the event of receiving approval for an A-share listing that aroused our interest. In investment terms, Postal Savings Bank of China is not one of the main Chinese banks and is largely off many international investor's radars. Things may be about change. The bank is well known in China and is widely regarded as one of the more solid and conservative in the industry. It has CET1 ratio at 9.55%, a low loan to deposit ratio at 52.9% and NPL ratio at 1%. These numbers are before the A-share listing now set for November 28th which is estimated to increase its interest-free funds by Rmb 28bn (U$4bn). On closer inspection, the story improves further. The bank has approximately 590 million customers which they are pushing to monetize. Loan growth is expanding a robust +16.6% YoY of which 58% is to higher-yielding personal loans. Net fee growth is developing off a low base at +19% YoY. It is the enormous client base and the growth opportunity that drew the interest of Tencent and Ant Financial to be strategic investors in 2015. As a household name in China, we see the forthcoming A-share listing attracting substantial demand and to trade at a notable premium to the current H share. From this position, we expect the PSB to have higher longer-term growth rates than the industry average. They have also followed a policy of raising their dividend payout ratio which has increased to 30% in 2019 from 15% in 2016. An additional positive catalyst appeared recently after the Ministry of Finance (MOF) issued the 'Consultation Paper for the Financial Rules of Financial Enterprises' on 26 September and proposed that banks maintain provision-coverage ratios at not more than 300%. The PSB provision-coverage ratio stood at 391% at end Q3 FY19. If PSB was to conform to this there would be potential notable write-backs in provisions for the bank. To put this in context, if PSB reduced its provision-coverage ratio to 300% and recognised all overdue loans as NPLs, it would lift consensus forecast FY20 pretax profit forecast by around 40%. We see a series of positive catalysts for this name starting on November 28th and remain invested.

For investors, October may be a pivotal month as the fears of a recession and global slowdown gave way to an increased risk appetite. There is no more anxious talk about the inverted yield curve and the corporate earnings season and guidance were broadly better than expected. October was the first month since January to see the MSCI Emerging markets index outperform MSCI World Index. For us, the earnings season confirmed that many companies are more optimistic than the lagging top down views from the World Bank, IMF and many economists. As mentioned in a previous newsletter, September is traditionally the busiest month for earnings revisions. The numerous bearish headwinds that weighed on the economies, in particular the trade war, have seen analysts lower forecasts. However, 3Q corporate profits were better than feared and both guidance and capex are being taken higher. We see the risk on consensus earnings forecasts for 2020 in many of our names clearly to the upside. In addition, the data points of sentiment, positioning and valuation remain clearly in your favour. There is no doubt that a break in the US-China constructive mood or the imposition of further tariffs or directive action would be highly detrimental. Yet the months of uncertainty has produced opportunities and significant price dislocations. Not least in HK listed companies that have no business or sensitivities to the turbulent and troubled HK domestic economy. Consequently, we are optimistic and our portfolio is positioned in companies where we have identified clear fundamental value with a positive catalyst.

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