Neutron Asia Absolute Return Fund

Monthly Newsletter (Nov 2019)

NAV & Returns

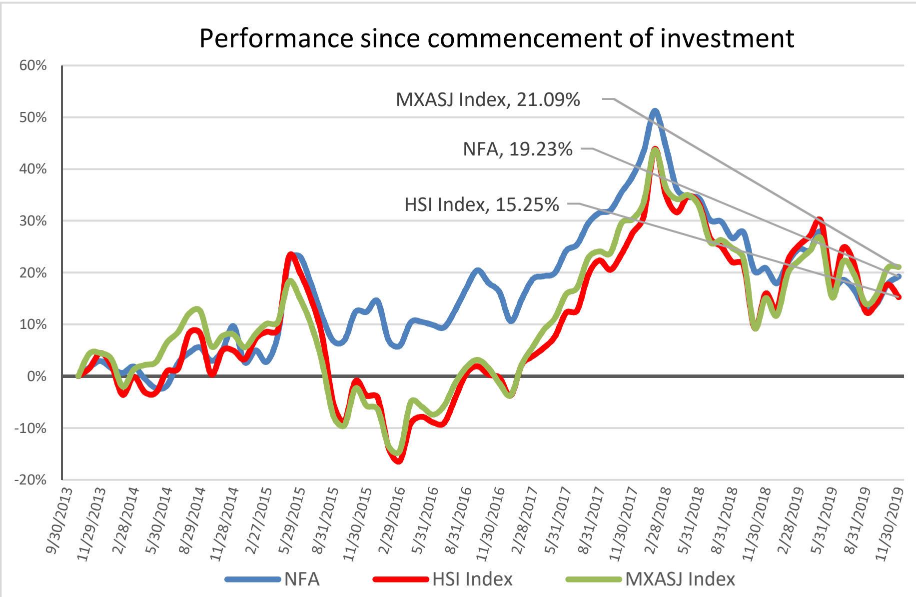
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,054.08	↑ +1.24%	↑ +1.11%	↑ +19.23%

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	+1.24		**+1.11**
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**

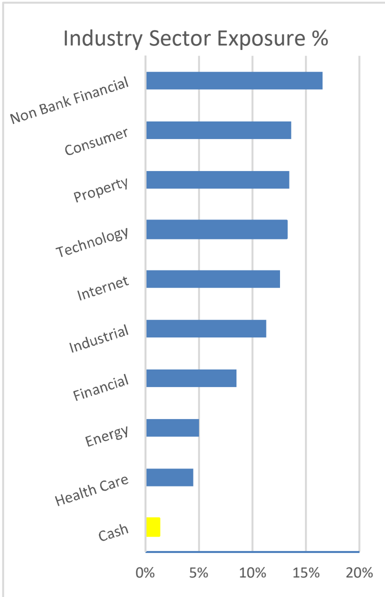
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$179 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 November the fund gained +1.24% net of fees. The NAV is 1,054.08 as of November 30th, 2019 to leave the fund up +1.11% year to date.

For the portfolio, November was more of a mixed picture. Hong Kong continued to suffer from prolonged and escalating social unrest. The market weakness intensifying at the month-end as President Trump signed the HK Human Rights and Democracy Act adding further uncertainty to the situation. On the other hand, offshore China shares firmed due to the mildly positive sound bites from both sides regarding a phase one trade deal. In addition, despite the Chinese economic data remained weak, the government's policy response stepped up with some modest, but targeted monetary easing that appeased investors. With regards to the portfolio's performance attribution, the main positive contributions came from our technology, consumer and smartphone supply chain names. There were additional gains from our financial and Chinese industrial names. On the negative side, the main detractions were concentrated in our insurance holding and the domestic HK names. On the short side, our index futures positions and our single stock shorts weighed on performance.

One of the clear outcomes of the prolonged trade war is each side's focus on their economic national security. Little is more important to China than the reduction of dependency on energy imports. As a consequence, the big three oil producers have notably increased their capex budgets for 2019. This is a distinct change of direction. In the past few years, for CNOOC in particular, there has been unmistakable underspending in capex by around 17-20%. This has had a depressing effect on the oil service providers, including China Oilfield Services (COSL 2883 HK, Mkt cap U$9.3bn) Now, with the urgency of the long term strategic plan, they find themselves at the beginning of a multi-year expansion phase. CNOOC's capex is now expected to approach Rmb 75bn (U$10bn) in 2019, rising to Rmb 105bn (U$15bn) by 2023 and talk of a target towards Rmb 125bn (U$18bn) by 2025. This is significant for COSL with over 70% of their revenue is derived from CNOOC. As a result, their revenue is expected to double from Rmb 22bn in 2018 to over Rmb 40bn in 2023. Importantly, with the new longer-term national agenda, the visibility and quality of COSL's earnings will improve. In addition, this secure outlook should re-rate the 1.2x price to book valuation which is the 10 year average. Analysts are slowing lifting their numbers on the higher operating volume and the service mix upgrades. The well-services division is currently 50% of revenue, but the company is targeting towards 70% in the years ahead. Expectations are for the utilization rate of the current drilling rigs to approach 90% in 2020 and that tightness should pressure the day rates higher. For investors, this is not a popular sector. Global energy stocks are amongst the worst performers and remain an unattractive sector for several macro reasons. For COSL, this is an individual case and despite the share price firmness, the consensus earnings forecasts and valuation multiple remain too low. A catalyst for change is likely a month away. In January 2020, CNOOC presents its Strategy Day laying out their future plans and outlook. This should provide evidence that analysts and investors need to raise their earnings expectations to trigger a re-rating.

For global investors, the sentiment for equities remains largely constructive outside of Hong Kong's domestic troubles. The US economic data, corporate earnings and mood surrounding the US-China trade negotiations continues to provide encouragement. For China, the economic data continued to deteriorate with industrial profits falling -9.9% yoy in October. Fixed investment growth softened to +3.4% from +4.7% in September and Total Social Financing coming in well below forecasts. Retail sales also came in lower than expected at +7.2% from +7.8% in September. That said, the Chinese government have accelerated monetary and fiscal stimulus measures with cuts in key benchmark rates and a pre-approved RMB 1 trillion special bond issuance to boost investment growth. Investors seem encouraged and more importantly, are confident that a phase one trade deal or rollback of tariffs will happen. The next tariff deadline is scheduled on December 15th lifting the rate from 10% to 15% on the remaining $300 billion worth of goods. Any disappointment will severely impact markets. For us, we maintain that this period of uncertainty has produced opportunities and significant price dislocations. Not least in many HK listed companies that have no business or sensitivities to the turbulent and troubled HK domestic economy. For longer-term value investors, the criteria of positioning, valuation and sentiment remain clearly in your favour. We will continue to focus on our individual positions within the portfolio where we have identified clear fundamental value with a positive catalyst.

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