Neutron Asia Absolute Return Fund

Monthly Newsletter (Dec 2019)

NAV & Returns

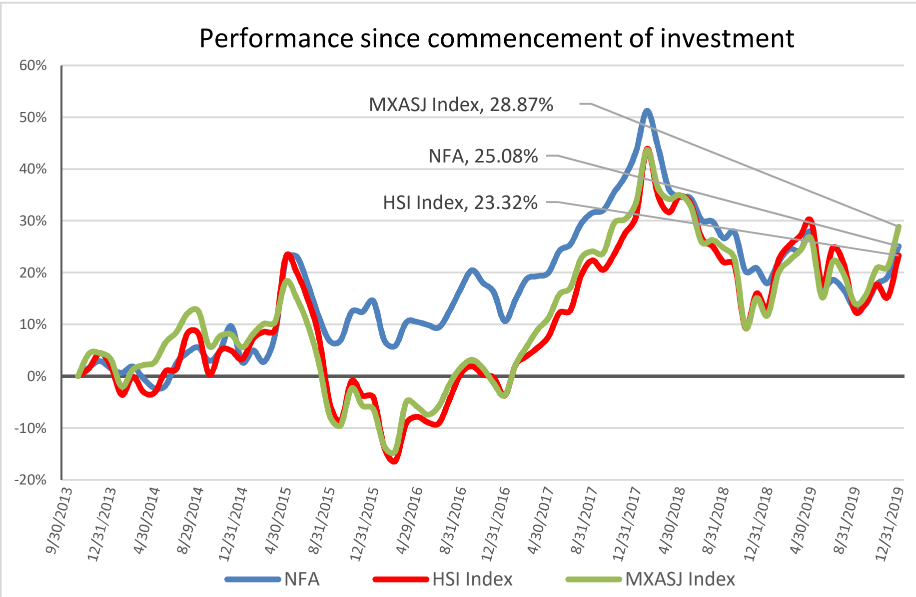
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,105.7423	↑ +4.90%	↑ +6.06%	↑ +25.08%

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	+4.90	**+6.06**
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**

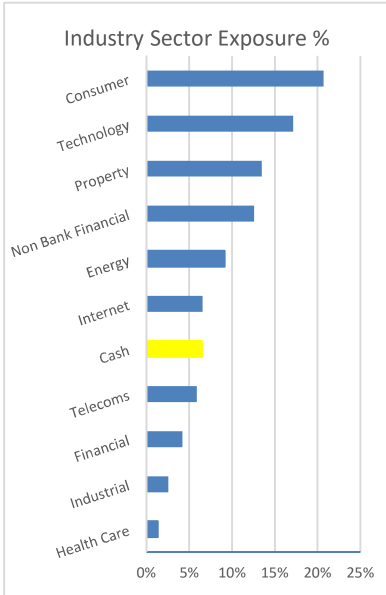
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$188 million Approx. US$24 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 December the fund gained +4.90% net of fees. The NAV is 1,105.7423 as of December 31st, 2019 to leave the fund up +6.06% for the year.

For the portfolio, December saw broad market gains driven by the announcement that an agreement on phase one of the trade negotiations had been reached. The deal avoided the impending punitive tariffs hikes and reduced the tariff rate on $120bn of good from 15% to 7.5%. No details were given except for China's huge agricultural purchases and a separate announcement on the opening up of the Chinese financial sector. In addition, China's economic data showed some improvement across most metrics whilst HK's economy slowed further despite the lull in the ongoing social unrest. With regards to the portfolio's performance attribution, the majority of the holdings saw gains with the main contributions from our oil services company, the non-bank financials, our Macau holding and the smartphone supply name. On the negative side, the main detractions came from our pharma holdings. On the short side, our index futures provided a small gain and there were no single stock shorts.

Over the year, the US-China trade war and HK protests have brought a chaotic environment for companies and investors involved. The consequences of the trade negotiations are that the world economic system is being changed. For the companies exposed this can be transformational. For the portfolio, the consequences can be an opportunity. One repercussion for both sides is the importance and focus on economic national security. As we mentioned in a previous newsletter, China views the reduction of dependency on energy imports as vital and instructed the nation's oil producers to step up their capex. As a result, China Oilfield Services (2883 HK) was one of the main contributors to our performance in December. We remain holders and believe investors have yet to appreciate the multi-year expansion phase ahead of them. Another solid contribution came from our technology holdings, in particular, our 5G supply chain plays. With technology and 5G a major battleground, the race for 5G rollout is set to accelerate. This is highly supportive of innovative supply chain companies as phone shipments continue to surprise on the upside. Another outcome is the demand for changing financial regulation and a more level playing field. In China, they have begun the process to open up. In the US, there is an angry push to increase corporate governance and adherence to US financial standards of the US-listed Chinese ADRs. As a result, the main ADR companies are hastily planning a secondary listing on the more agreeable HK Stock Exchange. Alibaba was the successful first mover and we are expecting a steady flow of major company listings in 2020. This is exciting and significant news for our holding, HK Exchange (388 HK) which is still recovering from its failed bid for the LSE and the weight of domestic troubles. With economic inter-reliance seen as less desirable, both administrations recognise the importance of boosting their individual domestic economies. Our holding Meituan Diaping (3690 HK) is an exciting company focused on domestic consumption, technology application and an industry undergoing huge structural growth. It is rapidly expanding from its food delivery business to become the major tech platform for services of all kinds; hotels, travel, weddings and all categories of the catering industry. The opportunities for cross-selling and advertising is enormous and penetration rates remain relatively low. We remain holders.

Looking ahead, global investors will be encouraged by the signing of the phase one trade deal. The belief is now that the US-China negotiations are moving forward in a constructive manner. Although there are challenging negotiation points still to be resolved, timing is such that both sides have much to gain domestically by ensuring a prosperous economy in the near term. For the US, it is an election year and the current administration will be eager to present a winning economy ahead of the vote in November. For China, 2021 is the 100th anniversary of the founding of the communist party. This is an important landmark date by which the target of a full 'Xiaokang society' (moderately well off) should have been achieved. For President Xi and the nation, this will present a moment of evaluation and reflection on the performance of the communist party. With this on the horizon, investors should expect supportive economic policies from both administrations. The recent economic data points provide evidence of improvement. China's industrial profits rose +5.4% yoy reversing the -9.9% decline in October. Retail sales accelerated to +8% in November from +7.2% the previous month and the December PMI data came in marginally better than expectations. For the US side, the economic data continues to be robust. One objective of the trade deal is to ensure the opening up and access to the China market. This is set to power the growth in the years ahead. Investors into China know that expecting corporate reforms is more often than not akin to crying wolf. That said, there have been noticeable advancements. We have witnessed the marked increase in dividend payouts from state-owned enterprises and been encouraged by the spreading introduction of management share incentive plans. In addition, corporate asset restructuring initiatives are being proposed and in process under market driven guidelines. Despite this progress, corporate valuations indicate that investors remain overly sceptical. No more so than the HK-listed China companies that have suffered under the prolonged HK protests even though they have no operations or notable sensitivities there. As a result, the H share index is trading on 8.8x price to earnings with a 3.35% dividend yield. Ten years ago in 2009, index EPS was Rmb788. At the end of 2019, it's estimated to be Rmb 1,261, yet the index is down -12.5% over the ten years with earnings expected to grow high single digits this year. The uncertain environment has produced glaring price dislocations and clear opportunities – see many A to H share spreads. We continue to argue that for longer-term investors, the criteria of valuation, investor positioning and sentiment remain distinctly in your favour. We will continue to focus on our high conviction individual positions where we have identified clear fundamental value with a positive catalyst. Happy New Year and best wishes for a successful 2020.

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