Neutron Asia Absolute Return Fund

Monthly Newsletter (Jan 2020)

NAV & Returns

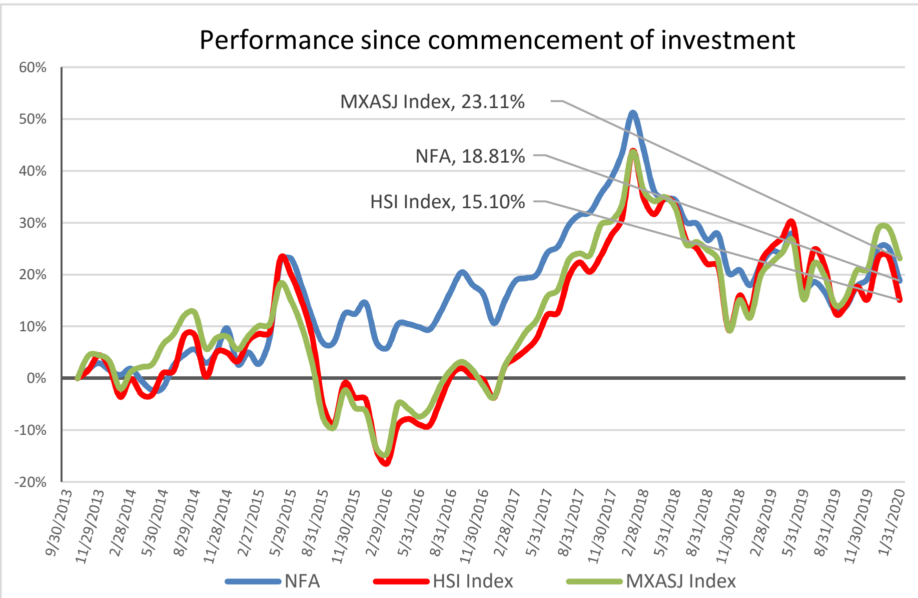
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,050.2991	↓ -5.01%	↓ -5.01%	↑ +18.81%

Historical Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
NFA – Net Returns													
2020	-5.01												**-5.01**
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**

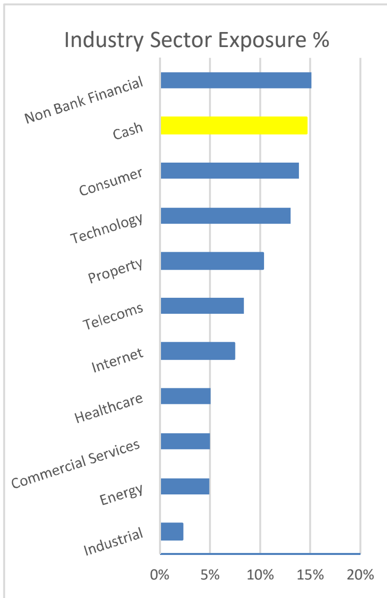
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$178 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 January the fund fell -5.01% net of fees. The NAV is 1,050.2991 as of January 31st, 2020

For the portfolio, January was a volatile month. The year began on a wave of optimism with the signing of Phase 1 of the US-China trade deal. This drove the Hang Seng Index up +3% to an 8 month high only to dive -9% on the back of the outbreak of the Coronavirus in Wuhan. We had increased our exposure given the positive criteria of low valuations, light investor positioning and improving sentiment. As a result, the sudden declines were impactful to the portfolio and in the near term, the virus uncertainty complicates the investment case for several of our names. With regards to the portfolio's performance attribution, the majority of the holdings saw losses by the end of the month with the notable detractions from the companies in property, insurance, an industrial stock and our Macau name. On the positive side, the main contributions came from a technology name, healthcare and an online games company. On the short side, the volatile trading across the month saw our index futures provided a small detraction as later hedging was unable to compensate for detractions earlier in the month.

The impact of the coronavirus not only on human lives, but on world trade is still being played out. Having lived through SARS in Hong Kong in 2003, it can be useful to make comparisons with changes in consumer behaviour. One thing for sure is that to the global economy, China matters significantly more. In 2003, China's share of global GDP was 4.4%, now it represents weighty 16%. In addition, China is far more integrated into global supply chains for almost all industries and the Chinese consumer and traveller is a far bigger proportion of global sales. As such, any decline in consumer confidence and spending will be felt globally.

For the portfolio, we see the behaviour change as short term or structural. Our Macau holding suffered during the month on the shut down of casinos over the bonanza Chinese New Year period. Although devastating near term, the sharp sell-off should quickly rebound as demand and the competitive position remains strong. There should be no structural de-rating. This Q1 hit followed by a recovery is likely true for other consumer goods although the shift to offline and home delivery will further accelerate. On the other hand, our property holdings which have long looked attractive on our value screens took a further leg lower and are unlikely to rebound as quickly. The HK/China economies had already suffered a US-China trade war/social unrest induced slowdown although it seemed the worst was over. Now both business and consumer confidence is further undermined and the effect will linger for longer. With the lack of visitors and ex-pat workers retail, tourism and business development may derate into the medium term. If we assume rent is a function of business revenue then the pressure to reset lower seems unavoidable. We saw sharp falls in our industrial holding with factories remaining shut at least an extra week after CNY. Factory managers must be concerned about employees not returning to work and the ongoing disruption to supply chains. The potential pinch point effect of a lack of vital components has yet to fully play out. The inevitable structural consequence here is added urgency to shift supply chains away from dependence on China.

As a result, investors have seen a further push into growth stocks at the expense of value names. For us, our technology holdings were resilient and our online gaming and education names rebounded strongly. The fact that more people are forced to spend more time at home bring a fresh tailwind to the online ecosystem. With schools shut, online education is now a necessity. Working from home will drive a host of cloud-based business functions. Ordering food to home is advisable and preferable –that is if the restaurant is open and they deliver. These will be behavioural changes that will be stickily maintained and present investor opportunities. Finally, our increased healthcare holdings made a positive return and we believe the rapid push for online OTC and prescription drugs via delivery will bring considerable growth to that industry. Finally, in the aftermath of this virus, the authorities will demand higher hygiene standards and stricter management of business premises, densely populated office and residential areas. This should be a positive driver for property management companies who are set to benefit from providing more services, economies of scale and implementation of efficient technology.

Looking forward, we are encouraged by the declining rate of new cases and the fatality rate remains low. The strict containment measures have been implemented faster than during SARS and work on treatment vaccines are progressing at a furious pace. In 2003, SARS was a clear buying opportunity. Once stabilised and in remission, China will no doubt step up to cushion the economic blow with both monetary and fiscal measures. There is still plenty of room to cut bank reserve requirement ratios for a much need liquidity boost. On the fiscal side, the government could cut both business tax and corporation tax as the did in 2003. There will also likely be targeted boosts to consumption as the consumer is a far bigger portion of the economy now than in 2003. Any announcements would bring much needed relief to investors. There are valid concerns over China's debt burden and the ability to service that debt. Analysts hastily cut their GDP growth rates assumptions. We have rotated into names that we believe will benefit from the changing environment. We will continue to focus on our high conviction individual positions where we have identified clear fundamental value with a positive catalyst. Kung Hei Fat Choy

BRIC NEUTRON 尚金資本

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