Neutron Asia Absolute Return Fund

Monthly Newsletter (Feb 2020)

NAV & Returns

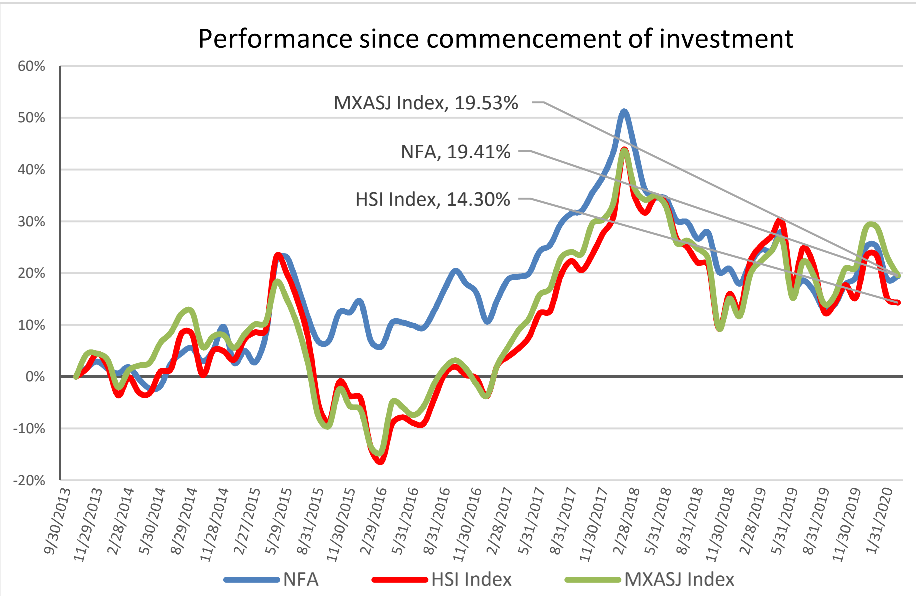
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,055.6273	↑ +0.51%	↓ -4.53%	↑ +19.41%

Historical Monthly Returns

NFA – Net Returns													
MoM	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**YTD**
2020	-5.01	+0.51											**-4.53**
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**

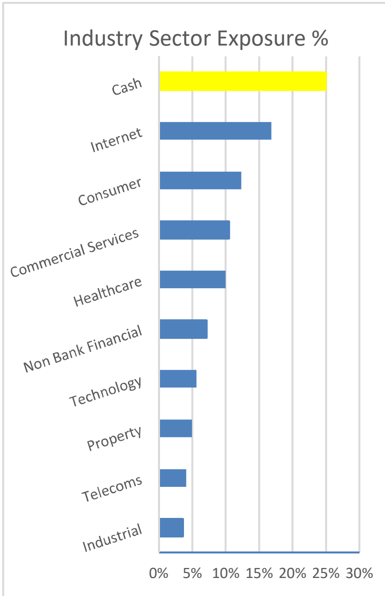
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$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

Neutron Asia Absolute Return Fund

Monthly Newsletter (Feb 2020)

In February the fund gained +0.51% net of fees. The NAV is 1,055.6273 as of February 29th, 2020 leaving the fund down -4.53% year to date.

For the portfolio, February saw continued high levels of volatility as rising concerns over the spread of the Coronavirus went global. Investors are faced with increasing fear, a rising death toll and escalating containment measures. There seems to be an ever-broadening assessment of the timeframe and scale of the impact on the global economy. As a consequence, we have notably reduced our exposure and rotated away from several old economy value holdings to increase our weighting in names that are benefiting from policy change and new consumer trends. Despite the portfolio's small net gain in this month, the divergence in our holding's price movements was significant. With regards to the performance attribution, a handful of strongly performing companies outweighed a slight majority of detractions. The main contributors came from our healthcare names, commercial services and an online games company. On the negative side, the main detractions came from our technology holdings, the smartphone supply chain, industrial and consumer names. On the short side, there were gains from extensive activity in our index futures trading with single stock shorts contributing to a lesser extent.

The economic consequences of the spread of the Coronavirus are increasingly severe. For the portfolio, we maintain that the resulting behavioural change can be classified as short term or structural. As such, we have increased our weighing in holdings that we determine are structural beneficiaries driven by policy directives addressing the critical issues. One example of this is our holding in an online healthcare company. As the Chinese government has stepped up its containment and preventions strategies, new policy directives are being hurried through to include online medical consultation services and electronic prescription filings for existing customers. On the ground, this removes the necessity of patients physically visiting doctors in hospitals so heightening contamination risks. Importantly, the government is quickly processing the regulations and seeking co-operation from provincial healthcare departments and the existing online infrastructure companies. We believe the healthcare subsidiaries of the main internet platform providers will benefit as the rapid push for online OTC and prescription drugs sales and delivery opens up. Although monetization will not be a priority, policy support is creating an enormous growth industry for the future. For investors, the focus will be on penetration and engagement levels assured by the urgency behind this directive that there will be strong monetization capability in the longer term. Another sector we have increased our exposure is in China's property management companies (PMCs). Our view that authorities would now demand higher hygiene standards and stricter management of densely populated commercial and residential premises was validated this month. The State Council announced favourable social insurance payment exemption policies which are estimated to lift the sector earnings by +2.9%. More importantly, it illustrated an official recognition of the PMC's critical social role to play going forward. This supportive policy directive promotes the conclusion that better quality services will cost higher prices, but are a social necessity. For the main operators, stricter regulations and criteria of services offered will accelerate consolidation and ease expansion into third party projects bringing the vital benefits of economies of scale. There will be huge scope to offer a wider array of services for recurring consumer demand. Engagement rates and revenue will jump significantly. For investors, it is estimated that a 5% rise in management fees would boost 2020/21 earnings by up to +18%/+37%. That is an attractive level of earnings sensitivity. The roll-out of these services and market capitalisations of these companies still appear to be in the early stages.

Looking ahead, from a China perspective, we are encouraged by the declining rate of new virus cases and the strong uptick in the return to work on the mainland. That said, this development has now been overshadowed by the escalating spread of cases in Europe and to a lesser extent the USA. Here the containment measures are just beginning and the sharp disruptions to business activity are in the acceleration phase. The timeframe for global containment will likely extend over more than a couple of quarters with the economic recovery even longer after that. As with China, the concern over cashflows, the debt burden and the ability to service that debt come to the forefront. In downturns, revenues and cash levels always fall faster than expenses and the markets are now bracing themselves for casualties. Governments are stepping up both monetary and fiscal policy response to cushion the economic blow, but many analysts remain sceptical. Indeed, the HK government has already granted cash handouts and tax cuts for a much-needed boost to consumption only to be met with criticism regarding its effectiveness. For investors, avoiding the pitfalls in an economic downturn is a priority. This is a time for strong balance sheets and durable competitive positions. Therefore, we have reduced exposure and 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.

BRIC NEUTRON 尚金資本

Investment Manager: BRIC Neutron Asset Management Limited
Tel: (852) 2810 5338 **Fax:** (852) 2810 5700
Address: Suite 3601, 36th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong