Neutron Asia Absolute Return Fund
Monthly Newsletter (Mar 2020)

NAV & Returns

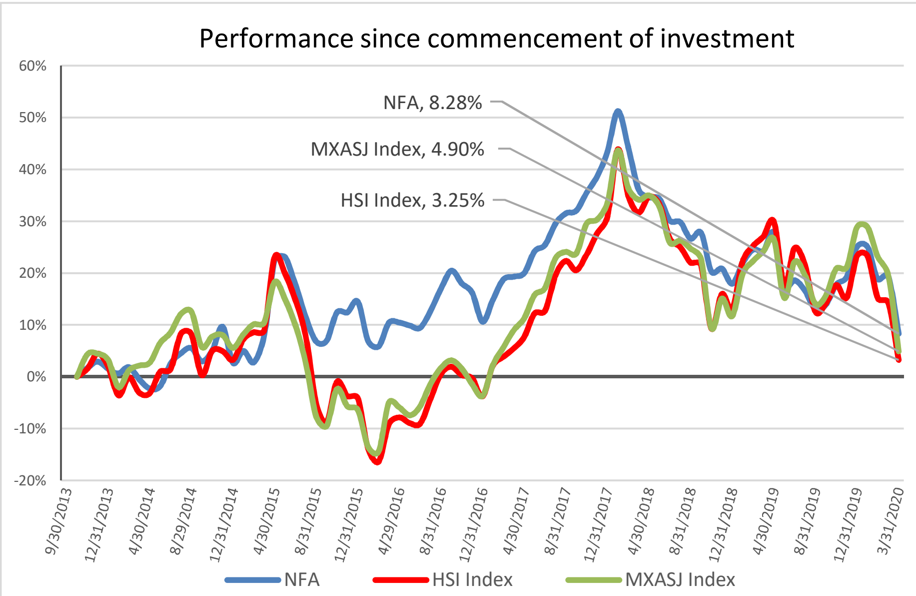
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	957.222	↓ -9.32%	↓ -13.43%	↑ +8.28%

Historical Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
NFA – Net Returns													
2020	-5.01	+0.51	-9.32										**-13.43**
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**

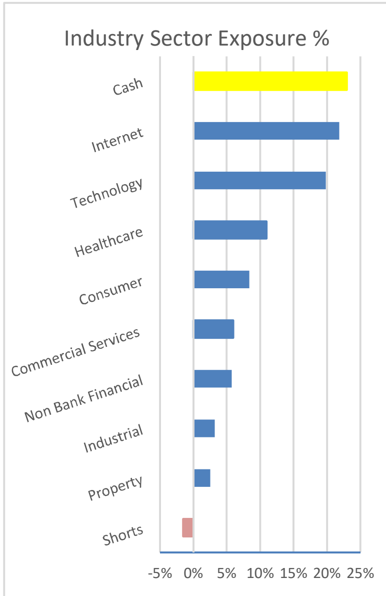
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$163 million Approx. US$21 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 March the fund fell -9.32% net of fees. The NAV is 957.222 as of March 31st, 2020 leaving the fund down -13.43% year to date.

For the portfolio, the month of March 2020 will leave a mark. The COVID-19 pandemic went global accelerating the spread through Europe and the US creating widespread fear and panic. With the rising death toll and overwhelmed healthcare systems, national governments scrambled to escalate stricter containment measures and effectively shut down their economies. Investors panicked, price action dislocated and markets fell into a disorderly spiral as the volatility index spiked to levels not seen since 2008. In response, governments hurried to release enormous and unprecedented monetary and fiscal action in an attempt to stem the crisis. Our strategy has been to rotate into companies that are benefitting from the policy and behavioural changes. This month the operating metrics on many of these names have continued to improve in some cases significantly. That said, the macro issues outweighed this and as a consequence, the portfolio suffered. With regards to the performance attribution, there was a broad weakness in our holdings with our heavyweight technology and online games companies leading the detractions. In addition, our healthcare and corporate reorganization holdings broke sharply lower as confidence drained that the actions would materialize. On the positive side, contributions came from holdings in internet shopping names and a property service management company. On the short side, single stock shorts provided some gains whilst the net result of our index futures positions provided little support in extremely volatile trading.

As mentioned in last month’s newsletter, the resulting behavioural changes can be classified as short term or structural. Now with the notable inclusion of the US and Europe, these trends have intensified and gained weighty, global momentum. Data from multiple sources confirm a sea change in business and consumer behaviour. For us, despite being positioned in where we see the structural trends accelerate the majority of our holdings suffered this month. For example, our online healthcare company that performed so well last month provided a notable detraction to performance. This was despite confirmation that new directives had been hurried through to include online medical consultation services and electronic prescription filings for existing customers. This removes the need for individuals to visit hospitals unless necessary. Moreover, March saw additional new policies for online reimbursement from a national level. This is seen as critical for consumer adoption and will hasten usage. It is all part of a high priority vision to build an efficient e-medical care system. This would normally be watershed news, but not this month. Similarly, the work from home movement has escalated globally and will have a longer-term structural impact. Our holdings in technology companies are benefitting from spikes in the usage of cloud, communication tools and other digital services and despite this month’s share price weakness will likely emerge as major gainers. One company stated that people using its online collaboration software surged 40% in a week. This shift is significant as business and individuals who adopt the new services recognise the measurable efficiencies and cost savings that will become a lasting habit. Our online games holding also weakened in March in the face of a surge in downloads and activity. Industry reports show that global revenue of their two main games jumped three times higher than the previous year. Although there is some temporary bump in the activity, there will undoubtedly be significant longer-term gains in user metrics and revenue. Interestingly, our online shopping holdings gained this month. Here the metrics are driven by overwhelming demand and growing penetration into all demographics. It is clear that there is a deepening consumer reliance on e-commerce and that will create permanent shifts in buying habits. In the short term, the online ecosystem will suffer from sharp falls in important advertising revenue, but they will emerge with broader penetration that provides more detailed demographic data to power further growth. As a consequence, we have maintained our positions.

As the situation worsened in the US and Europe, in China and Hong Kong the incremental news flow was more positive. The rapid social adoption of the harsh containment measures, masks, sanitizer and social distancing quickly provided a declining rate of new cases and kept the fatality rate relatively low. That said, the economic restrictions remain in place and the consumer and tourism sectors have borne the brunt of the damage. As a result, the valuation of the Hang Seng Index has dipped below book value for only the third time in three decades (2016 & 1998). On the previous two occasions, the following two years brought substantial gains. That may be hard to imagine as the world’s two largest trading blocks impose economic shutdown. The pain is likely to extend over a couple of quarters and analysts line up to slash their estimates on almost a daily basis. The dispersion on forecasted numbers grows larger. Heading into the quarterly reporting season, companies are issuing profit warnings and many will withdraw guidance and outlook altogether. For investors, this means the visibility on profits, dividends and even balance sheets will cloud further and uncertainty levels will spike. That should be reflected in the prices. For us, this is a time to focus on companies with a strong balance sheet, durable competitive positions that are beneficiaries of the structural changes. We have held steady our level of exposure and concentrated our focus on the high conviction individual positions where we have identified clear fundamental value with a positive catalyst.

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