Neutron Asia Absolute Return Fund

Monthly Newsletter (Apr 2020)

NAV & Returns

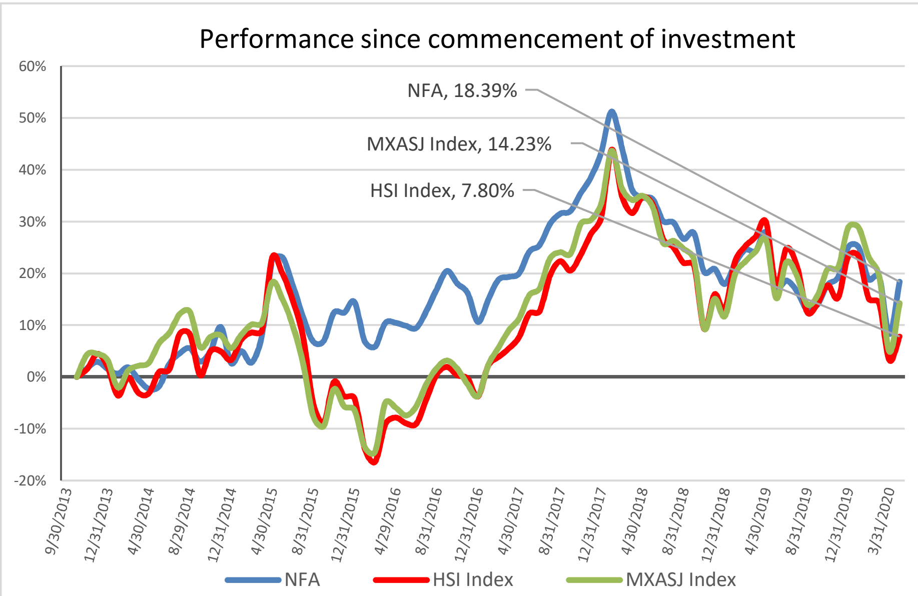
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("**NFA**")	1,046.6277	↑ +9.34%	↓ -5.35%	↑ +18.39%

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	-9.32	+9.34									**-5.35**
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**

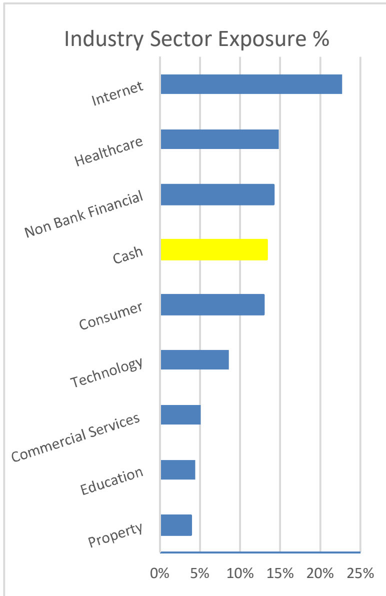
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager's personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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 April the fund gained +9.34% net of fees. The NAV is 1,046.6277 as of April 30th, 2020 leaving the fund down -5.35% year to date.

For the portfolio, April brought a material rebound as the COVID-19 global infection rate began to stabilise and China initiated partial relaxation measures and reopening of the economy. Investors, believing the infection peak has passed, turned from fear and panic to a more rational view on equities. The sharpness in the price action reflected the previous month's disorderly spiral and frantically skewed positioning with Asian markets retracing just under half the losses. Last month we mentioned that the operating metrics on many of our names have continued to improve in some cases significantly. We held steady our strategy of owning companies that are benefitting from the policy and behavioural changes and as a result, the portfolio rebounded. With regards to the performance attribution, there was notable strength in the majority of our holdings with the gains driven by outsized moves in heavyweight online healthcare and consumer names. In addition, all but one of our corporate reorganization plays recovered as confidence returned that the actions would materialize. On the negative side, small detractions came from an online shopping company and corporate action play that remains under a cloud. On the short side, our single stock short plays made a negative contribution whilst our index futures positions also detracted from performance.

For us, despite the volatility, we remained in many of our holdings as the data from several sources confirmed clear positive underlying trends in business and consumer behaviour. Undeniably, the migration to online has accelerated and become critical for consumers of all demographics and almost every business. This has plenty of room to run and will become irreversible. One such case is our online healthcare company which was the main contributor to our monthly performance. Last month the stock price fell despite official confirmation that new directives had been hurried through to include online medical consultation services and electronic prescription filings for existing customers. This removed the need for individuals to visit hospitals unless necessary. In addition, there were new policies for online reimbursement from a national level. This is seen as critical for consumer adoption. The macro noise drowned out this news, however, this month the share price recovered over 40%. This is not a simple shift to online trend, but an essential government high priority. The addressable market remains enormous and with heavy demand from an increasing demographic, this should make this company a long term winner. Another of our holdings is also positioned to benefit from the acceleration to digital transformation this time for small/medium-sized businesses. They offer a host of helpful software as a service (SaaS) with many free to start, reducing complication and providing a low entry point for digital presence and sales. At the end of last year, only a small fraction of customers were paying, but in March the SaaS billing from direct sales increased +75% yoy. Customer addition momentum is surging and their targeted marketing turnover increased +166% yoy surpassing the company guidance for +50% growth. As the migration to online turns from attractive to critical, we expect this enabling company to maintain fast growth momentum. In time they will exhibit stronger pricing power with a rising engagement trend and target marketing. We added to our position this month. Our online games companies also recovered in April with continued growth in downloads, activity and engagement. Year on year revenue data indicates substantial growth and the surging momentum in the streaming viewership illustrates this sector has taken a significant step forward in global engagement. As we analyse our portfolio holdings, we notice that are the most removed from general market indices, sectors or the major names since we can remember. Many of the holdings are emerging companies or lesser-known names with some reorganisation or transformational event. The COVID-19 factor has impacted the commercial dynamic destroying cash flows in several main economic sectors that traditionally screened well for value investors. Value investors must now adapt. As the following statement which is often attributed to Charles Darwin illustrates: It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change.

Looking ahead, the volatile nature of markets should remain elevated. COVID-19's diverse impact on sectors and the differing reactions and policies that follow are still to play out. The global step up in policy support by fiscal, monetary and seemingly any other means are set to continue. For China, May 22nd sees the beginning of the government's important NPC meeting which will set economic and social policies and directives going forward. Perhaps more so than ever, the eyes of the world will be on the Chinese Communist Party. With the virus situation unresolved and reliable information not forthcoming any renewed US or now worldwide-China tensions could provoke a move to the downside. That said, the market's reaction to poor economic data points has largely been encouraging. The rearview mirror argument is gaining wider support. Last month, the valuation of the Hang Seng Index has dipped below book value for only the third time in three decades (2016 & 1998). Many investors are now looking beyond the dismal 2020 and on to earnings estimates for 2021 and 2022. Although, back above book value, the Hang Seng index 12 month forward p/e is 10x with a yield 4% and this is after a recent cut in earnings expectations for HSBC, China oils, insurance and Macau casinos. Investors are focusing on balance sheets, sustainability and beneficiaries of the new trends. Governments will push consumption, reducing interest rates and distribute cash or spending vouchers (Alipay) which seem a far better idea than cash. For us, we remain focused 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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