Neutron Asia Absolute Return Fund

Monthly Newsletter (May 2020)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,070.4729	↑ +2.28%	↓ -3.19%	↑ +21.09%

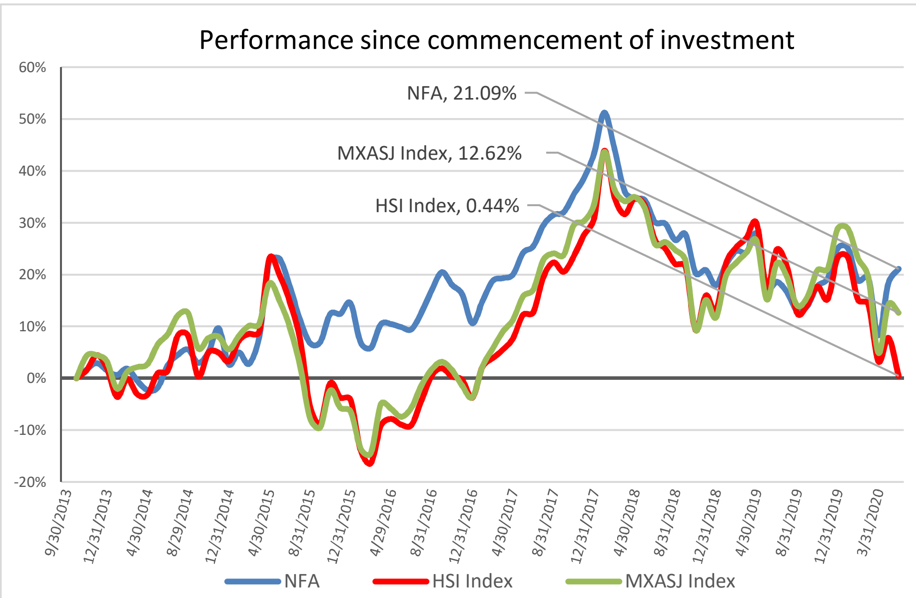
Historical Monthly Returns

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	+2.28								**-3.19**
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**

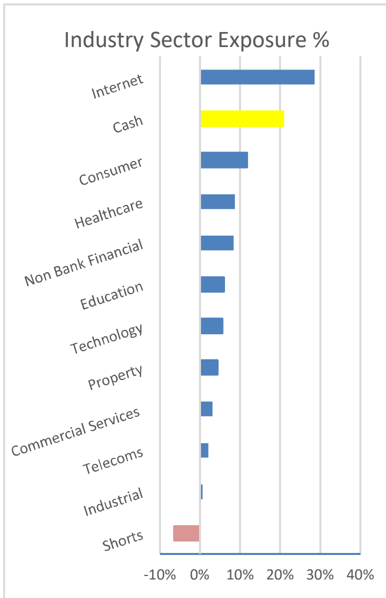
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$182 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 May the fund gained +2.28% net of fees. The NAV is 1,070.4729 as of May 31st, 2020 leaving the fund down -3.19% year to date.

The portfolio illustrated its resilience in May despite the escalation in US-China tensions that are spilling from politics and trade into COVID-19, technology and financial aspects. Worse still for Hong Kong, which fell -6.8% in May as China's imposition of the Security Law sparked more protests and international condemnation from several governments. President Trump stated that the US would revoke HK's special status as a separate customs territory although details and actions were limited. On the positive side, the COVID-19 virus outbreak seems to be largely contained and the loosening of restrictions and resumption of normal activity continues. There was little change to the holdings list with a small reduction in our exposure levels. With regards to the performance attribution, there was broad gains in the majority of our holdings with bulky contributions from our China software company, our non-bank financial and our corporate action plays as the expectations for the spin-off valuations continued to rise. On the negative side, there were notable detractions from our commercial services position and an education company after a discounted placement. On the short side, our single stock short plays detracted, whilst our index futures positions made a positive contribution.

The names on the holdings list have remained steady over the past three months as we focused on companies that are benefitting from policy and behavioural changes. This is true of one of the main gainers this month, HK Exchange (388 HK). US-China tensions have intensified, culminating in US Senate passing the Holding Foreign Companies Accountable Act although this move has long been telegraphed. After Alibaba's successful secondary listing in HK in November 2019, this has acted as a precedent for other ADRs to follow. That trend is now accelerating with Netease and JD.com listing in June. The pipeline for more HK listings is a boon for HKEX. The new listings, which are household technology names in China will eventually be available to southbound investors whose volumes are already up 50% ytd and growing. In addition, news that MSCI will list their indices in HK – the plan is to launch 37 futures and options contracts – is another big win for HKEX. Once again boosting products and attracting more liquidity. The profile of the listings and southbound activity will bring higher turnover velocity, seen doubling in the cases of Xiaomi and Meituan. This has been another driving force leaving analysts scrambling to raise earnings forecasts. Liquidity breeds liquidity and this will improve the sustainability of HKEX's dominant position amongst Asian exchanges. Another of our holdings, benefiting from regulatory change is Wilmar (WIL SP). This month saw the management update provide a rare case of an optimistic outlook for 2020, better than 2019. Importantly, they confirmed the China A-share listing plan of it's China business, YKA, was progressing well and approved for 2H20. Management also highlighted the new regulation, effective in June 2020 that removes the cap on the listing multiple – previously 23x price to earnings. The final price will now be based on future demand. As mentioned in our July 2019 newsletter, YKA is a market leader, fully integrated, branded consumer product company favourably compared to less impressive peers trading at 33-40x p/e on the Shenzhen Stock Exchange. This new regulation will attract more A-share listings and is good news for another of our holdings, Shangdong Weigao (1066 HK) which plans an A-share listing of its orthopaedic business. For them, the share price gained +15% in May. There was also regulatory changes in the China education sector with the Ministry of Education pushing to 'accelerate Independent colleges' transformation.' This is a batch of favourable higher education policies that amongst other points, benefits student enrollment numbers and would result in improved profitability and a more robust growth outlook. As a consequence, there should be more independent schools disposed of by public universities providing a pipeline of acquisition targets for the listcos. For us, the structural growth outlook endorsed by strong government policy, regulation changes and the likelihood of earnings accretive acquisitions in a domestic industry reinforces the investment case.

Looking ahead, it seems that the impact of COVID-19 is diminishing whilst domestic politics and US-China tensions are in the ascension. The Fed continues to step up enormous monetary policy support and with the US administration facing an election in November, we can expect fiscal stimulus and by any other means possible to restore economic improvement. For China, the government's important NPC meeting at the end of May underwhelmed on expectations of major policies or directives. They may be saving their bullets as the incremental economic data and price action continues to improve. For our holdings, the operating metrics and newsflow have remained largely positive. For us, the risk to a domestically focused portfolio positioned to benefit from policy and behavioural changes and individual corporate reorganisations is a strong rotation back into heavyweight cyclicals. On reflection, we do not foresee a notable detraction from our investment cases with a sharp rebound in the broader, traditional economy. We remain confident in our companies with a strong business model, durable competitive positions that are beneficiaries of the structural changes. We remain focussed on the high conviction individual positions where we have identified clear fundamental value with a positive catalyst.

BRIC NEUTRON 尚金資本

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