Neutron Asia Absolute Return Fund
Monthly Newsletter July 2020

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,172.8328	↑ +0.60%	↑ +6.07%	↑ +32.67%

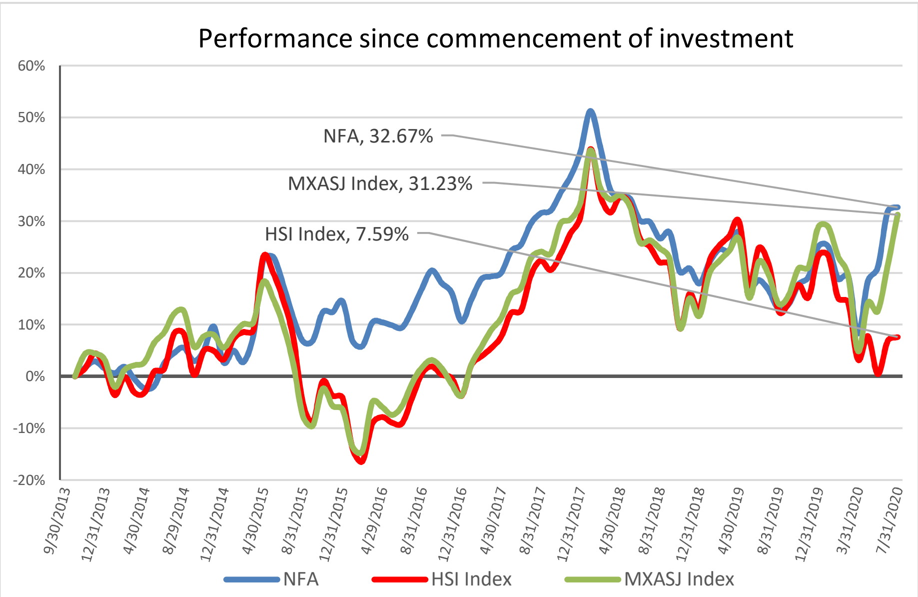
Historical Monthly Returns

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	+8.91	+0.60						**+6.07**
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**

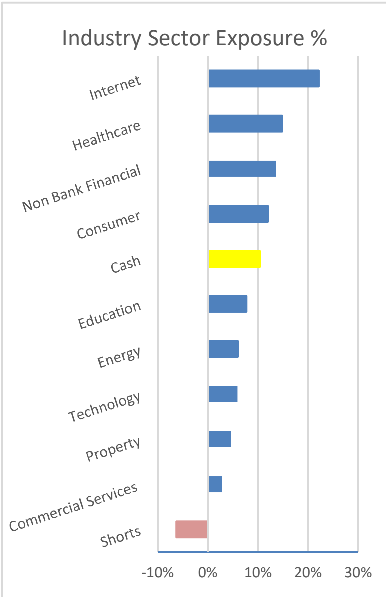
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$199 million Approx. US$26 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 July the fund gained +0.60% net of fees. The NAV is 1,172.8328 as of July 31st 2020 leaving the fund up 6.07% year to date.

For the portfolio, July took us back into the COVID-19 pandemic as a resurgence in local cases sparked renewed fears and the government reinstated tighter personal and economic restrictions. On the political front, the HK legislative elections scheduled for September were controversially postponed for a year. This comes on the back of the US revoking the HK's special status and other countries including the UK and Canada suspending extradition treaties in response to the imposition of the National Security Law. As a consequence, optimism was drained out of the domestic recovery plays despite the improvement in economic activity data. With regards to the holdings list, there was rotation out a couple of recent gainers where the risk on earnings and outlook now seem to be to the downside. We added back an old e-commerce holding that had seen a spike in activity in May and June and a large-cap announcing a spin-off of a prized division. As a result, our net exposure slightly decreased by the end of the month. With regards to the performance attribution, this month was far more mixed. There were gains from HK Exchange, our e-commerce holdings and our consumer company with a spin-off. The main detractions came from our healthcare names and energy company. There was a mixed performance in our non-bank financials, internet and education holdings. On the short side, our index futures positions weighed on performance.

In this environment, our holdings list continues to focus on companies that are benefitting from policy and behaviour changes. Our conviction in certain names that progressed in their corporate actions increased over the month. An example of this was holding Wilmar International (WIL SP, mkt cap U$22bn) whose China operations, YKA, is to be listed on A-share China mainboard in 2H20. In July, YKA reported a recurring net profit of Rmb 2,863m in 1H20 up +131% yoy driven by the recovery in household demand for their consumer products in China. This is better than expected. Wilmar International will be reporting their own 2Q results on August 11th and as the China operations contributed more than 60% of its last net profits, investors are increasingly optimistic. The strong performance of YKA and the buoyant A-share market have analysts raising both their earnings estimates and the potential valuation multiple for the upcoming IPO. Even the most optimistic multiples at 21-25x p/e, compare favourably with less attractive peers in the A-share market. We added to our position during the month and look ahead to the IPO later this year. Another example is our China education holdings which made a net positive contribution this month. The sector is seeing ongoing momentum as a domestic industry much favoured by the government. Premier Li Keqiang stated that higher vocational schools would increase by another two million students over the next two years, together with over 35million in vocational training. As unemployment is a major political issue in China, favourable policies that enlarge student recruitment is seen as a priority. As a result, the Ministry of Education is pushing to accelerate independent colleges' transformation. For education companies, this is a batch of favourable higher education policies that amongst other points, benefits student enrollment numbers, would improve profitability and give a more robust growth outlook. As investors, we can expect enlargement of existing school enrollments and active M&A in the sector. There will also be notable capital raising or placement risk despite the healthy balance sheets. That said, given the urgency to reach government mandated targets we expect swift, attractive earnings accretive acquisitions and would be happy to see new money raised for specific deals. For us, this is a multi-year industry transformation theme with strong government backing and a possible beneficiary of the cooling of studying abroad for Chinese students. We remain invested.

Looking ahead, the reinstatement of personal and economic restrictions will continue to weigh on most of the world economies. The newsflow swings between the COVID-19 resurgence and the progress made in vaccine development with the impact and timeframe being regularly extended. It will likely reach to flu season when the symptoms will be commonplace as they usually are. As the data set on the virus becomes larger and more granular it would seem that many governments are considerably underestimating the wider consequences of prolonged lockdown and restrictions. Under the noise, the major economies' budget deficits and spending are soaring to wartime levels with no end in sight. A broad debasement of currencies can be expected which in turn is highly supportive of asset prices. In addition, global PMIs are improving and for China, their 2Q GDP came in stronger than expected at 3.2%. Analysts are actually raising their China GDP growth forecasts and June's economic data confirmed a rapid return to normal with activity largely restored. July Services PMI came in at 54.2 and the Caixin manufacturing PMI increased to 52.8, a multi-year high. It seems remarkable that China has already normalized. This fact will only fuel further fictions in US-China relations with the next meeting on August 15th. This is also perhaps underestimated by global investors who may have extrapolated their domestic situation or perhaps they are fearful of President Trump's executive orders and the threatened retribution. It is not, however, underestimated by local investors who have lifted margin finance levels to 5-year highs. The upcoming results season in Asia will be pivotal and for many of our domestically focused companies, we expect at better than consensus operating metrics and outlook from management. For that reason, we remain constructive. That said, as we have witnessed this month, there are so many other factors at play here that the short term price direction may remain volatile. In that environment, we choose to remain domestically focused and positioned to benefit from policy, corporate and behavioural changes.

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