

Neutron Asia Absolute Return Fund

Monthly Newsletter August 2020

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("NFA")	1,183.5808	↑ +0.92%	↑ +7.04%	↑ +33.88%

Historical Monthly Returns

NFA – Net Returns

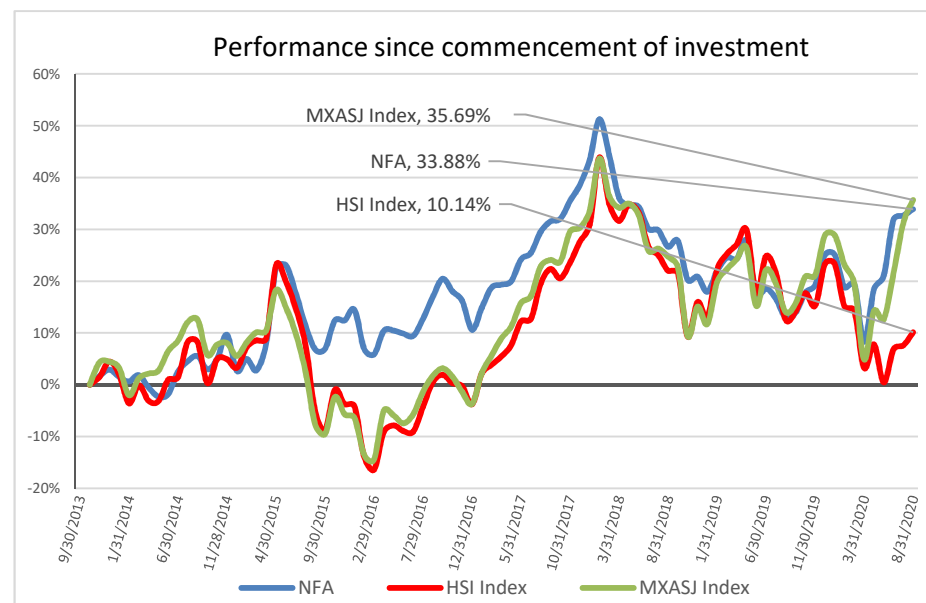
MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	-5.01	+0.51	-9.32	+9.34	+2.28	+8.91	+0.60	+0.92					+7.04
2019	+3.41	+2.13	-0.21	+2.82	-8.13	+1.05	-1.72	-3.08	+0.81	+3.40	+1.24	+4.90	+6.06
2018	+5.45	-4.59	-5.68	-1.09	-0.21	-3.13	-0.23	-2.46	+0.90	-5.88	+0.52	-2.45	-17.78
2017	+3.86	+3.37	+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

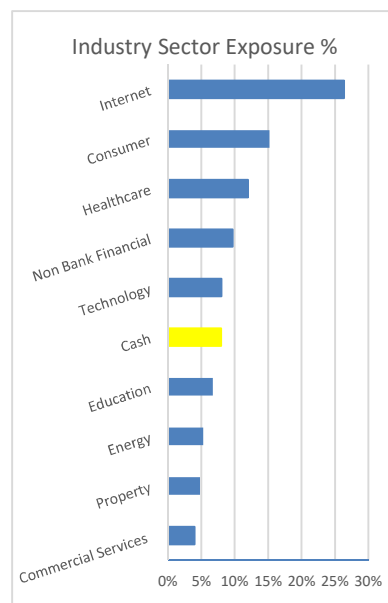
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager's personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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\$201 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

Neutron Asia Absolute Return Fund

Monthly Newsletter August 2020

In August the fund gained +0.92% net of fees. The NAV is 1,183.5808 as of August 31st 2020 leaving the fund up 7.04% year to date.

For the portfolio, August saw further upward momentum. The positive news on corporate earnings, economic data together with updates on COVID-19 vaccines, more effective treatments and the falling death rates invigorated investor optimism. The key headwind for Asia was the escalating US-China tensions as the US added a further 38 Huawei-related companies to the entities list with the implication of wider restrictions to come. With regards to our holdings list, there was little new activity with the only rotation out of a disappointing e-commerce holding into another e-commerce company and a reduction in our short positions. As a result, our net exposure increased slightly by the end of the month. With regards to performance attribution, the majority of our companies gained during August, however, our performance was notably impacted by detractions in a couple of our major holdings. On the positive side, the main contributors were our e-commerce holdings, online games companies, technology names and HK Exchange. The main detractions were skewed to a consumer company and our online healthcare holding which saw a major shareholder sell down their stake and a sizeable new capital raise respectively. On the short side, our index futures positions and single stock shorts weighed on performance.

As a portfolio that focuses on companies undergoing change, it is ironic and disappointing that two corporate actions detracted most from our performance this month. Firstly, Wilmar International (WIL SP, mkt cap US\$20bn) saw one of its major shareholders, Archer Daniels (ADM US) sell discounted shares worth US\$500m and bonds worth US\$300m reducing its stake from 24.6% to c20%. This is an ownership level the company stated it would retain. The timing certainly tripped up the positive momentum on the company which is on track to list its valuable China unit, YKA sometime towards the end of September. Investors had recently been encouraged by the CEO's recent purchases in June, strong results and lower crude palm oil inventories together with recovering demand from China and India pushing prices higher. The net result was that the stock price fell 10% after the placement and closed the month under the transacted price. Secondly, another of our major holdings, AliHealth (241 HK, mkt cap US\$30bn) issued a hefty US\$1.3bn follow-on new share sale in August. The offering was said to be multiple times oversubscribed and so upsized and issued at an 8% discount – the low end of the range. This made it the largest follow-on share sale in HK for 5 years. Investor interest was strong as the company is in pole position to provide nationwide medical e-commerce capabilities including rollout online prescriptions with medical insurance coverage. With the Central and Provincial government's support, the platform would secure massive customer involvement with the potential to supply a wide range of products and services going forward. Undoubtedly, the company is in a dominant position and a structural beneficiary of the accelerated shift to online engagement caused by the COVID-19 pandemic. That said, the size of the offering seemed to more than satisfy the hungry investors and the stock finished the month a further 7% below the placement price. The recent news flow reinforces our investment cases and we view the price action as short term investor indigestion. One holding that provided a positive contribution was HK Exchange (388 HK, mkt cap US\$60bn). It continues to benefit from policy and regulation changes that have sparked the homecoming of Chinese US-listed ADRs and biotech companies applying for a Hong Kong listing. Since the change in the listing regulations in 2018, around 99 new economy companies have listed in HK raising US\$50.4bn and the trend seems to be accelerating. Moreover, it seems that steps are now being taken to further relax the listing rules to allow companies with weighted voting rights (WVR). According to the HKEX's consultation paper, approximately 42% of all US-listed mainland tech firms have WVR structures while 84% of the 50 biggest technology unicorns in mainland China have these corporate shareholder structures. They are also considering lowering the minimum market cap for a company with WVR from the current HK\$40bn to attract more early-stage new economy companies. This is another significant driving force in HK Exchange's outlook and we remain invested.

Looking ahead, investors have several clear reasons to remain constructive on Asian equities. The 2Q/1H corporate earnings and guidance were generally positive, in particular in the well owned new economy companies. Financials lagged, but the profit contraction was well telegraphed and baked in. In Asia, COVID-19 is largely behind us and China has already normalized. Global central banks remain accommodative, government policies are generously constructive and the data in housing, employment and consumption are strengthening. For us, our holding's operating metrics are reinforcing our investment case, but in the short term, other factors are at play. This month in particular we have been impacted by the ongoing deluge of equity issuance in Asia. Furthermore, the escalating US-China tensions continue to discourage international investors to the point that one major investment bank noted they have been net sellers in HK listed equities every month this year. Heading into the US election, the relationship with China is a major political issue and intensifies the uncertainty. For the longer-term investor, sentiment, positioning and broad valuation metrics in Asia remain attractive. Under these circumstances, our holdings remain domestically focused and positioned to benefit from policy, corporate and behavioural changes.



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

Disclaimer: Possession of this document does not constitute an offer or solicitation to purchase shares of the Fund. The information in this document is for reference purposes only and shall not be construed as a solicitation to invest. Professional investors should refer to the Private Placing Memorandum prior to investing in the Fund. The contents in this document have not been reviewed or approved by the Hong Kong Securities and Futures Commission (SFC).