Neutron Asia Absolute Return Fund

Monthly Newsletter September 2020

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,129.7523	↓ -4.55%	↑ +2.17%	↑ +27.79%

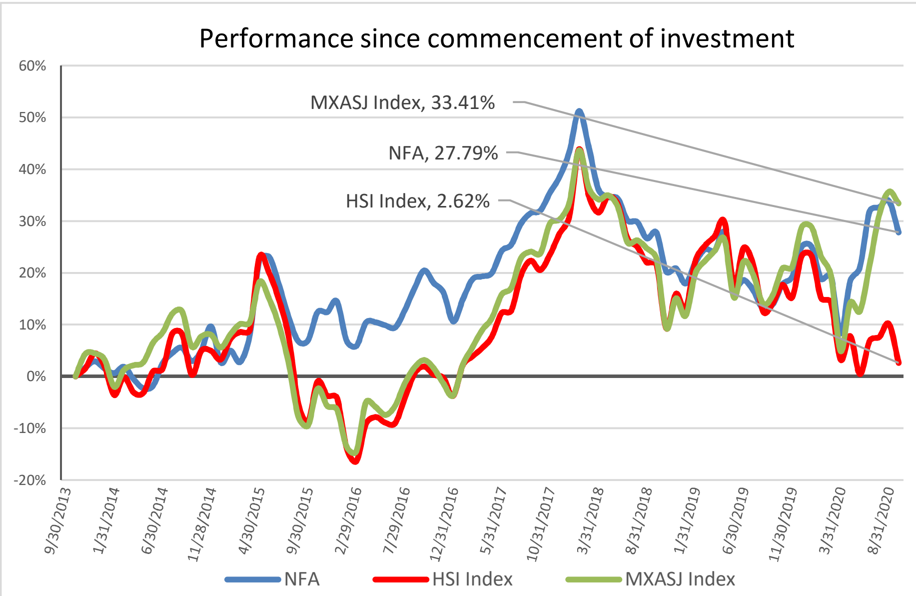
Historical Monthly Returns

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	-4.55				**+2.17**
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**

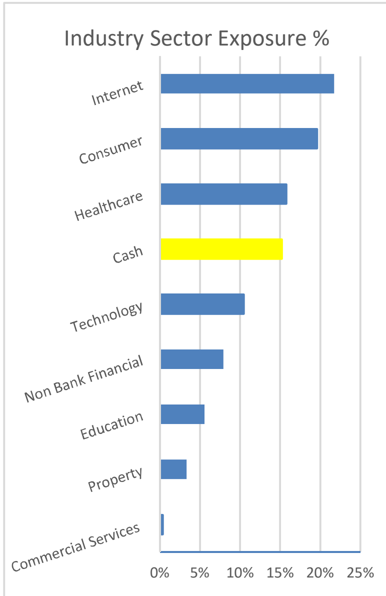
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$192 million Approx. US$25 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 September, the fund fell -4.55% net of fees. The NAV is 1,129.7523 as of September 30th, 2020 leaving the fund up +2.17% year to date.

For the portfolio, September brought the long-awaited sharp pullback to stock prices. One of the main triggers was the renewed escalation in the US-China tensions targeting the technology sector. The US directives were for exports controls to SMIC, bans on WeChat and the sale or close ultimatum given to TikTok. Concerned investors now expect a further broadening of sanctions and possible retaliation. As a consequence, the sell-off was driven by the crowded, stretched valuation year to date winners. With regards to our holdings list, there was a marked reduction in the weighting of several holdings. As a result, our net exposure decreased notably over the month. With regards to performance attribution, the majority of our holdings fell during September, with broad weakness across almost all sectors. The main detractions came from HK Exchange and our internet and technology names. On the positive side, there were rebounds in our two holdings that issued placements last month, a pharmaceutical company and two domestic consumption names. On the short side, our index futures and single stock shorts provided a positive contribution across the month but far outweighed by the sharper decline in our major holdings.

One of the main disappointments in September was Weimob (2013 HK, mkt cap U$3bn) which fell -20% over the month. It was at the forefront in the high growth, high valuation software sell-off. We notably reduced our position earlier in the month, but it still weighed heavily on performance. Tencent had even tried to allay recurring investor fears of direct competition by a public reiteration and an investment in the SaaS open ecosystem. They also stressed the importance of strategic partners. Furthermore, Weimob held a presentation day in Shanghai on Sept 17th to showcase their operations and guided for smart retail revenue growth of '100% plus yoy' for FY20. The structural growth trajectory remains, but lofty valuation metrics with a company focusing on expansion is highly susceptible to investor sentiment changes. We will continue to monitor the operating metrics as management has guided that SaaS revenue will continue to accelerate from the +39% yoy growth in 1H20. Usually, this would be a positive driver. Another major holding, HK Exchange (388 HK mkt cap U$62bn) also retreated -7.5% in September despite an ever-growing pipeline of new listings, many in the new technology industries. For us, HKEX remains well-positioned to benefit from the policy and regulation changes that are facilitating and attracting the major listings. Last month, Wilmar International (WIL SP, mkt cap U$20bn) impacted performance as one of its major shareholders, Archer Daniels (ADM US) sold discounted shares worth U$500m and bonds worth U$300m reducing its stake from 24.6% to c20%. This month, the stock price recovered as the IPO of the China unit, YKA, kicked off the investor process. The pricing is at the higher end of expectations 31x p/e, netting U$2.04bn for not less than 10% of YKA issued share capital. When held against comparables, this is an attractive discounted offering. The public IPO attracted demand for 3,499 times the amount of shares it offered to retail investors online, the company says in a Shenzhen stock exchange filing. Shares allocated to institutional investors are reduced to 227.7m from initial 303.6m with 30% of the book will be allocated to local strategic investors. For Wilmar investors, we can expect a special dividend post IPO of around S$0.12. The real kicker may come from the higher valuation once the stock trades. YKA accounted for approximately 60% of the group's earnings in FY19, but will likely eclipse Wilmar's entire market cap on listing. As palm oil prices continue to trade higher and the consumer demand in China and India recovers the earnings outlook is bright.

Looking ahead and despite the sharp pullback in the market, we remain constructive on Asian equities. For China, the incremental activity data confirms that the economic recovery is continuing and broadening. Positive readings in retail sales, travel data, manufacturing FAI and PMI in services all illustrate improvement whilst the new orders component reached a year to date high of 54.0. As we mentioned last month, COVID-19 in China is largely behind them and domestic economic activity has already normalized. In contrast, the US and Europe continue to suffer from rising infection rates and prolonged crippling restrictions. The economic advantage is clearly with China. In addition, the otherwise oppressive trade tensions have been subdued by the increasing probability of a Biden victory in the upcoming US election. In fact, the notable shift in sentiment has lessened the likelihood of a contested election result and some are calling for a democratic blue wave to regain the Senate. This would be seen as a clear positive outcome for China. Biden's administration is widely seen as less volatile and combative. Investors have begun to reposition with surging heavy northbound flows into China A-shares. As earnings season approaches investors are looking at FY21 numbers and beyond. In this scenario and with Covid behind them, the risk of earnings rebound in China is distinctly to the upside. For international investors crowded into US equities, the sentiment, positioning and broad valuation metrics in Asia are increasingly attractive. As a consequence, our holdings remain domestically focused and positioned to benefit from policy, corporate and behavioural changes.

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