Neutron Asia Absolute Return Fund
Monthly Newsletter October 2020

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,103.0409	↓ -2.36%	↓ -0.24%	↑ +24.77%

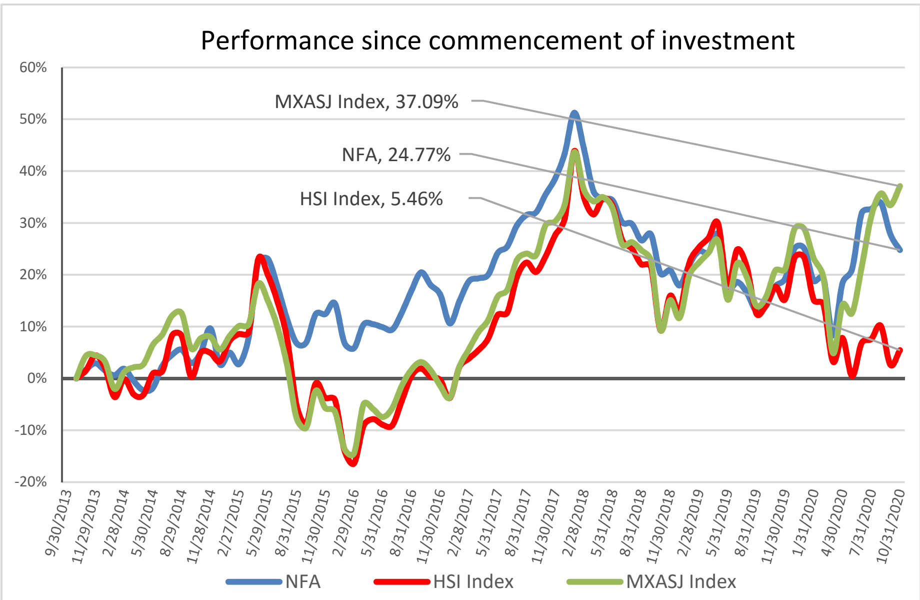
Historical Monthly Returns

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	-2.36			**-0.24**
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**

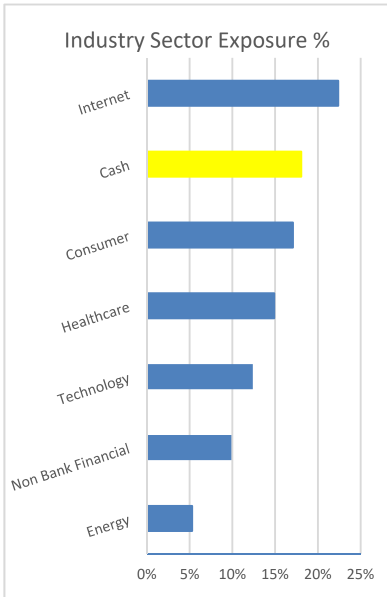
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$187 million Approx. US$24 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 October, the fund fell -2.36% net of fees. The NAV is 1,103.0409 as of October 31st, 2020 leaving the fund down -0.24% year to date.

For the portfolio, October brought the start of a rotation back into banks and industrials and out of some of the well-owned sectors such as healthcare, education and property. Investors started to believe in a broader economic recovery as the initial 3Q earnings results were better than feared and Covid-19 in Asia was under control. The promising outlook was further supported by the important retail sales data surprising on the upside and October PMI growing at 51.4. Another tailwind came from the increasing likelihood of a Biden victory in the US election which is widely expected to provide a less frictional relationship going forward. With regards to our holdings list, our net exposure increased initially at the start of the month, however by the end, two positions with catalysts had played out and the negative price action in others saw our exposure end the month lower. With regards to performance attribution, our positions and sectors diverging markedly. The main detractions came from out property spin-off plays, healthcare and education companies suffering from more regulation and a poor reaction to an unconventional acquisition. On the positive side, the main contributors were mega-cap tech, internet, a domestic consumption name and HK Exchange. In the short side, our index futures and single stock shorts detracted over the month driven by the outsized strength in heavyweight components such as Tencent, HSBC and other financials.

One of the key focus areas of regulation policy change is to boost domestic consumption and use more environmentally friendly products. One such case is Haier Electronics (HEG, 1169 HK, mkt cap U$13bn) a white goods brand manufacturer that is set to benefit from China's old for new policy and the push to upgrade to greener alternates. Interestingly, it is also under an attractive privatization proposal from Haier Smart Home (HSH, 600690 CH, mkt cap U$27bn) of share conversion ratio of 1.6 to 1 and a special dividend payment of HK$1.95 per share. The 3Q20 results came at the end of the month with HEG accelerating revenue growth +18%yoy, sequential improvement in margins and notable market share gains. For HSH, it is a similar story but 3Q recurring net profit surged +43% yoy significantly better than the 25-30% expected. The management guidance was positive talking about the beginning of the efficiency improvement gains going forward. With revenues accelerating, margins widening and market share gains the outlook is bright. In addition, the privatization process is on track with approval granted from CSRC. The next step will be the HKEX listing hearing. Despite this, HEG has underperformed HSH by over 30% since the announcement with the A-share premium nearing 55%. This seems unjustified, especially when compared to other A/H consumer brand names. We remain invested and will be accepting the proposal as it stands. One of the detracting sectors this month was education. Earlier in the year, the government had previously provided a tailwind for the sector with directives to increase enrollment. As a consequence, several listed companies made a flurry of earnings accretive acquisitions. This month, Hope Education (176 HK, mkt cap U$ 1.7bn) undertook an unconventional share transfer agreement for a minority stake, 29.76% in the A-share listed, Dingli Communications (300050 CH mkt cap U$570m). Dingli is a telecom testing company with a vocational training business consisting of 31 colleges with nearly 20,000 students. The strategy seems to beithat Hope Edu would look to expand this business. Analysts thought the move was bold, but investors were less impressed by the messy deal. We exited the stock and by the end of the month, the stock had fallen -23%.

Looking forward and in spite of the uneasiness of sector rotation, the case for being constructive on Asian equities is gathering more momentum. The 3Q corporate earnings results have been better than feared and with Covid under control, the earnings rebound in 2021 and beyond should be considerable. The incremental activity data continues to signal an economic recovery and a Biden presidency is expected to be less adversarial and disruptive. For us, the sentiment, positioning and broad valuation metrics remain compelling. Investors should also be encouraged by the global economic policy tailwind. Government stimulus and consumption boosting measures seem only to intensify. For China, the fifth plenary session unveiled the new 'dual circulation' initiative. The 'inner circulation' aims to boost economic growth through domestic measures in consumption, technological progress and supply chain enhancement. The 'outer circulation' aims to expand and develop China's relationship with the rest of the world. China watchers will be confident that the inner circulation policies will be vigorously pursued. Consumption will be boosted in targeted areas and they will push domestic development and efficiency through technological and environmentally friendly advancements. For us, we will aim to align our portfolio to these policy directives. As the economic situation in the US and Europe continues to be crippled by Covid and perhaps the under-appreciated constraining effects of Biden's tax and regulation proposals, this clear initiative gives China a strong direction. As a consequence, our holdings remain domestically focused and positioned to benefit from the policy, corporate and behavioural changes.

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