

Neutron Asia Absolute Return Fund

Monthly Newsletter (January 2016)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund #("NFA")	1,062.5357	↓ 6.64%	↓ 6.64%	↑ 6.87%

Please note that as of January 1st 2016 the name of the fund has been modified to **Neutron Asia Absolute Return Fund**.

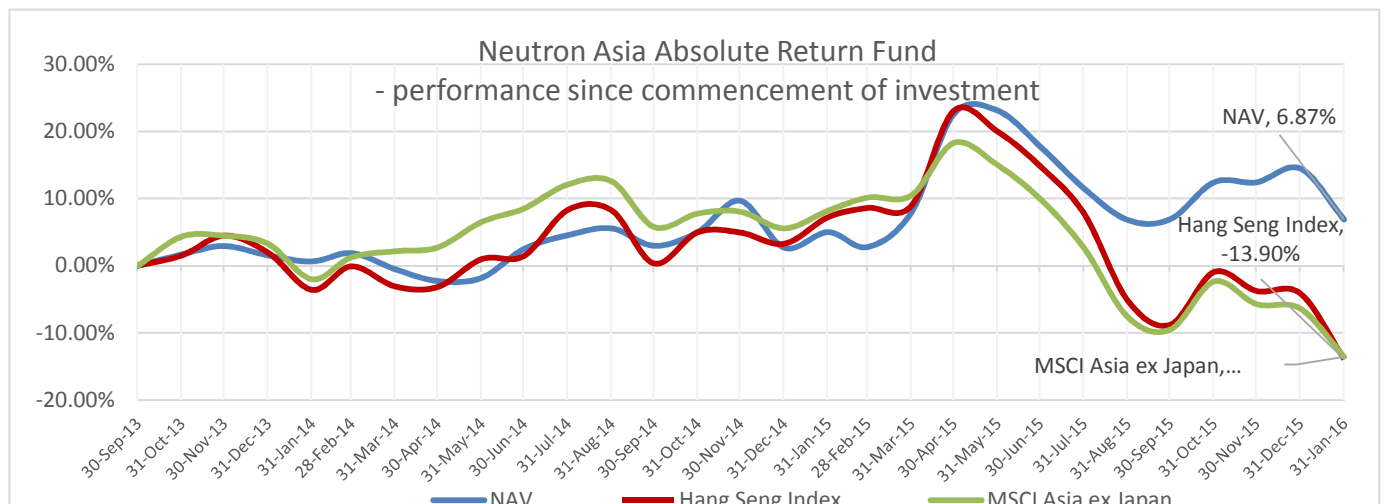
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2016	-6.64												-6.64
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	+11.98	+1.76	+2.87	+6.79	+9.71	-7.19	+2.83	-1.79	+2.08*	+1.68	+1.24	-1.37	+1.52 +31.39*
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

* Hall Park Capital, the Strategy was previously expressed through Hall Park Capital from January 2009 to September 2013. This was run as a smaller managed account gross of fees.

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\$154 million	Dealing	Monthly
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



For further information, please visit Bloomberg ticker: BNNEUTA:KY



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The fund lost -6.64% net of fees in January to leave the NAV at 1062.5357 as of January 31st. In comparison, the Hang Seng fell -10.18%, the HSCEI dived -14.69% and the Shanghai Composite was reduced by -22.65% over the month.

For the portfolio, January was a brutal month. Having seen positive performance in each month from September to December we had gained confidence and conviction in our structural growth and value with catalyst names. That said, the speed and severity of the prices declines in the first few days of January was disturbing. By the end of the first week in January we had moved from an aggressive net long position to our lowest exposure since August 2015. Our stop loss price action indicators lit up like a Christmas tree. By the end of the month, we had completely sold out of 15 names including 4 out of our top 5 holdings. The remaining name was reduced in size by 75%. Our exposure was drastically reduced to low single digits by the third week of January and closed the month in the teens. With regards to attribution, all our long positions detracted from performance under the indiscriminate selling pressure. Our single stock short positions provided some gains, but were too small relative to the longs to make a meaningful contribution. Our short futures positions helped initially, but once gross and net exposure was dramatically lowered they merely stabilized the portfolio.

For our investors, we still maintain our strategy of a focus on structural growth names and value with catalyst. Nonetheless, the macro headwinds are now overwhelming any micro positives. The alarming price action has demanded more defensive strategy and we consider this is a time for risk management.

At the end of 2015, we were navigating through the faltering Chinese economy and expectations of further devaluation adding to the apprehension and volatility. As the world's largest consumer of metals and second largest buyer of oil the slowdown was already impacting commodity markets. Initially, the fall in the oil price had been greeted as a tax cut for consumers. However in January, the dramatic collapse to below \$30/bbl due to supply side issues brought into question the economic viability of huge index heavyweight companies and indeed nations themselves. As a consequence, investor fear has spread to the lending banks and the whole financial sector. Redemptions intensified and irrational selling brought the unintended consequences to assets values everywhere.

By the end of the month, the Japanese Central Bank took the radical step to impose a 0.1% fee on deposits – effectively, a negative interest rate. In turn, expectations for US economic growth were lowered and the likelihood of another rate rise were pushed further out which provided an initial rebound to global stock markets. Nevertheless, given the dwindling number of viable options and the difficulty of the task, investor's confidence in the ability of global policy makers has notably deteriorated.

Looking ahead, we maintain our view that it will be rough ride for markets and China in particular. The concern over the serious structural problems of over-capacity and under consumption have been joined by slowing growth and increasing unease over the health of the mining, oil and financial sectors. What has changed for us is that the macro headwinds have intensified and now overwhelmed our sector and micro positives. Valuation multiples are compressing with earnings downgrades escalating the momentum on the downside. We see more risks than opportunities in the near term and that has been reflected in our positioning. We remain opportunistic both on the long and short side. We maintain our selective strategy and have a shopping list with a focus on structural growth and value with catalyst.

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