Neutron Asia Absolute Return Fund

Monthly Newsletter (March 2016)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund #("NFA")	1,097.8251	↑ 4.32%	↓ 3.54%	↑ 10.42%

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

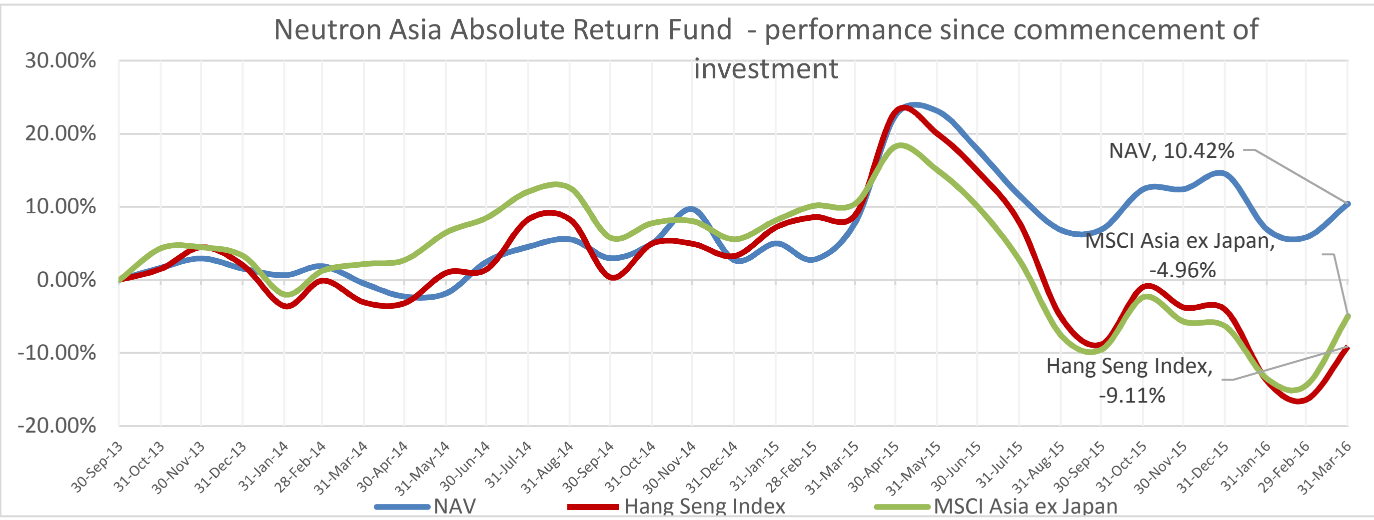
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2016	-6.64	-0.96	+4.32										**-3.54**
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$159 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 gained +4.32% net of fees in March to leave the NAV at 1097.8251 as of March 31st. The fund is now down -3.54% year to date whilst the Hang Seng Index and HSCEI have lost -5.19% and -6.81% respectively.

For the portfolio, we continued the rebuilding in March with both gross and net exposure notably increasing over the month. On the long side, we added nine holdings, including many familiar names and sold out of three. On the short side, we added three single stock positions in addition to our short index futures. There was a broad rebound in the long portfolio with all but two of our holdings making a positive contribution whilst our index futures and one single stock short position weighed on performance. We re-established our themes with the holdings in travel, consumer and internet providing a large portion of the positive attribution. The composition of the portfolio is taking on a familiar feel with greater concentration and an increase in the holding size especially in the more liquid names with strong balance sheets.

For investors, March brought some much needed relief. The rebound in equities was sparked by the U.S. Federal Reserve tempering of expectations of interest rate rises which, in turn reversed the US dollar's ascendance. Emerging market equities and currencies promptly rallied back in a scramble for repositioning. This move was further compounded by the sharp bounce in the oil price to back above $40/bbl. For China, stable economic data and the promise of 'innovative measures' from Premier Li Keqiang at the NPC were enough calm the fears of a worsening economic slowdown. In addition, the companies' results announcements in March helped re-established confidence in a battered equity market and show that fears of a calamitous corporate scenario looked overblown.

This was certainly true for one of our major positive contributors, **Haier Electronics** (1169 HK, mkt cap U$4.8bn) which rebounded over +16% in March. The 4Q15 results confirmed that the business had improved over the previous two quarters and in addition, management gave a relatively optimistic outlook for 2016. Haier has the number one market share in China for washing machine, refrigerators and water heater businesses. It is well placed to benefit from the upturn in property sales and further consumption boosting policies from the government. Haier is a solid company with a well know brand and extensive distribution network. Net cash now accounts for around 30% of the market cap and the company trades on a forward p/e of just over 11x (the 5 year average is 15x with a low of 7x). Gross margins are improving helped by the profitability of the logistics business and it seems any upturn in demand for home appliances would surprise the consensus. The share price hit a 52 week low of $10.84 in mid-February as investors priced in an economic slowdown and a weakening in consumer demand. This seems overdone, especially given the recent results and the more optimistic outlook from the management.

One of the clearest structural growth stories that we see in China is the travel industry. **Beijing Capital International Airport** (BCIA 694 HK, mkt cap U$4.9bn) illustrated this by reporting their robust operational data and full year net profit up +18% yoy. The growth in profit was driven by a strategy of increasing the mix of international flights which have higher landing/passenger charges and a higher per passenger retail spend. Going forward, there are additional areas of growth and reform that provide a distinct pipeline of positive catalysts. As the only airport in Beijing, heavy demand will continue to outpace its limited runway capacity. International flights currently account for 25% of the mix, but management guided this to rise to 28% by 2018 and 30% by 2020. In addition, any clarity on the talk of a potential fourth runway would be a notable driver. There is also considerable pressure on the authorities for more commercial landing slot allocations versus air traffic restrictions related to military use. At present, the military controls around 80% of the airspace in China according to a civil aviation official, compared with around 20% in Europe or the US. There is also potential reform in outdated tariffs and airport charges as 80% of China's airports were loss making in 2015. Lastly, any liberalisation of the duty free operator licences – currently there are only two – would bring notable revenue upside through a competitive tendering process. This and many of these catalysts are a natural progression for the industry. Here BCIA has a sustainable competitive position, high visibility and is well placed to benefit from these developments.

For many of our names the recent earnings season reminded investors that all is not lost. Sentiment and positioning had been bearish ahead of the numbers so many stocks rallied in relief. We are somewhat encouraged by the results and guidance from our names and our positioning reflects that. We remain cautiously opportunistic for some sectors in the near term and have increased our exposure both on the long and short side. Liquidity and turnover, although still dramatically reduced, have shown clear signs of improvement. Be that as it may, the main structural problems and macro headwinds remain indisputable. China is still over producing and under-consuming. That said, even in this environment we are confident that opportunities will arise. We maintain our selective strategy with a focus on structural growth and value with catalyst. We are expecting further inflows into the fund.

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