Neutron Asia Absolute Return Fund

Monthly Newsletter (April 2016)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund #("NFA")	1,098.2755	↑ 0.04%	↓ 3.50%	↑ 10.46%

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

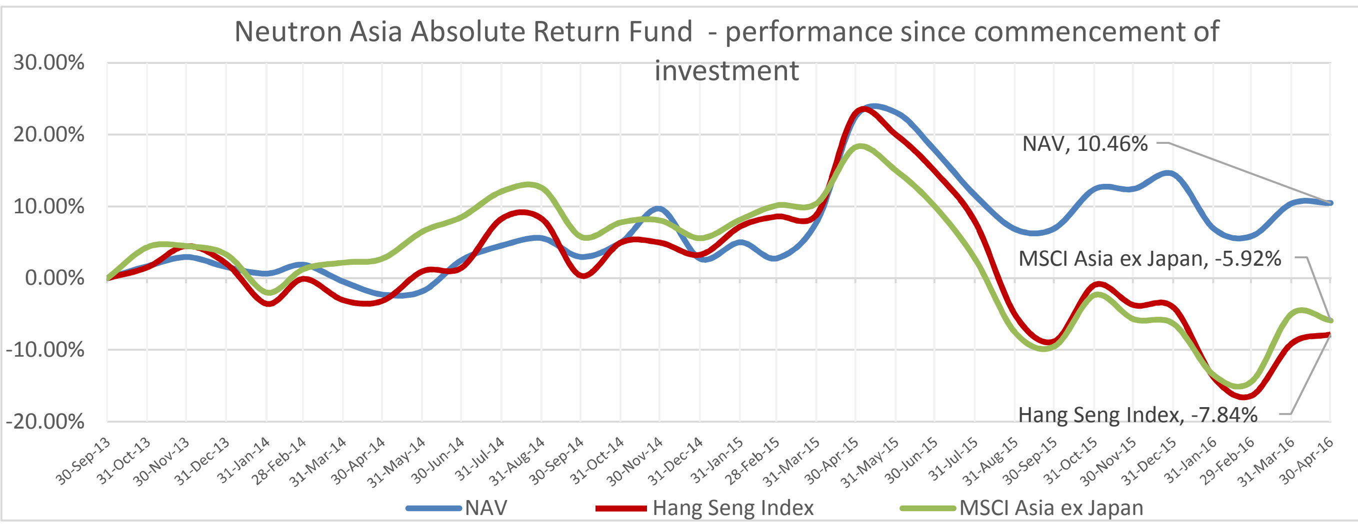
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2016	-6.64	-0.96	+4.32	+0.04									**-3.50**
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

Neutron Asia Absolute Return Fund

Monthly Newsletter (April 2016)

In April the Fund gained a small +0.04% net of fees to leave the NAV at 1,098.2755 as of April 30th. Consequently, the fund remains down -3.50% year to date whilst the Hang Seng Index and HSCEI have lost -3.87% and -7.47% respectively.

For investors, April saw further sharp repositioning and reversal trades with the lion's share of gains in the indices derived from oil companies and financials. Up to that point, they had been the worst performing major sectors year to date. Over the month, the WTI crude oil price rallied over +15% to settle at U$45.92/bbl and the US dollar (DXY) ended April at a year to date low of 93.08 having started the year at 98.63. Analysts scurried to further temper down their U.S. interest rate hike expectations. Now the probability of even one rate hike this year is looking less likely. This is a drastic change from only four months ago.

For the portfolio, both gross and net exposure expanded in April. On the long side we increased several of our existing holdings, added five new names and sold out of four. In a volatile month, our performance attribution was decidedly mixed as eleven holdings contributed positively whilst seven detracted. Our travel and tourism names made a standout positive contribution whilst a large internet holding was the major negative influence. Specific results announcements were largely favourable to our holdings. On the short side, single stock positions in energy, commodities and financials weighed on performance and have been exited or substantially reduced.

A major positive contributor was Guangdong Investment (GDI 270 HK, mkt cap U$8.7bn) a holding first mentioned back in our November 2013's newsletter. The stock gained +12% in April after 1Q16 results saw net profit rise +13% yoy which was better than expected. Over 80% of the 1Q16 profit was derived from predictable water resources (68%) and property investment business (12%). By the end of 2015, it had net cash of HK$1.7bn and cash on hand of HK$9.3bn. The company is continuing to execute on deals and acquisitions including the recent Rmb 5bn public-private partnership project in Dongguan to construct highways, roads and drainage facilities. This deal is estimated to take 2 years and add 3% upside potential to earnings. Despite the company's solid revenues, balance sheet and growth potential it remains under appreciated trading on 15x FY16 P/E - a seemingly unjustified 28% discount to HK utility peers. GDI has lifted its dividend every year since 2010 now paying 3.4% with FCF yield of 8.5%. Going forward, we expect more deals, acquisitions and reorganisation. An extra driver may materialize if they decide to dispose of the smaller, non-core department stores and hotels businesses which saw profit declines of -46% and -44% respectively in 1Q16. Nevertheless, we view the core water supply business is a structural growth industry in China where tariffs for industrial users on a clear long term up trend. For us, GDI exhibits a combination of high earnings visibility with growth potential and distinct value.

Another long time holding, Travelsky Technology (696 HK, market cap U$5.1bn) gained +13.9% over the month after another set of strong results which saw net profit +16% yoy and a 25% increase in the dividend. The company is securely positioned at the centre of the structural growth of China's travel industry. A quick recap; they are the dominant provider of IT solutions and back end services for the airline industry. Essentially, they clip a small fee on every ticket or cargo movement. They also increasingly provide value added services which are growing rapidly. The three main domestic airlines are shareholders. Their earnings history and cash generation is solid. They have zero debt and a net cash position of ~ Rmb5.3bn. (U$814m, 16% of market cap). They produce monthly operating data that show an accelerating trend with the fastest growing area being the higher margin international business. For investors, the positive surprise in the recent results was the significant drop in the cost ratios in H2 2015. The heavy capex period for the significant build out of operations and systems upgrade seems to have peaked and operating profit margins should move higher from here. That said, net profit growth should be slightly lower than operating profit growth as the government subsidies are also reduced. On the conference call, the management mentioned the intention to capitalize on its self-developed travel app, Umetrip, through new suitable investors with synergies. This could be a notable positive for the stock. The stock price has been volatile and it has been a rough ride for investors. However, with the capex now tapering off we see and acceleration in earnings through a larger operation with better margins. Few companies we look at have such a dominant, sustainable competitive position. The demand to travel in China is strong and with the government planning to build more than fifty more airports and expand others under its current five year plan we see huge potential for Travelsky.

Despite our mixed performance this month, we were disappointed to see our short positions detract so much from investment themes and individual stock holdings. That said, we have not altered our view on Chinese old economy corporates. Looking at the data in the Shanghai Composite, 2015 was a miserable year for the large Chinese companies (non-financial & non-utility). They suffered a top line contraction of 9%, a bottom line contraction of 23% and the lowest net margin for at least 10 years of 3%. All that in addition to their massive debt burden. As a result, HK/China equity funds continue to suffer outflows with the scant liquidity exacerbating the situation. The major headlines are undeniably grim, but it is not all bad. There are specific areas of growth in China and there lies the opportunity. Given the examples above, we remain encouraged by the results and operating data from many of our holdings and have increased exposure in them. We maintain our selective strategy with a focus on structural growth and value with catalyst. We are pleased to report new inflows into the fund.

BRIC NEUTRON
ASSET MANAGEMENT LIMITED
尚金資產管理有限公司

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