Neutron Asia Absolute Return Fund

Monthly Newsletter (May 2016)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund #(“NFA”)	1092.4077	↓ 0.53%	↓ 4.02%	↑ 9.87%

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

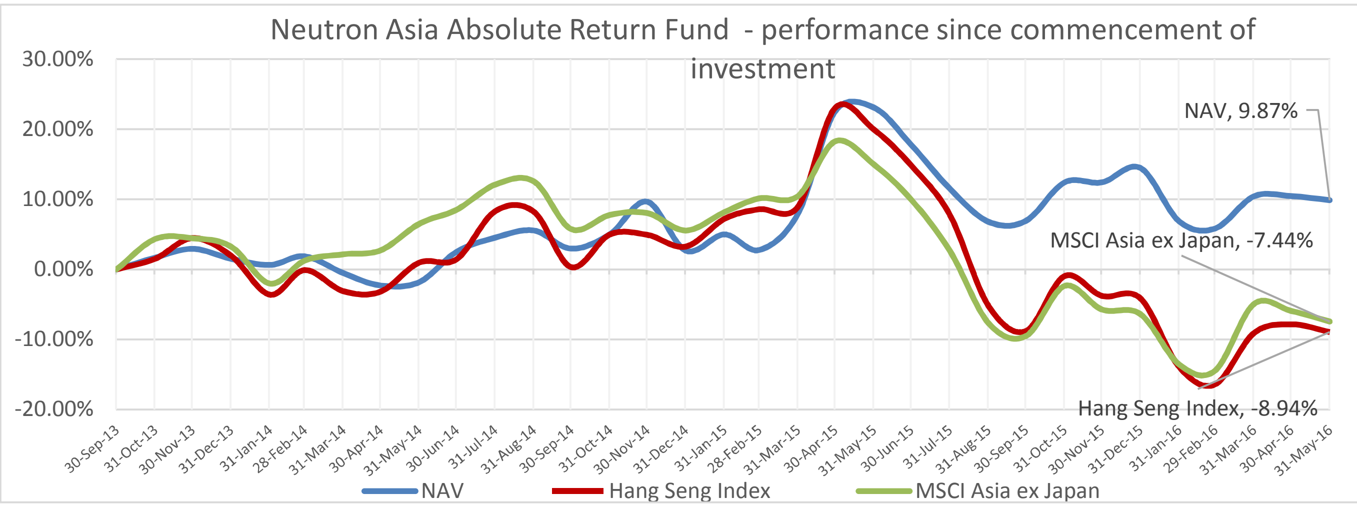
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2016	-6.64	-0.96	+4.32	+0.04	-0.53%								**-4.02**
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$178 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 or website http://neutronasiaabsolute.bricneutron.com/

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In May, the Fund fell -0.53% net of fees to leave the NAV at 1092.4077 as of May 31st. In comparison the Hang Seng Index decreased -1.20% and the HSCEI lost -2.62%. As a result, the fund is down -4.02% year to date whilst the Hang Seng Index and HSCEI have lost -5.02% and -9.90% respectively.

For the portfolio, the month began with notable contraction in both gross and net exposure as negative price action prompted a reduction in risk. That said, by the end of the month we had returned to our initial exposure levels with more allocation to large cap, value with catalyst names. With regards to portfolio rotation, we sold out of six positions and added four new holdings over the month. Once again our performance attribution was decidedly mixed with eleven holdings making a positive contribution and eight detracting. In a reversal from last month, the internet holdings were the stand out positive contributors whilst the heavy negative influence came from a tourism company and two large consumption names. On the short side, the single stock positions were slight negatives whilst the index futures helped stabilise the portfolio.

It was an eventful month for long time holding, Netease (NTES US, mkt cap U$21bn.) which gained +27% in May closing at a year to date high. Firstly, the 1Q results came in with revenue up +116% yoy and earnings up +87% yoy which was 23% higher than consensus forecasts. This was mainly due to a jump in the e-commerce gross margin to 20% from the 6% expected and notably lower SG&A and R&D expenses. All three business lines continued to exhibit strong revenue growth: gaming +105% yoy, advertising +32% & e-commerce 258%. The abrupt share price reaction was in contrast to this company being the major detractor from performance last month. The ever present rumours and concerns over growth rates, launches, competition and the ecommerce business continues to spook investors and makes for a volatile share price. In addition to positive results, NTES management held an investor and analyst day on May 26th to make some significant announcements and business updates. It was impressive. Firstly, they disclosed the tie up with Google to showcase a game on Googles' Virtual Reality Platform. Secondly, they announced the licensing of the blockbuster game, Minecraft from Microsoft. In addition, they also revealed an exciting game pipeline of 40 titles of which 70% were self-developed and a bullish update on the healthy growth of e-commerce business which specialises in quality foreign products. It was interesting to note that 73% of the e-commerce buyers are the valuable iPhone users demographic which have a significantly higher average spending level – a much coveted user base. Furthermore, they announced plans to enter animation, dramas and movie entertainment leveraging on their titles and user platform. All positive news as we have argued on previous occasions that investors continue to underappreciate the company's distribution platform and the quality and attraction of its titles and pipeline. For us, the 1Q results and investor day confirmed the compelling investment case. The valuation remains attractive, trading on 15.5x FY16 P/E with notable net cash. Free cash flow generation should exceed U$1.2bn this year and the company increased the quarterly dividend to U$0.73 from U$0.64 in 4Q15. Despite the exciting pipeline and numerous catalysts ahead investors remain anxious on slowing growth, margins and issues with the e-commerce business. The stock has always been susceptible to rumours, however, the management keeps delivering. We increased our position over the month.

For several months we have reiterated that both sentiment and positioning for HK/China names have been bearish in the extreme. Yet it continues to deteriorate. The unrelenting redemptions and out flows from equity funds focused on the region have continued to pressure prices. Liquidity and turnover has been reduced even further. On May 23rd, the turnover on the HK Stock Exchange was a paltry HK$ 43.8bln (U$5.6bn). That is the lowest turnover full day in 2016 so far. As the HKSE closed that day, 867 stocks or 45% of HK listed companies traded below 1.0x price to book and 357 of them traded less than 0.5x p/b. The liquidity drain is not confined to Hong Kong. According to Bloomberg, the turnover on Asia's ten biggest exchanges has declined 69% from last year's peak in May. For global investors, the bad news China story is still running and most do not want exposure there. As a consequence, prices and valuations extend their decline and the lack of liquidity continues to de-rate the companies listed here. This may go on longer than the best estimates, but valuations will matter longer term. For us, our specific company results announcements have been largely favourable with our holdings exhibiting profit growth and increasing dividends. We continue to argue that there are definitive areas of structural growth in China which are overlooked by the global asset allocation and have been penalized by the fund outflows from Asia. We maintain our selective strategy with a focus on structural growth and value with catalyst.

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