

Neutron Asia Absolute Return Fund

Monthly Newsletter (June 2016)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("NFA")	1088.1281	↓ 0.39%	↓ 4.39%	↑ 9.44%

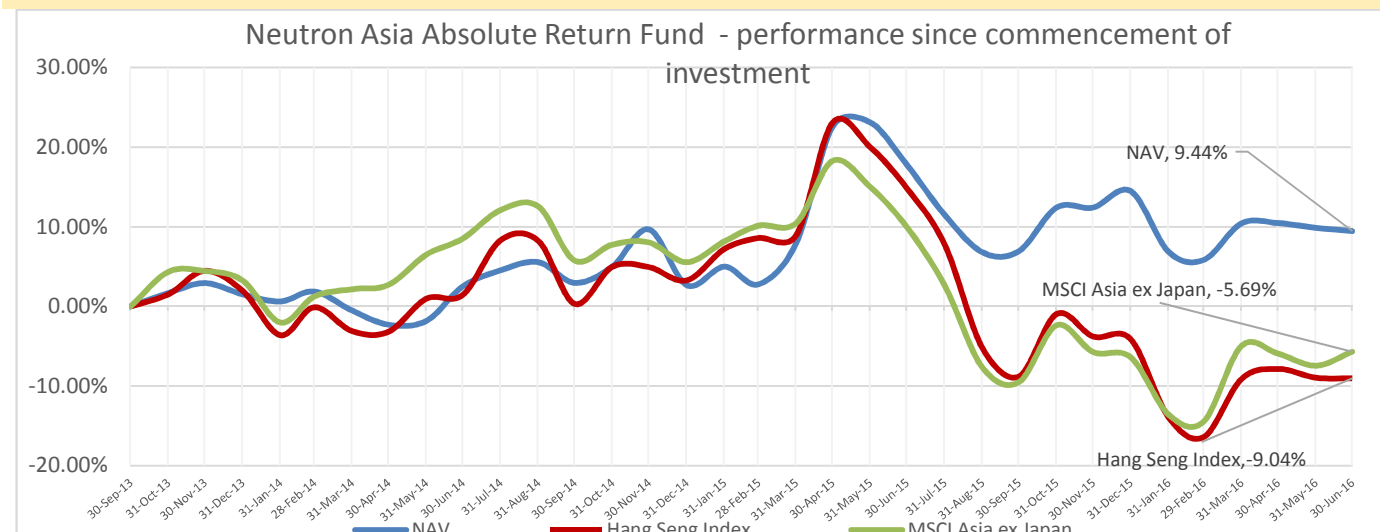
Historical Net Monthly Returns

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%	-0.39%							-4.39
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\$177 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 June, the fund fell -0.39% net of fees to leave the NAV at 1088.1281 as of June 30th. As a consequence, the fund remains down -4.39% year to date whilst the Hang Seng Index and HSCEI have lost -5.11% and -9.81% respectively.

For investors, to say that June was an eventful month would be an understatement. In Asia, there was disappointment on the news that China A shares were still not to be included the MSCI benchmarks. Expectations had been raised ahead of the decision, but in the end there remain notable outstanding issues and frustrated investors compounded the recent fund outflows to sell on the announcement. Across the globe, markets felt the impact of uncertainty and an increase in volatility with the Vix index spiking above 20 on numerous occasions. The US economic data was decidedly mixed and expectations of an interest rate rise were further subdued. The US 10 year treasury started the month yielding 1.85% only to end the month at 1.47% and continue to push lower in the days that followed. In Europe, government bond yields continued to move negative and the ECB initiated their desperate stimulus program to now purchase corporate bonds. In the days ahead of the Brexit vote, the markets rallied as polls and bookmakers predicted a clear 'remain' victory that would remove a significant overhang. When the markets realized that, against the odds, Brexit was going to happen they went into a vicious tailspin only to then rally back in the last few days of the month.

For the portfolio, the month began with solid net long exposure. However, this increase in uncertainty and the volatile price action prompted a reduction in risk. By the end of the month we had notably reduced our exposure levels with more allocation to our large cap, liquid names with strong balance sheets. With regards to portfolio rotation, it was our busiest month for trading for some time with heavy activity on the short side in both single stock names and index futures. By the end month, the net changes to the holdings list were that we sold out of six positions and added two new companies. In addition, we also used the volatility and share price weakness to add to some higher conviction holdings that suffered during the turmoil. The concentration of the portfolio's exposure increased over the month with the liquidity of the holdings being a major factor. Our performance attribution was once again diverse. On the downside side, several of our mid cap companies weakened sharply and provoked a removal from the holdings list. They were the main detractor. Our special situation value with catalyst name also weighed on performance. On the plus side, by the end of the month we had eleven holdings making a positive contribution with the lion's share of the gains from our internet and travel/tourism names. On the short side, the single stock positions made a positive contribution whilst the index futures added to the gains and helped stabilise the portfolio.

One negative contributor was our position in Dah Sing Financial (440 HK, mkt cap US\$2.1bn) which fell -6.1% in June. Following a well contested bidding process, the company announced it would sell its insurance unit to the HK affiliate of China's Thaihot Group for US\$1.38bn. This is nearly 40% higher than the US\$1bn originally estimated. This equates to a rich 2.8x embedded value. That is twice the valuation that JD Capital paid for Ageas HK last year. The deal is subject to a number of precedent conditions and will also take an estimated six months or more to complete. In addition, management later curbed investor enthusiasm indicating that the proceeds from the sale will not be entirely paid out to shareholders. They are to be reinvested in its business, utilized for general working capital purposes and may pay a special dividend. Some analysts downgraded to neutral on this news and selling pressure impacted the stock price. A closer look at the value of Dah Sing Finance shares under this transaction illustrates clear value at these levels. As a base case, the value per share of the sale of Insurance business is HK\$23.88. The value per share of holdings in Dah Sing Banking Group (DSBG, 2356 HK) is HK\$42.95. This gives a total share value of HK\$66.85. The closing price on June 30th was HK\$47.70. Given that, DSBG is also the least expensive Hong Kong bank in terms of price to book and P/E and this deal will give it a capital injection of approximately US\$380m further strengthens the argument. The circular is expected on or before August 8th with an EGM after that. Whatever the assumptions on payments on special dividends, distribution of DSBG shares or a share swap there is distinct, considerable value here and management are motivated and incentivized to unlock it. Despite the negative performance, we added to our position over the month.

We mentioned in our February newsletter that investors face the uncomfortable near term prospect of higher volatility with lower returns. The heightened global uncertainty and poor liquidity in Asia has undeniably brought this to bear. Despite our negative performance this month, we have moved to manage risk and defensively position the portfolio in our high conviction names that should profit going forward. If we look back and study the last seven and half years of operating our absolute return strategy, it has been the holding of illiquid stocks that have caused the major monthly drawdowns. Liquidity dries up, no effective hedge is available and investors clamour to sell. The percentage declines can be significant and quickly push companies to distressed valuations - in some cases, a discount to the cash on the balance sheet. That said, they have also been major contributors upside and we are cognizant that the higher quality small/midcaps may provide huge opportunities going forward. One positive point in the turmoil is that Asia may benefit from the outflows from a more uncertain Europe. This newsletter has made much about the extreme bearish investor positioning and sentiment in HK/China in recent months. So perhaps it is just wishful thinking to note that any repositioning to Asia come will off an extremely low base and into shallow liquidity. Investors who have held on may benefit from a sharp rebound. As a consequence, we continue to argue that there are definitive areas of structural growth in China which are overlooked by the global investors and have been unfairly penalized by the fund outflows from Asia. We will maintain our selective strategy with a focus on structural growth and value with catalyst. We are not alone in this view and we are expecting further inflows into the fund in July.



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