

Neutron Asia Absolute Return Fund

Monthly Newsletter (July 2016)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("NFA")	1121.1591	↑ 3.04%	↓ 1.49%	↑ 12.76%

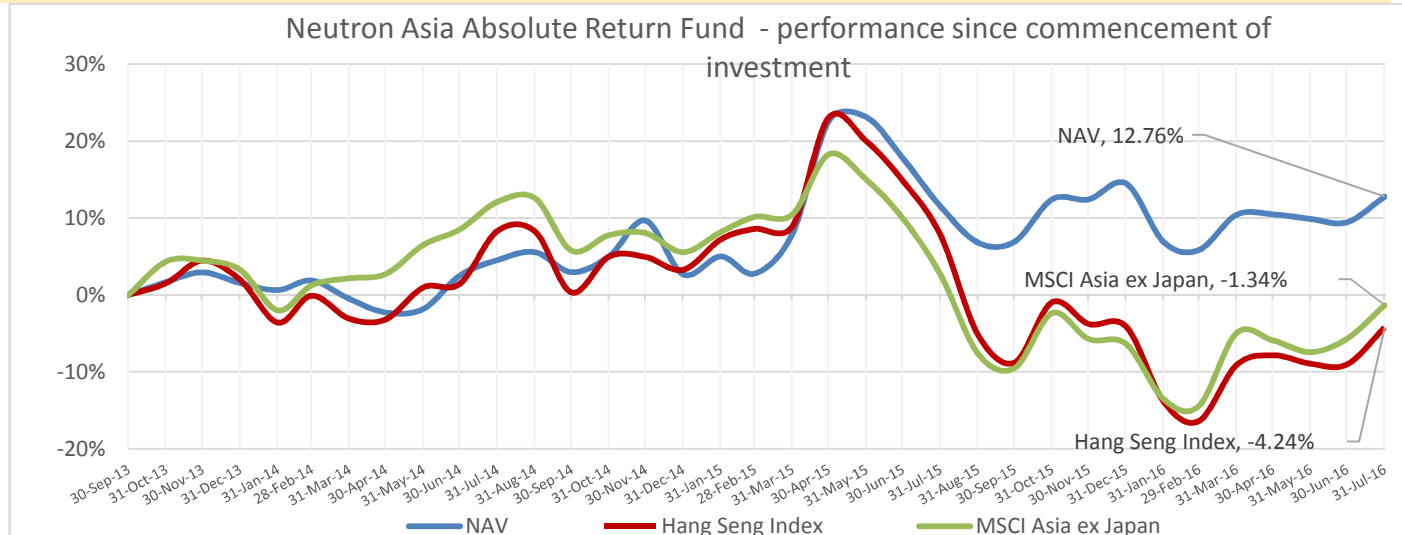
Historical Net Monthly Returns

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	+3.04						-1.49
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\$183 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 July the fund gained +3.04% net of fees to leave the NAV at 1121.1591 as of July 31st. Consequently, the fund remains down -1.49% year to date whilst the Hang Seng Index and HSCEI have lost -0.11% and -7.27% respectively.

For the portfolio, we started the month defensively with a concentrated exposure to our large cap, liquid names with strong balance sheets. Over the month we quickly increased our long positioning by mainly adding to our higher conviction holdings and covering shorts. In contrast to last month's busy trading activity, portfolio rotation was relatively low and by the end of the month the net changes to the holdings list saw most of our single stock short positions closed and only three new long positions added. The concentration of the portfolio's exposure remained comparably stable over the month with a continuing focus on liquidity. Our performance attribution was much broader. On the plus side, we had twelve holdings making a positive contribution led, not only by our travel/tourism and internet names, but solid additions from our telecom and insurance companies and a rebound in the value with catalyst names. On the downside, five positions weighed on performance. These were mainly high yielding names and a remaining small cap. On the short side, our single stock positions were closed with mixed performance whilst our index futures further detracted from the gains.

Post a recent meeting, we wanted to reaffirm that neither our focus nor our holdings are confined to Hong Kong/China. One structural growth story that we have owned for a while is VinaCapital Vietnam Opportunity Fund (VOF LN, mkt cap US\$610m) which rallied +6.4% in July. At the time of purchase, the Vietnamese government was implementing dramatic economic reforms that would scrap curbs on foreign ownership in some industries. This in turn would stimulate inward investment and help drive their heavy privatization program. Dealing directly in Vietnamese equities proved cumbersome and foreigners would have to pay a sizable premium to buy many of the attractive listed companies. It was surprising to see that VinaCapital traded at a substantial 25% discount to its NAV yet the held many listed equities, such as their largest holding VinaMilk (approx. 14.5% of their portfolio). We would have to pay a significant premium to own that stock directly. A look at the few comparables, we noticed the US listed Vectors Vietnam ETF (VNM US, mkt cap US\$351m) actually trades at a small premium to its NAV. The discount seems unjustified, especially given the country's strong economic outlook and positive news flow. Vietnam's GDP is growing at 6-6.5% and the ratification of the Trans-Pacific Partnership (TPP) which reduces or removes thousands of tariffs will be a huge boost to exports and lessen the economic reliance on China. Furthermore, the opening up of Vietnam's capital markets should be pathway to upgrade Vietnam's 'frontier' market status to an 'emerging' market thereby attracting additional inflows and inclusion in more popular index benchmarks. So why the big discount? At the time of purchase, VinaCapital was a smaller London AIM listing. Since then it has moved to the main board and liquidity has markedly improved. The portfolio currently consists of 51% listed equities, 8% direct real estate projects, 9% in operating hotel assets, 13.2% in private equity, 6.9% in OTC stocks and the balance in cash and bonds. The managers are mindful of the discount and have demonstrated an ongoing commitment to share buybacks. As a consequence of these factors, the price has been steadily moving up and has registered a gain of +39% year to date. It is worth noting that the primary risks for Vietnam are disputes with their main trading partner, China over territory in the South China Sea and the depreciation or further volatility in the currency. That said, Vietnam's policies initiatives and catalysts ahead will undoubtedly attract investors who are regaining their appetite for emerging/frontier markets. We remain convinced that Vietnam is attractive structural growth story and that VinaCapital at an unjustified discount is the best option for exposure. We have added to our position this quarter.

In last month's newsletter we suggested that Asian markets may benefit from the fund outflows of a more uncertain Europe. We have whined on several occasions about international investor's extremely bearish sentiment and positioning towards HK/China and that any repositioning of funds to Asia would come off an exceedingly low base and into shallow liquidity. At the time of writing, we have now seen the 5th straight week of inflows into emerging market equities – the longest run in almost two years. Asian markets dominated the inflows, although to a much lesser extent for China. Nevertheless, this is an important event. July may mark the pivotal point in the change of sentiment and the start of repositioning back to emerging markets. There is plenty of room to go. China remains a serious underweight and an outlier even amongst other emerging markets that are currently attracting significant inflows. In recent times, investors wanting, or needing China exposure have narrowed their focus and activity to a handful of highly liquid, large cap names that trade on the NYSE or HK Exchange e.g. Alibaba (BABA US) or Tencent (700 HK). Any increase in asset allocation to the region should see a move into broader holdings. As we head into the company results announcement season, we expect our names to exhibit profit growth and an increasing ability to pay higher dividends. We believe that upon a closer look, investors will see there are good companies in thriving sectors in China and other parts of Asia. We will maintain our selective strategy with a focus on structural growth and value with catalyst. We are pleased to announce further inflows to the fund at the end of July.



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

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