Neutron Asia Absolute Return Fund

Monthly Newsletter (August 2016)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (**"NFA"**)	1163.0085	↑ 3.73%	↑ 2.19%	↑ 16.97%

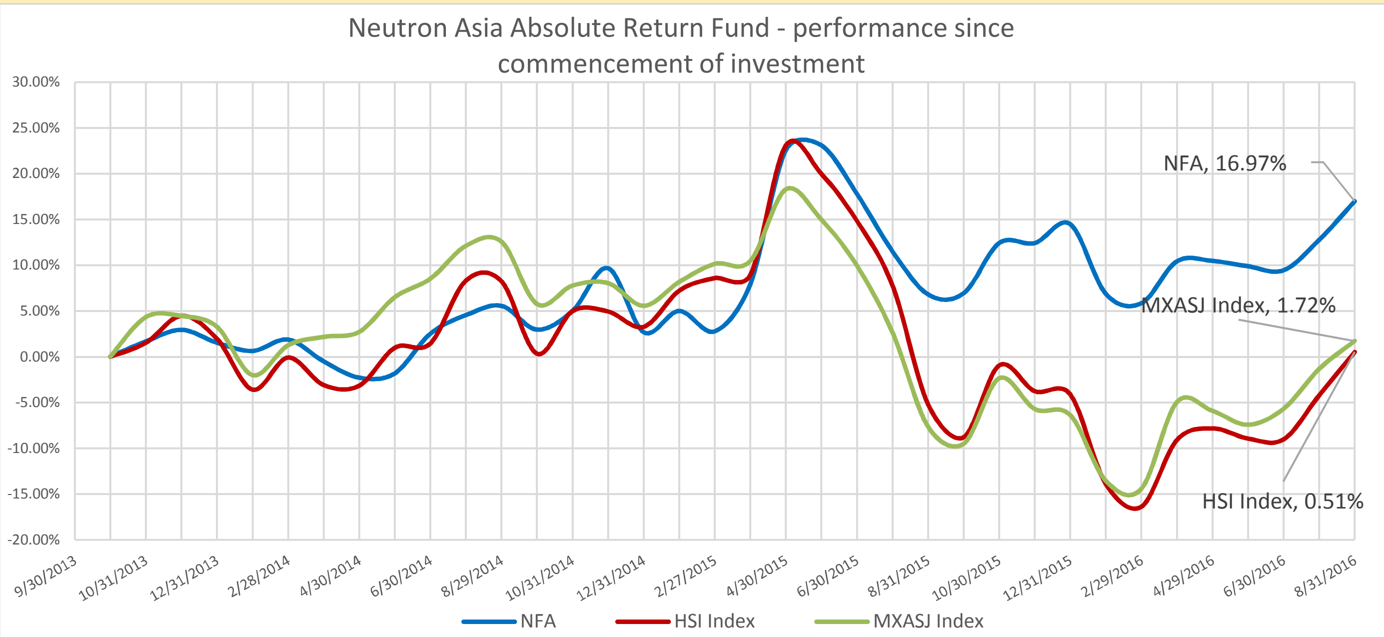
Historical Net Monthly Returns

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	+3.73					**+2.19**	
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	+31.39*	**+1.52**
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$216 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 August the fund gained +3.73% net of fees to leave the NAV at 1163.0085 as of August 31st. As a consequence, the fund is now up +2.19% year to date.

For the portfolio, we started the month with substantial long positioning concentrated in our high conviction, large cap liquid names. As this was earnings season, we were focused on the relevant announcements and in several cases added to our holdings that delivered better than expected numbers. The concentration of the portfolio remained relatively stable with an increase in the holdings of a handful of names. In continuation with last month's relatively low portfolio rotation, by the end of the month we sold out of three smaller holdings and added four new companies to our list. Our performance attribution was spread broadly across the portfolio with sixteen holdings making a positive contribution and only two detractions. Rather than sectors or themes, the lion's share of performance was driven by individual results, both on the plus side and the two detractors. On the short side, our single stock positions remained light, whilst index futures were used sparingly and weighed only slightly on performance.

Long time holding, Travelsky (696 HK, U$6.5bn mkt cap) delivered surprisingly strong results with a +29% increase in 1H16 net profit. The revenue growth was solid and the mix improved, but the real surprise came from a 10% fall in operating costs. Management made internal changes to the costs of software and hardware sold and brought more R&D in house. With the huge capex tapering off and now the reduction in operating costs, the acceleration in earnings has exceed our expectations. On the management conference call, there was further updates on the intent to monetize the self-developed mobile app 'Umetrip' where online users has now reached 24 million. Looking ahead, the demand to travel remains robust and with the enormous airport infrastructure build out underway, few companies we see have such a bright outlook and dominant, sustainable competitive position. The shares rallied +13.6% in August.

Another long time holding that exceeded our expectations was Shenzhen Investment (604 HK, U$3.6bn mkt cap). The low profile property company with the Shenzhen government as the controlling shareholder (60.7%). The 1H16 profit increased a notable +35% despite previous guidance that the key Shenzhen sales recognition was to come in the second half of the year. Gross margin continues to be stable at 36.5% whilst gearing remains sober at 37.9%. The positive surprise was heightened by the +133% rise in the interim dividend to HK$0.07, implying an 88% core payout. A confident sign for investors. That said, with a strong development pipeline, a sales visibility stretched to 2019 and 3.3 million sqm in boomtown Shenzhen - management have good reason to be. With valuations at 59% discount to NAV, 0.7x price/book and a 4.8% yield the investment case became more compelling since these results. We increased our holding in August.

Finally, the much mentioned online games company, Netease (NTES US, U$28bn mkt cap) delivered 2Q results that even exceeded our lofty expectations. Revenue and net profit grew +96% and +91% yoy beating the consensus by 6% and 24%. The surprise was driven by a rebound in PC games revenue and further ramp up in the E-commerce business. The PC games division, previously and area of concern, grew +13% qoq boosted by the blockbuster release of 'Overwatch' in May. The E-commerce division also dispelled the doubters with a +311% yoy surge in revenue, +32% qoq. Gross margins expanded to 33.8% as economies of scales and more of the revenue recognized on a net basis kicked in. Mobile games continued to grow at +3% qoq, but firmly out of the limelight this quarter. On the conference call, the management reiterated the exciting games pipeline of expansion packs in PC games, Minecraft and an AR-based mobile game by the end of the year. They also mentioned they expect to bring 'surprises' to gamers. Again, these results improved our perception of Netease's fundamentals. The investment case remains compelling with surging growth, exciting pipeline of products and numerous catalysts ahead. A valuation of 16x P/E FY17 with a notable and growing cash pile keeps us firmly invested here.

For the portfolio, the results announcement season was encouraging. Many of our names exhibited healthy profit growth and management were confident enough to pay higher dividends. Our conviction level has increased post these disclosures. For the broader market, many earnings releases compounded the recent positive tone. Amongst the heavyweights, there were solid beats from Tencent (700 HK), China Mobile (941 HK) and CK Holdings (1 HK). HSBC (5 HK) was better than feared and began a series of share buy backs that helped to underpin the bid in the market. Amongst the mid-caps, sales and margins seemed to show some recovery especially in the beaten up cyclical sectors. A theme of lowering costs, not just from energy and raw material input cost, but from internal reorganization contributed to improving margins. Global investors are taking note. In last month's newsletter, we commented on the recent funds inflow and suggested that July may mark the pivotal point in the change of sentiment and repositioning. Since then, the reported inflows into emerging market equities have continued unabated. At the time of writing, this is the eighth straight week of inflows for EM funds, with cumulative inflows of US$16.0bn (1.9% of AUM). EM ETF funds reported US$2.8bn inflows this week, while EM active funds reported US$2.2bn inflows – the highest weekly inflow since Feb 2013. The pick-up in the southbound flow ahead of the Shenzhen-Hong Stock Connect has increased liquidity and intensified the compression of the A/H share spread which is now approaching a one year low. Good corporate performance and an increase in liquidity should continue to attract funds. As we previously mentioned, our conviction level for our holdings has improved. We are confident to maintain our selective strategy with a focus on structural growth and value with catalyst.

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