Neutron Asia Absolute Return Fund
Monthly Newsletter (September 2016)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“NFA”)	1197.6475	↑ 2.98%	↑ 5.23%	↑ 20.46%

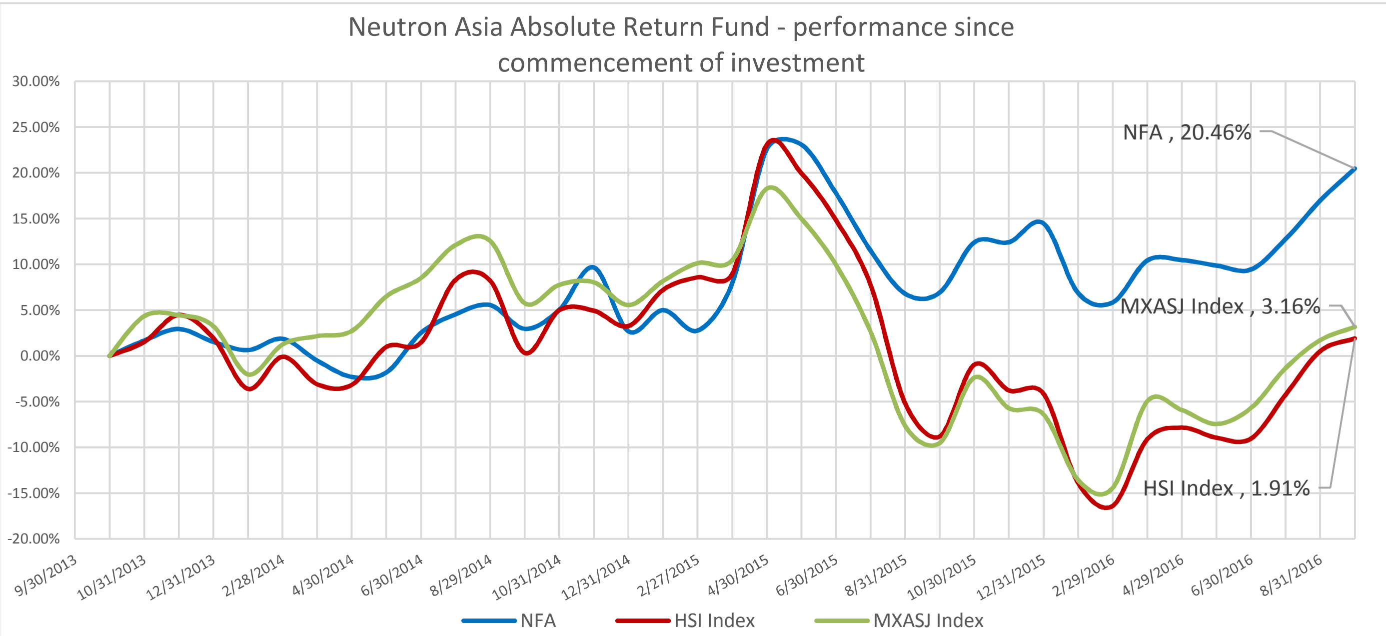
Historical Net Monthly Returns

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	+2.98				**+5.23**
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$213 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 September, the fund gained +2.98% net of fees to leave the NAV at 1197.6475 as of September 30th. By comparison the Hang Seng Index gained +1.39% and HSCEI +0.42% over the same period. As a consequence, the fund is now up 5.23% year to date.

For the portfolio, September saw little change as we maintained our substantial long positioning. In last month's newsletter, we mentioned that our conviction in our holdings had increased after the results announcements. As a result, we increased our position in certain holdings whilst trimming in others. The concentration of the portfolio remained relatively stable and again, it was another month of low rotation. By the end of the month, we sold out of three smaller holdings and added one new company to our list. Regarding the performance attribution, we had twelve holdings making a positive contribution whilst four weighed on the portfolio. On the plus side, our internet holdings accounted for a large portion of the gain, helped our travel and value with catalyst names. On the downside, our telecom, property and special situation names detracted. On the short side, our single stock positions remained light, whilst index futures were traded well and were a slight positive addition to performance.

One recent holding that we increased exposure in is China State Construction (3311 HK, mkt cap: U$6bn). They are one of the largest building construction and civil engineering companies operating in HK, Macau and increasingly China. Its state owned parent is the largest construction company in the world. Our interest was sparked after a surprisingly poor set of 1H16 results with sales 8% below forecast and gross margins falling to 12.2% from 15% in 1H15. There was also a bitter shareholder reaction after the company purchased their office building in Wanchai from their parent raising corporate governance concerns. In response, the management tried to restore confidence citing delays in lucrative infrastructure projects, a higher mix of lower margin affordable housing and more contracts done under jointly controlled entities which are recorded differently. Investors were unimpressed and the shares quickly plunged ~20%. For us, it seems expectations may have been too high as it was not all bad news. For instance, new orders grew +20% yoy and having achieved 63% of their initial target, the company raised up their full year new order target from HK$78bn to HK$83bn. There was also a strong improvement in the balance sheet as receivables fell 4%, payables rose 10% and cash increased 70% to HK$14bn. As a result, the net gearing ratio fell from 41.9% in Dec 15 to 22.7%. As their offices are just down the road, we went to see the company. Interestingly, they said that mainland growth would resume and much of the backlog of late projects were now well underway. This was a notable improvement on Q2. Gross margins would recover in 2H with increasing mainland revenue. They also mentioned that the expanding use of PPP (Public Private Partnership) was a positive with better transparency and legal guidelines. That said, the new documents have taken longer to set up and have caused delays. For their outlook, the total company backlog is HK$148bn, which is more than three years revenue. They remained confident on the issue of margin and maintain their internal threshold level of 15%. The sharp fall in the stock price now valued the company at 8.7x FY16 P/E (5yr hi: 18.1x Lo: 7.8x ave 12.4x) yet the company has raised targets, a much improved balance sheet and over 3% dividend yield. It also seems that the timing interruptions of Q2 are out of the way and many of the projects are now in full swing. Our confidence improved on news that the parent company and a director have subsequently bought shares. Looking forward, the next catalyst for the stock will be the monthly new order releases and more importantly, the 3Q16 revenue/operating profit data which is usually released in late October. This should provide a construction update and 4Q outlook. The structural growth of infrastructure build out remains and the shift to PPP is a positive development for a company with improving fundamentals. Our position is currently up over 10%.

In recent newsletters we have noted the prolonged run of weekly inflows into emerging markets. We have suggested that there's a change in global investor sentiment and the start of a repositioning. September, however, saw the first outflow after eleven weeks of inflows into EM funds. Despite this, HK/China remains a serious global underweight even amongst other emerging markets and we expect the trend of inflows to continue. In addition to the positive tone of the 2Q corporate results, China's economic data is also improving off a low base. September saw positive trade data, a manufacturing PMI back above 50, industrial production and retail sales better than expected. The strategists have noticed and we are starting to see an edge up their GDP forecasts. This upward direction is now in contrast to many European economies and indeed some US GDP forecasts revisions. The pick-up in the southbound flow ahead of the Shenzhen-Hong Stock Connect has increased liquidity and that should help entice international investors. Looking ahead, good corporate performance, inexpensive valuations, better liquidity and now improving macro data should progressively attract fund flows. Our conviction level for our holdings remains strong. We remain confident in our selective strategy with a focus on structural growth and value with catalyst.

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