Neutron Asia Absolute Return Fund

Monthly Newsletter (October 2016)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1173.3554	↓ 2.03%	↑ 3.10%	↑ 18.01%

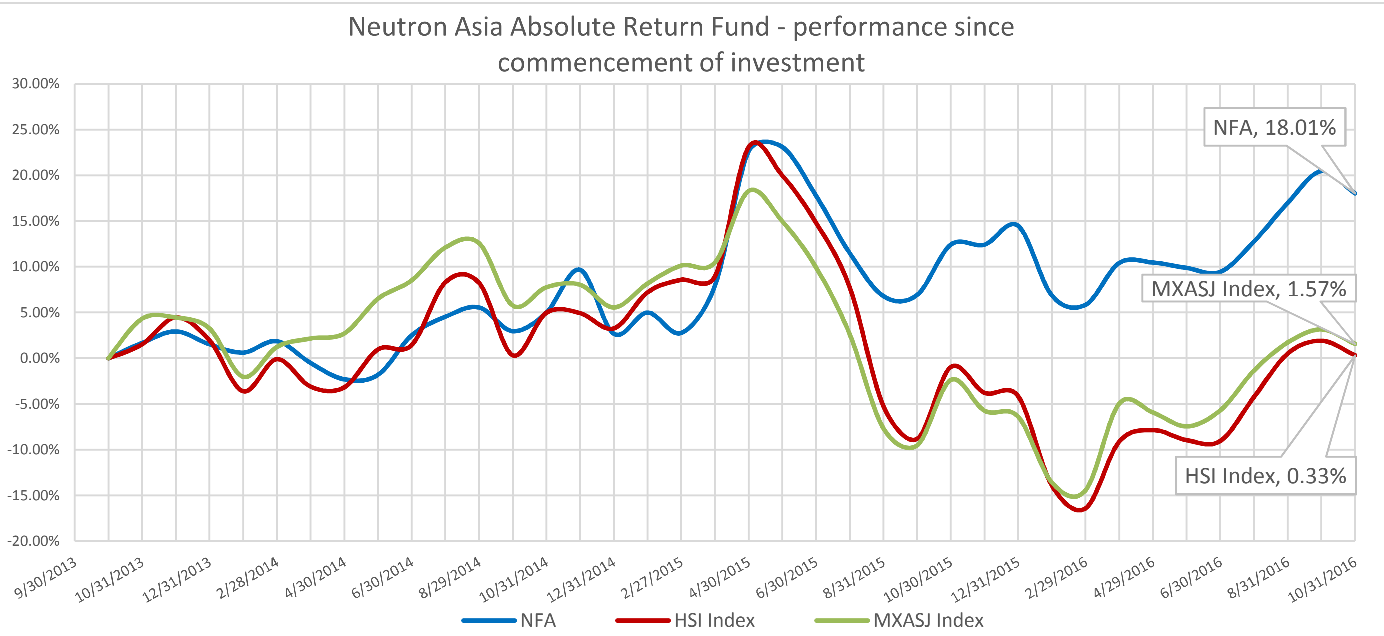
Historical Net Monthly Returns

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	-2.03			**+3.10**
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$209 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 October the fund fell -2.03% net of fees to leave the NAV at 1173.3554 as of October 31st. As a consequence, the fund remains up +3.10% year to date.

For the portfolio, the steady course of gains reversed in the last ten days of the month. Global macro concerns ahead of the US Presidential Election, the likelihood of a Fed Funds rate rise in December and the signs of inflationary pressures were enough to trigger a sizeable risk off move. This sell off in growth names broadly impacted the portfolio. By the end of the month, we had sold out of four holdings and reduced our size in numerous other positions. We also added one previous holding back to our list. With regards to performance attribution, we had only four companies making a positive contribution whilst ten detracted. On the downside, the losses were broad based and in some cases notable. The sharp turn in prices was concerning and led us to reduce our exposure in several names. On the plus side, our main internet holding and China infrastructure play continued higher and accounted for a large portion of positive contribution. On the short side, our single stock positions were light and made little difference whilst our index futures provided some stability, but were unable to meaningfully compensate.

One positive contributor mentioned in last month's newsletter was China State Construction (3311 HK, CSC mkt cap: U$6bn) which added a further +11% in October. Last month's newsletter provides a more comprehensive investment case, but essentially the stock plunged ~20% after a surprisingly poor set of 1H16 results. Sales were 8% below forecast and gross margins falling to 12.2% from 15% in 1H15. The management cited timing issues and revenue mix. They also mentioned that the expanding use of PPP (Public Private Partnership) has taken longer to set up and has caused delays, but insisted PPP was meaningful positive driver going forward. This month saw the release of the 3Q16 revenue/operating profit data which provided a convincing recovery in both sales and margin. Expectations were further restored with strong new tender wins and more understanding of the thematic shift to PPP with its better transparency and legal guidelines. The previously sceptical analysts upgraded their forecasts and raised their target prices. Despite the rebound, valuations remain compelling at 9.5x FY 17 P/E (5yr hi: 18.1x Lo: 7.8x ave 12.4x). The company has raised targets, has a much improved balance sheet and over 3% dividend yield. The government backed plans for infrastructure build out remains considerable and unlikely to change. The shift to PPP is a positive, structural development and CSC is well positioned to benefit from this.

One negative contributor was China Mobile (941 HK CMHK mkt cap U$232bn) which reported a 3Q16 result that was somewhat disappointing. There were clear positives, but as a shareholder, it feels like we have been in an abusive relationship with CMHK. On an operational level, the faster than expected structural migration to 4G is driving revenue and ebitda growth. There are no unlimited data plans in China so as a result, the demand for data and the being fastest provider should clearly push their ARPU higher. In addition, capex is declining and so cash flow generation is accelerating. With an already immense cash pile of around U$70bn there will be increasing pressure for the company to raise the dividend going forward. With its sustainable, dominant position in a growth industry the company should be highly prized. In these results, however, both service revenue and operating revenue fell -10.4% and -10.6% qoq due to the cancellation of long distance and roaming tariffs. This was yet another disappointment. Despite being well positioned, it seems the company is determined to prevent any of the benefits from the indisputable strong operational performance and surging cash flows from ever reaching the shareholder. As a consequence, we sold our position after the results.

For the portfolio, the encouraging 3Q results announcements are now firmly in the rear view mirror. The global macro events in the months ahead have raised volatility and adversely affected the outlook. At the end of October, it would seem that the global markets would prefer the stability of a Clinton election victory over the unknown consequences of Trump win. The probability of an US interest rate rise in December is intensifying the rise of the US dollar. This is a powerful headwind for emerging markets. In addition, the signs of rising inflation whether it be through wages, commodities or the producer price index are starting to build. This situation was enough to see anxious investors take risk off the table or rotate out of growth names and into financials which are seen as benefiting from rising interest rates. For some of our holdings the micro investment case was sufficiently robust to weather the storm. That said, the rising US dollar and the risk-off pressure on valuation multiples lead to broad weakness in the portfolio. Despite taking a more defensive position, we continue to see good corporate operational performance in our holdings and a largely improving macro data trend. The upcoming HK-Shenzhen Connect should provide a positive catalyst to HK/China markets and better liquidity. Despite the challenging environment, we remain confident in our selective strategy with a focus on structural growth and value with catalyst.

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