Neutron Asia Absolute Return Fund
Monthly Newsletter (November 2016)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1155.1737	↓ 1.55%	↑ 1.50%	↑ 16.18%

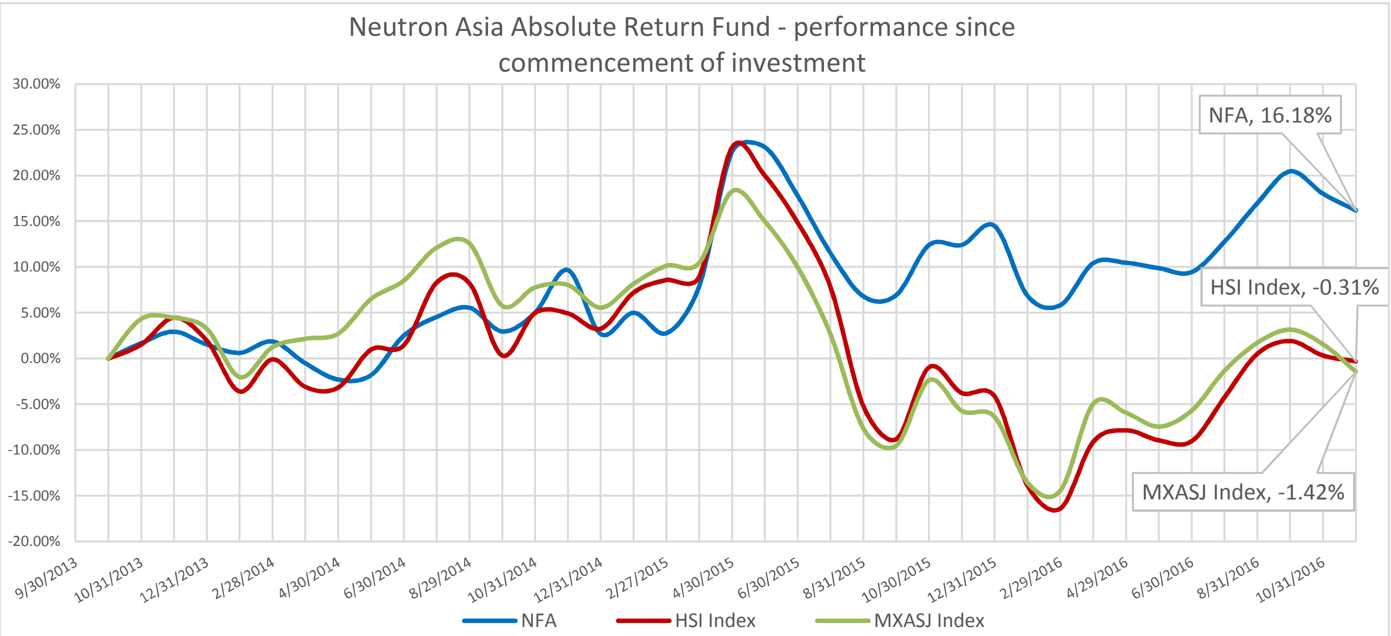
Historical Net Monthly Returns

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	-1.55		**+1.50**
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$205 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 November, the fund fell -1.55% net of fees to leave the NAV at 1155.1737 as of November 30th. As a consequence, the fund remains up +1.50% year to date.

For the portfolio, it was an active month with the spotlight on sharp moves in heavyweight positions. By the end of November, we had sold out of two holdings and added five companies back to our list. With regards to performance attribution, we had four companies making a positive contribution whilst twelve companies detracted. On the downside, the weakness was broad based although heavily influenced by one of our main holdings, Netease. So much so that without its detraction, the portfolio would have been up for the month. On the plus side, two of our top five holdings, our China infrastructure play and our brokerage holding recorded gains of +10.6% and +8.7% respectively. This accounted for the lion's share of positive contribution. On the short side, our single stock positions increase notably and whilst index futures made a helpful addition, they unable to compensate for large single stock detractions. Over the month, our net long position has been reduced whilst the gross exposure remains similar due to the increase in single stock short positions.

The main detractor from performance over the month was long time holding, Netease (NTES US, mkt cap U$29bn) which announced 3Q results on November 10th. On the headlines, revenue growing at +38% yoy looked at touch light, but the earnings per share up +46% yoy beat forecasts. On closer inspection, the negative surprise was the -5% qoq sequential decline in mobile game revenue – the growth driver for the company. This seemed to contradict the continuing indications from the App Annie industry charts. Here, NTES successfully finished the quarter with three of the top five games after the introduction in late September of the blockbuster hit, Onmyoji. On the conference call, the management made light of the dip and guided for a robust performance going forward driven by the new releases. Online games revenue is 71% of total revenue with mobile representing 57% down from 61% in 2Q16. Investors demonstrated that they did not like surprises and on the open the stock quickly fell over -9%. We called the company for more information. They explained that the drop in revenue came from promotions in the top two games FWJ and WJO. Over the third quarter there were numerous game releases and NTES gave away some items to maintain the user engagement level. As a consequence, they preserved their top two positions in the chart. The fear is that a faster than expected decline in these legacy games would adversely impact revenue. That being said, the new game Onmyoji launched late in 3Q was a huge success and rocketed into the top 5 in the chart. It is now being rolled out to other countries such as US, UK and later Japan which is above any previous forecast. In addition to this, the scheduled pipeline of games for 2017 is substantial. In other areas, the e-commerce segment grew +107% yoy which again seemed light, but management guided that the Singles Day (Nov 11th) had surpassed all internal expectations and they are gearing up for strong sales in December. Soon after the results, NTES announced a U$1bn share repurchase program – double the previous one. At the end of 3Q it had ~U$3bn net cash on the balance sheet. We did sell some of our position only to buy it back lower after the call with management. We view the -12% drop in share price over the month as overdone. On conservative estimates, NTES is trading on 14x FY 17 P/E with a series of potential catalysts to come. In October, the new game Onmyoji, surpassed FWJ and Pokemon Go as number 1 iOS grossing game not only in China, but worldwide. In addition, the upcoming launch of monster hit, Minecraft in China and a new AR (Augmented Reality) game should make a material impact. For investors, the next catalyst will be in late December at its annual game award ceremony when NTES gives details of its game pipeline for 2017. We expect a strong sequential recovery mobile games in 4Q16 and remain confident in the outlook for 2017.

The US Presidential election dominated the global macro events in November. The surprise victory by Donald Trump has raised policy uncertainty especially in China and other emerging markets. As we head into a likely interest rate rise in December, the credo of 'Americanism not Globalism' signals a more aggressive pursuit of self interest in trade negotiations. Trump's headline policies of infrastructure build, industry deregulation and across the board tax cuts are not only pro-growth, but inflationary. That said, there is undoubtable room to 'run the economy hot,' but with relatively low unemployment any pickup in inflation should lead to a faster than expected rise in interest rates. That will drive the US dollar higher faster and create a considerable headwind for emerging markets. That said, if US GDP picks up towards 4% that is undeniably a global economic positive. Nevertheless, investors they should examine the sensitivities of their holdings in emerging markets to these new circumstances.

For the portfolio, the reaction to Trump's forthcoming policies have not been so favourable. There has been a rotation out of emerging markets and pressure on their currencies. On a sector basis, tech and growth names have suffered and money flow has rushed into financials due to deregulation and rising interest rates. The beaten up, heavyweight material names have rallied on the impending infrastructure build and oil price gains. On the whole, we continue to see good corporate operational performance for our holdings and improving macro data trend. Valuations are further discounted and remain attractive. 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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