Neutron Asia Absolute Return Fund
Monthly Newsletter (January 2017)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("**NFA**")	1142.2787	↑ 3.86%	↑ 3.86%	↑ 14.89%

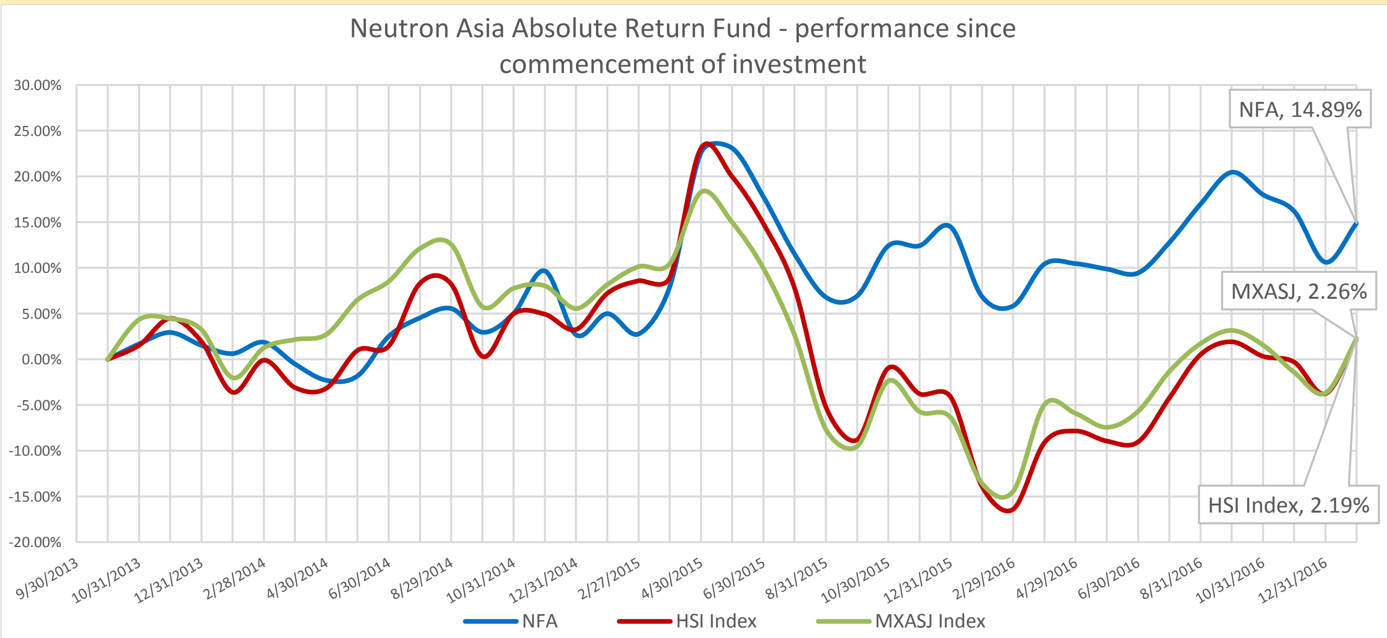
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	+3.86												**+3.86**
2016	-6.64	-0.96	+4.32	+0.04	-0.53	-0.39	+3.04	+3.73	+2.98	-2.03	-1.55	-4.79	**-3.37**
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$203 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 January the fund rebounded +3.86% net of fees to leave the NAV at 1142.2787 as of January 31st.

For the portfolio, January was a rebuilding month. We notably increased both the gross and net exposure through raising existing holdings, adding new positions and covering several single stock shorts. By the end of January, our portfolio rotation meant we had added four new companies, increased the size in several of our main holdings and sold out of two positions. With regards to performance attribution, nine long positions made a positive contribution whilst three detracted. On the short side, both the light use of index futures and several of the single stock short positions weighed on the portfolio. On the plus side, the gains were broad based with a sharp rebound in our internet names, industrials and domestic China plays. On the downside, the weakness was influenced by a travel play, an event driven holding and a water company.

Dah Sing Financial (DSF 440 HK, mkt cap U$2.5bn) is one of the event driven positions we have held for a while. In June 2016, DSF announced it would sell its insurance unit to the HK affiliate of China's Thaihot Group for U$1.38bn subject to a number of precedent conditions and regulatory approval. The valuation is nearly 40% higher than the U$1bn originally estimated. Last month, the stock rallied a further +14.6% which suggest further progress with the regulatory approvals and finalisation of the sale. The latest feedback from the company was that the sale was expected to be complete in 1Q17. One announcement that we are waiting for is the amount of special dividend to be paid out. Management have stated that the proceeds will be reinvested in its business, utilized for general working capital purposes and a special dividend. We remain optimistic that the owners reward themselves with a hefty payout. So, if we assume that 50% of the proceeds are paid out as a special dividend (HK$6/share) and that the residual company trades on a historical average of 15% discount to NAV − then the fair ratio (Dah Sing Bank 2356 HK / 440 HK) would be 0.243, vs current ratio of 0.2614 − i.e. upside of +7% from here. Given that, DSBG is also the least expensive Hong Kong bank in terms of price to book and P/E and this deal will give it a capital injection of approximately US$380m further strengthens the argument. We remain comfortable that this position still provides distinct value.

One surprising event was that long time holding, Guangdong Investment (GDI 270 HK, mkt cap U$8.3bn) first mentioned back in November 2013, bought a 73.82% stake of its sister property company, GD Land (124 HK) from its parent for Rmb3,358m (U$490m). GDI paid 75% by issuing 272.89m new shares at HK$10.39 and 25% by cash. It is surprising as investors were led to believe the company strategy was to acquire water businesses and divest from underperforming non-core areas. That policy would drive earnings and close the unjustified valuation discount to other HK utilities and water businesses. Previously, over 80% of profit was derived from predictable water enterprises (68%) and property investment business (12%). Analysts and investors are divided on whether the acquisition price at 28% discount to NAV for a prime location, commercial property project at Luohu District, Shenzhen is attractive. GDI has more than HK$10bn cash on hand and would remain in net cash after this deal, even after consolidation of GD Land in its financial statement. In fairness, it's not that big of a deal and GDI do have a track record of acquiring businesses at attractive valuations. The circular of the deal will be issued in February and we still expect more deals focusing on water and public-private partnership projects this year. GDI has been a solid holding. It has lifted its dividend every year since 2010 now paying 3.4% with FCF yield of 8.5%. We remain committed to our investment case, although now more loosely held. Was this a case of national service or an attractive acquisition? The stock dipped -5.8% in January, but has been recovering in early February.

For the portfolio, the significant macro headwinds of the last few months have eased. The fear of an ever rising U.S dollar has not materialized with the DXY actually down -2.6% in January. The frantic rotation out of emerging markets intensifying the pressure on their currencies has abated with EM funds now seeing their fifth week of inflows. That said, the fear of potential U.S. policy change or tariffs still weigh on several EM sectors. Despite Trump's frictional and divisive political headlines, his economic policies of infrastructure build, industry deregulation and across the board tax cuts have driven the US equity markets to new highs. Financials across the globe are pushing their related indices higher, not least in emerging markets. Standard Chartered (2888 HK, mkt cap U$33bn) rallied +23.8% in January alone. The recovery in financials and forthcoming deregulation should bring major benefits to the broader economy. We continue to see good operational performance from many of our holdings. We also remain optimistic in regards to the potential spin offs and corporate restructuring to crystalise shareholder value. Looking ahead, there are numerous catalysts that should provide clear opportunities for investors. We remain confident in our selective strategy with a focus on structural growth and value with catalyst.

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