Neutron Asia Absolute Return Fund

Monthly Newsletter (February 2017)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1180.7937	↑ 3.37%	↑ 7.36%	↑ 18.76%

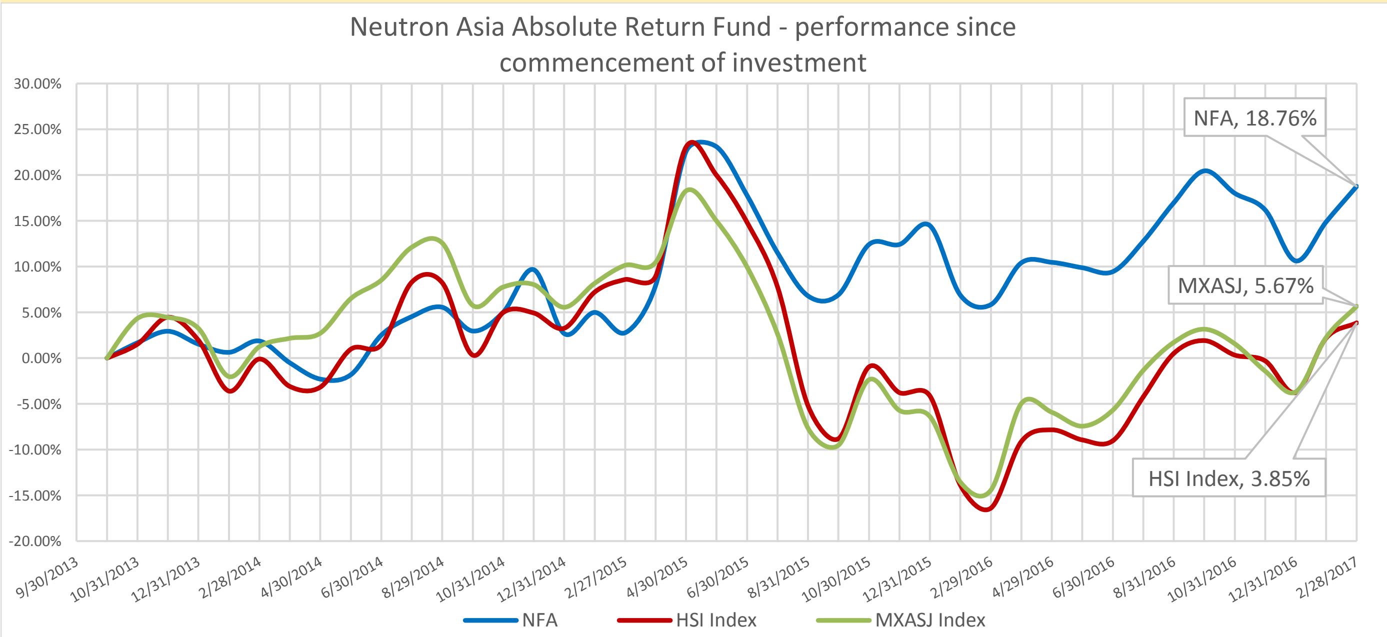
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	+3.86	+3.37											**+7.36**
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$210 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/

Neutron Asia Absolute Return Fund

Monthly Newsletter (February 2017)

In February the fund gained +3.37% net of fees. The NAV is 1180.7937 as of February 28th. In comparison, the Hang Seng index gained +1.63% over the month.

For the portfolio, we continued to raise both our gross and net exposure by increasing existing holdings, adding new companies and rotation in our short positions. By the end of the month, our portfolio rotation meant that we added six new companies and sold out of two. With regards to performance attribution, eleven long positions made a positive contribution whilst five detracted. On the plus side, strong gains from our internet holdings were the stand out contributors whilst our China domestic plays and industrial names provided additional gains. On the downside, the weakness was influenced by an energy company, a financial and an event driven holding. Our travel sector names were mixed. On the short side, four single stock positions detracted from performance whilst two were covered with a positive contribution.

One of those short positions was ZTO Express (ZTO US, mkt cap US$10.7bn) which is the largest express delivery player in China by volume. On October 27th, 2016 it listed on the NYSE and became the largest Chinese IPO since Alibaba in 2014. It was a hot deal. Talk of 15 times oversubscribed led to a last minute repricing higher to $19.50 per share, above its previously indicated range of $16.50 to $18.50. At that price, it is valued at 27 times its expected 2017 EPS with a growth rate of over +35% from 2016. Enthusiasm centered on ZTO being the largest player in a highly fragmented, yet booming express delivery industry. It counted, or relied on, Alibaba for 75% of its business volume. They had by far the highest margins in the industry and were superior to peers in growth, efficiency and costs. This enthusiasm did not last long with the stock closing down -15% at $16.57 on the first day. That was a shock. At the time we were not involved, but felt it intensified the negative sentiment towards Chinese stocks by international investors. With a high multiple, unusually high margins and high earnings growth expectations, we felt it was priced to perfection and a de-rating would eventually come. Earlier this year we initiated a short position. Our conviction and position increased following a detailed, critical report by an independent research company. They noted that their operating margins of 28% are the highest of any express delivery company globally and almost double that of UPS or Fedex. It also highlighted areas of concern that the company's financials may have been engineered to provide an unusual profitable IPO. On February 27th, the company released their 4Q16 results. Revenues were in line, but gross margins declined -1.7% yoy to 36.4%. On the conference call, management declared a strategic focus on gaining market share and expected continued pressure on costs and margins. The stock fell -12% as analysts adjusted down their earnings forecasts, yet kept the P/E multiple around 26-29 times. We took profits on the sharp drop, but expect a continuing de-rating as margins, costs and other metrics move towards industry norms.

A major positive contribution came from long time holding Netease (NTES US, mkt cap US$38bn) which released a stellar set of 4Q16 results and bounced back sharply from the disappointment of the previous quarter. Net revenues grew +53% yoy, +31% qoq to Rmb 12.1bn (US$1.75bn) which was +12% above consensus. Online games (74% of revenue) grew +63% yoy, +36% qoq driven by the new mobile games, Onmyoji and Ghost Mobile. Ecommerce & others (20%) grew +38% yoy, +19% qoq. Online advertising (6%) grew +9% yoy, +18% qoq. The operating margin increased +1.2% yoy to 34.2% with operating profit +60% yoy to Rmb 3,867m. The stock rallied +14% on the news. On the conference call the management were in confident mood highlighting a pipeline that remains both substantial and exciting. In July, Netease will release the world wide blockbuster game, Minecraft in China with some innovative adaptations for the local market. We expect this to be a meaningful, long term revenue contributor. This is also true for the ongoing success of Onmyoji which was launched in late 3Q and will now expand internationally. The game was released in Japan on February 23rd and more countries will follow with an English version earmarked for May this year. The Ecommerce segment may have underwhelmed, but management reiterated that this business continues to perform well. We have long believed that the market undervalues the solid Netease franchise for games, media and ecommerce. These results will undoubtedly improve the perception of Netease's platform and fundamentals. The free cash flow accelerated to US$2.2bn in FY16 so despite the increasing quarterly dividends and the stock buy backs the company ended the year with net cash of US$4.6bn. On a P/E of 17x 2017 with surging growth and exciting pipeline ahead we remain firmly invested.

As we move further into results reporting season, we are optimistic that investors will be encouraged by good operational performance. Valuations remain sober as the macro environment and political developments have provided a persistent headwind. Despite the recent market gains in HK/China, positioning and sentiment of international investors remain bearish in the extreme. Earlier in February, the outstanding shares in the headline US listed China ETF (FXI US) pushed to a nine year low. Mutual funds are underweight and it is estimated that they would need to buy US$36bn just to get back to neutral. Since then we have seen the first upgrades on China and its banking sector by a bulge bracket investment bank. This maybe a commercial decision, but the economic data in China is undeniably improving. Contrary to the international perspective, we see clear evidence of growing revenues and margin expansion which should drive a re-rating in valuations. Looking ahead, we see numerous catalysts that should provide opportunities for investors. We remain confident in our selective strategy with a focus on structural growth and value with catalyst.

BRIC NEUTRON ASSET MANAGEMENT LIMITED 同金資產管理有限公司

Investment Manager: BRIC Neutron Asset Management Limited
Tel: (852) 2810 5338 **Fax:** (852) 2810 5700
Address: Suite 3601, 36th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong