Neutron Asia Absolute Return Fund
Monthly Newsletter (March 2017)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“NFA”)	1186.3068	↑ 0.47%	↑ 7.86%	↑ 19.32%

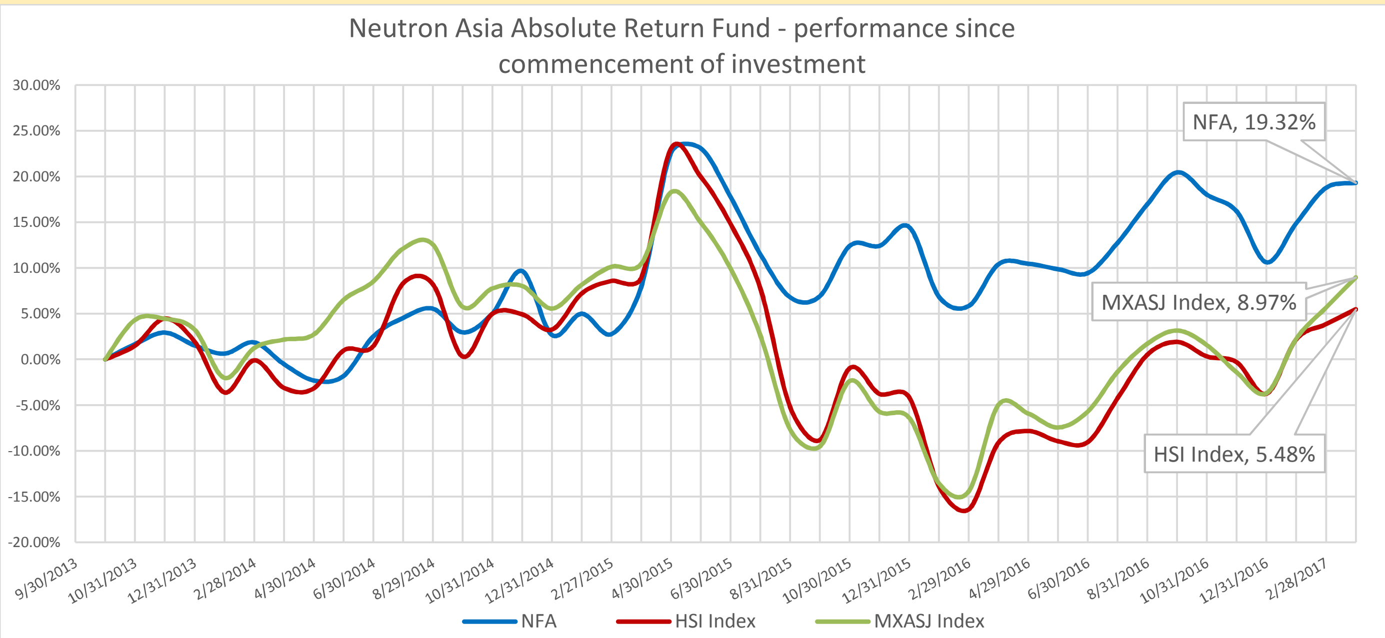
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	+3.86	+3.37	+0.47										**+7.86**
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$211 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 March the fund gained +0.47% net of fees. The NAV is 1186.3068 as of March 31st. As a consequence, year to date the fund has gained +7.86%.

For the portfolio, at the start of the month we continued to raise both our gross and net exposure through increasing some existing holdings. However, by the end of the month we had paired back to similar levels mainly due to the exit from a top five holding. Our portfolio rotation meant that we added five new companies and exited five previous longs. With regards to performance attribution, eleven long positions made a positive contribution whilst four detracted. On the plus side, the portfolio was influenced by positive results from our energy, industrial and China domestic plays. Our two internet holdings were mixed, providing a net negative after last month's particularly strong performance. Further detraction came from weakness in a conglomerate and a pullback in an industrial holding. On the short side, we were particularly active, but relatively small in size. Three single stock positions detracted from performance whilst two were covered with a positive contribution.

One position that we have increased this year is Kingboard Chemicals (148 HK, mkt cap U$4bn). We have known the company for a long while as it persistently shows up on our value screens. The recent FY16 results confirmed a strong recovery in all core business segments. After a stagnant few years, the laminates division – KB Laminates is largest producer of copper clad laminates in China - is now increasing capacity due to rising demand. This is particularly true in the key, bottle neck component of glass yarn where prices have soared. In contrast to competitors, KBL produces this in house. As a result, both revenue and margins are growing. This is also the case in the chemicals division where an increase in demand, accompanied by strict regulatory constraints on capacity, have driven pricing and margins higher. In addition, this division is rolling out a new heated floor product that is an environmentally friendly and energy efficient way to heat homes. It is currently selling in Eastern China, but expanding nationwide shortly. Finally in the property division, sales were below our optimistic forecast, but rental income should increase 20-30% this year with full contributions from new commercial buildings in London and Shanghai. It is the underappreciated property division were we see the clear value. A look at the newly released balance sheet shows: Investment Properties HK$15.4bn, Available for sales investments HK$6.5bn, Properties held for development HK$15.8bn (that's at cost). This alone totals HK$37.7bn. The market cap of the company is HK$31bn. This works out at c$34 per share vs last price HK$28.70. There is debt and net debt to equity was 23.6% at the end of 2016. Nonetheless, with the laminates and chemicals business seeing revenues and margins accelerate, the current consensus valuation of 6.5x P/E, 0.82x P/B and 3.3% yield looks compelling. In our opinion, the consensus earnings forecast has yet to appreciate the improving business environment. Furthermore, the key catalyst in our view will be the potential spin-off of the property business to crystalize the significant value. Post results, we added to our position. The stock gained +4.6% in March.

Another positive contribution came from long time holding, Travelsky (696 HK mkt cap. U$7.5bn) which reported a decisive set of full year results. Revenues increased +13.7% to Rmb 6.2bn, earnings up +27% and dividend increased +33%. The EBIT margin improved 3% to 35% for 2016, but 2H16 EBIT softened 1% to 29% on the revenue blend from a 48% increase in system integration services revenue. On the conference call, management were confident and indicated that this year's capex would be Rmb 2.2bn of which Rmb 1.1bn would be for the almost complete Internet Data Centre in Beijing. Looking ahead, once the huge internally funded capex tapers off, we expect a further acceleration in cash flow and earnings. An additional catalyst is the intention to monetize the self-developed app Umetrip. No timetable was given, but the company is undoubtedly witnessing an increasing demand and growing reliance on IT services in the aviation industry. These results were confirmation of the strong structural growth story. Travel demand and the increasing use of IT services remains robust. China is undertaking an enormous airport infrastructure build out – 60 airports are under expansion and another 30 new regional airports are being built. Chinese airlines are ordering more planes for more routes each year. Few companies we analyse in China have such a dominant, sustainable competitive position in an industry with clear growth trajectory. The shares rallied +8.4% in March.

For us, the results reporting season has largely been a confirmation of good corporate operational performance. Barring the erratic macro environment and seemingly ever present political concerns, global investors should start to take note. In sharp contrast to the current international perspective, we see clear evidence that corporates are growing revenues, expanding margins and paying higher dividends. Further to this latter point, China's securities regulator (CSRC), publically stated there was a step up in regulation for Chinese state firms to raise dividends. In March, several high profile companies did this. China Shenhua (1088 HK, mkt cap U$54bn) rallied +16% on the surprise announcement of a special dividend after it posted its first profit growth in four years. This is a new fundamental, positive development. China has 'cried wolf' on reform many times and progress has been slow. As a consequence of enforcing a directive on dividend policy, it will improve corporate governance, management efficiency and shareholder value. Dividends have to be paid with real cash, not accounting profits. This would be a significant step to attract international and yield hungry retail investors. It will also help drive a re-rating of corporate valuations. Given this environment, it seems hard to justify the bearish positioning and sentiment of international investors. As mentioned in last month's newsletter, in early February, the outstanding shares in the headline US listed China ETF (FXI US) pushed to a nine year low. Mutual funds are so underweight and it is estimated that they would need to buy U$36bn just to get back to neutral. Looking ahead, we are optimistic and 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. In addition, we are expecting notable subscriptions to the fund over the next two months.

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