Neutron Asia Absolute Return Fund
Monthly Newsletter (April 2017)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1192.9732	↑ 0.56%	↑ 8.47%	↑ 19.99%

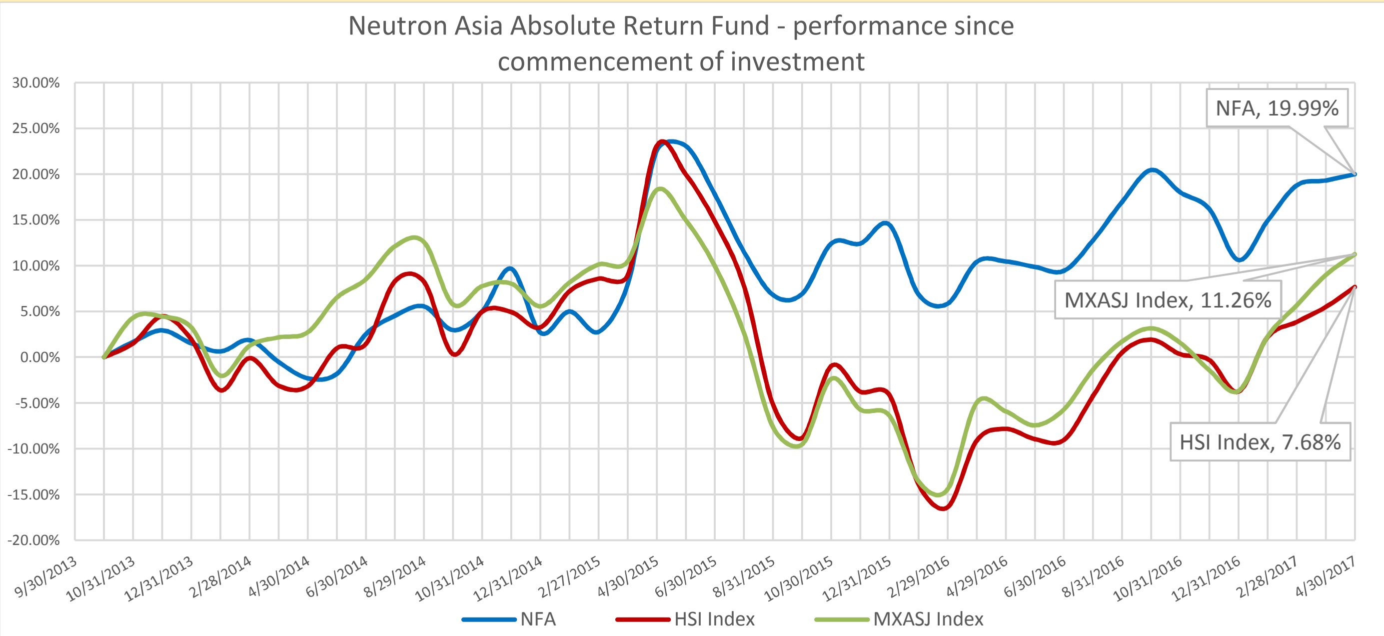
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	+3.86	+3.37	+0.47	+0.56									**+8.47**
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$212 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 April, the fund gained +0.56% net of fees. The NAV is 1192.9732 as of April 30th. As a consequence, year to date the fund has gained +8.47%.

For the portfolio, our strategy of raising both gross and net exposure continued in April to end the month at the highest levels of the year. Our portfolio rotation meant we initiated six new positions and exited two. With regards to performance attribution, ten long positions made a positive contribution whilst six detracted and one was unchanged. On the plus side, results and operating data continued to drive the China domestic plays. Our travel holdings also made a notable gains. Our two main internet holdings went in opposite directions for the second month providing a net negative. Further detraction came from a pullback in a chemical company, weakness in an airline and our non-bank financial holdings. On the short side, our single stock positions provided a small net negative whilst our index futures made a small positive contribution.

Large cap State Owned Enterprises have rarely featured in our holdings list and perhaps for good reason. However, in contrast to the majority of SOEs, Sinopec (SNP, 386 HK, mkt cap U$100bn) has started to demonstrate superior operational performance and a deliberate drive for shareholder returns. Recent evidence shows that management have an improved business model, are doing the right things and executing well. Investors remain unconvinced and currently under appreciate the changes made or future strategy. This month's 1Q17 results saw EPS jump +158% yoy which was in line with the previous profit alert. Investors should be further encouraged by the approval of the Marketing division spin-off which targets a listing by the end of the year. Estimates have a P/E multiple around 20x for the new listing in comparison to its own current 11x multiple. This would be a major catalyst for the company to crystalise value in its high growth marketing division. The results were not all good news. The sizeable losses from the Exploration &Production division continue to discourage investors and weigh on the company. The E&P segment EBIT losses amounted to -Rmb5.7bn (-U$825m) in Q1. After that detraction, the total EBIT in Q1 at Rmb 25.435bn (U$3.69bn). The company's earnings sensitivity to a U$1 move in the oil price is estimated at 2% move in EPS. That volatility continues to dampen investor enthusiasm. Nevertheless, the remaining divisions of Refining, Chemical and Marketing combined for a strong +28% qoq increase in EBIT. For us, the Refining division business model remains underappreciated. It now operates under the recently applied NDRC price mechanism which is a quasi-cost plus model. It saw its EBIT jump +25% yoy and +21% qoq to an impressive Rmb16.75bn (U$2.4bn). Other large businesses with a cost plus model command much higher P/E multiple valuations. In addition, the Chemicals division was particularly robust gaining +87% to Rmb8.5bn on the back of spike in petrochem margins. The Marketing division EBIT increased +19% yoy to Rmb9.2bn with the non-fuel segment surging over 30%. These numbers will make attractive reading for the upcoming listing. It was earlier in March, that SNP reported positive full year 2016 results including a surprise increase in the dividend. The payout ratio was lifted to 65% from 56% in 2015. A bold illustration of new focus on shareholder value and a rarity amongst SOEs. A look at the market valuation suggests a lack of recognition from investors. Consensus estimates have the EPS falling around -8% for 2017 with a price/earnings of 11x, price to book 0.9x and dividend yield around 5%. Despite the E&P losses, the balance sheet is strong with net debt to equity only 8% at the end of 2016. For investors, the strong operational performance, improved earnings quality combined with the upcoming spin off should not be unrewarded. For us, the management policies for enhancing shareholder returns through higher dividend payout and unlocking of value from the listing of the Marketing division illustrate clear value with catalyst. We added to our position post results.

In last month's newsletter we mentioned that China has 'cried wolf' on reform many times and actual progress has been slow up to now. So the move by China's securities regulator (CSRC) to step up the pressure on Chinese state firms to raise dividends is significant. As a consequence, management should be driven to improve efficiency, corporate structures and in turn, shareholder value. Dividends have to be paid with real cash, not accounting profits. In recent weeks, we have seen clear evidence of this. If the shift to more shareholder value policies takes hold, there should be some easy wins for many China corporates. More often than not, when we analyse a company there are non-core businesses or assets such as hotels or shopping malls that are loss making and weigh on the financials. Corporate restructuring or a sale would be would raise cash and profitability. A rising trend in the return on equity would drive a re-rating corporate valuations. Charlie Munger is famous for pointing out the under-recognition of the power of incentives. If the central government can incentivise management to improve shareholder returns instead of their own utility it would be material. It would also be coming off a low base with return on equity for SOEs usually in mid-single digits. This policy implementation would provide a rich seam of opportunity for investors. So looking forward, we remain confident in our selective strategy with a focus on structural growth and value with catalyst. In addition, the fund received a notable subscription this month and are expecting a similar additional subscription next month.

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