Neutron Asia Absolute Return Fund
Monthly Newsletter (May 2017)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1234.8120	↑ 3.51%	↑ 12.27%	↑ 24.19%

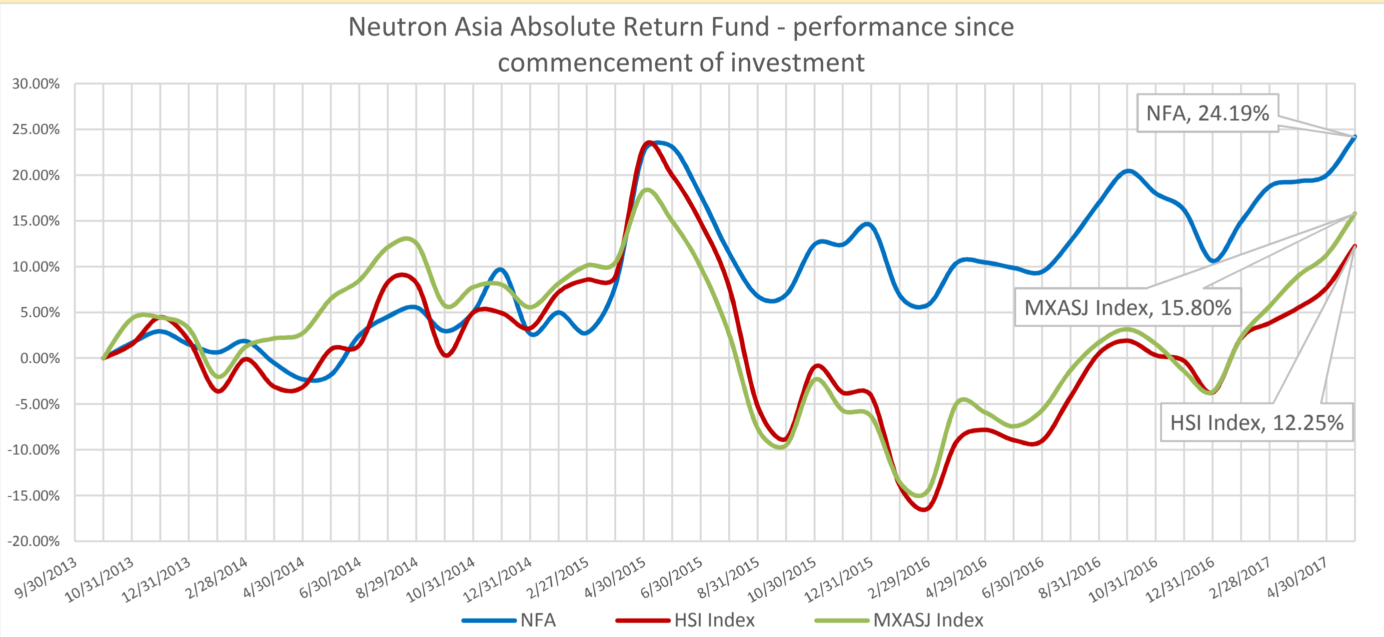
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	+3.86	+3.37	+0.47	+0.56	+3.51								**+12.27**
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$339 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 May, the fund gained +3.51% net of fees. The NAV is 1234.812 as of May 31st. As a consequence, the fund has gained +12.27% year to date.

At the start of the month, our additional subscription to the portfolio was put work as we aimed to maintain the high levels of both gross and net exposure. Our strategy was to add to existing liquid positions, reduce our shorts and rotate into new holdings. Our portfolio rotation meant that we initiated five new positions and sold out of four of which three were taking profit. With regards to performance attribution, twelve long positions made a positive contribution whilst five detracted. On the plus side, our two main internet holdings made a substantial gains post their results. Our travel holdings and China industrial plays also made steady gains and there was a +40% gain in a small cap consumer holding. The main portfolio detraction was from our domestic construction company with further weakness in a property and water utility name. On the short side, our single stock shorts weighed on performance and exposure was reduced by half. Our index futures positions made a small negative contribution in much reduced trading activity.

One of the main positive contributors this month was the privately owned Xinyi Glass (XYG, 868 HK, mkt cap U$3.8bn). It is an industry leader and China's largest most diversified glass producer. By revenue its business is split: Float glass 50.7%, Auto glass 29.2% and Construction glass 20.2%. This is one of our low priced China industrial holdings that is exhibiting both rising sales and sharply improving margins. Earlier this year, company posted a +52% increase in net profits for FY16 due to the rising price of float glass. As a consequence, the company recorded near record gross margins in most business lines. Float glass GPM jumped to a 6 year high of 27.5%, auto glass a record 49% and construction glass GPM to 40%. We went to see the company and at the time were surprised to hear that they expected prices to remain persistently high. This was despite the traditional low season where prices dip at the start of the year before picking up again in May. Interestingly, they cited much stricter government control on factory capacity additions and a tough regulatory environment for obtaining licences and approvals for new plants that are deemed to be heavy industry and generate pollution. The government directive is unlikely to change in the foreseeable future. This structural supply side event is significantly beneficial to XYG. Float glass prices have remained unusually high throughout the low season and XYG have lifted utilization rates to meet demand. In addition, XYG has built a new plant in Malaysia that has been running at full capacity since April and should lead to a 5% incremental growth in float glass sales volume this year. Going forward, they are looking to add two more lines in Malaysia. For us the supply side capacity constraints and the persistently high margins remain clearly underappreciated. We were surprised that in this environment investors still discount the stock as valuation remains depressed at 8x p/e with a 6.1% yield and RoE of 24%. In this case, there was an overhang of a convertible bond conversion that would result in the issuance of 97.1m new shares or 2.49% of the original outstanding share capital. In May, the bondholder decided to convert rather than take the guaranteed return which suggests they have a positive on the outlook for the company. The shares moved higher after the conversion. Both the Chairman and the CEO have bought stock in recent months. The regulatory changes have certainly improved the company's competitive position. Prices and gross margins have remained high throughout the low season and utilization rates are up. Many analysts have yet to re-rated depressed valuation multiples and earnings expectations. We added to our position after the meeting.

For us the month of May was further confirmation that our corporates are growing revenues, expanding margins and paying higher dividends. In recent months, we have mentioned that western investors have stubbornly maintained decade low positioning and a deep rooted bearish sentiment on China. This seems mainly due to their myopic focus on banks and property. Nonetheless, in other growing industries there is clear evidence of improving operational performance and at midway through Q2 2017, some global investors are beginning to warm up. China has now seen the largest increase in allocations within Asia year to date. China mutual fund allocations have improved to be currently underweight by 290bps versus the decade lows of c315bp. Banks and properties are still unloved whilst internet and tech names have led the gains. There has also been an increase in companies refinancing – including a couple of our holdings. The companies are buying back U$ bonds and perpetuals either through asset sales or just refinancing lower. This has not been missed by the credit markets with China's 5 year CDS (the cost of insurance for loan default) dramatically falling to under two year lows, ending May at 77 from 118 at the start of the year. It has since continued to move lower. Equity investors will take more convincing, but here lies the opportunity. We remain confident in our selective strategy with a focus on structural growth and value with catalyst. In addition, the fund received a further notable subscription this month.

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