Neutron Asia Absolute Return Fund

Monthly Newsletter (June 2017)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1247.3431	↑ 1.01%	↑ 13.41%	↑ 25.45%

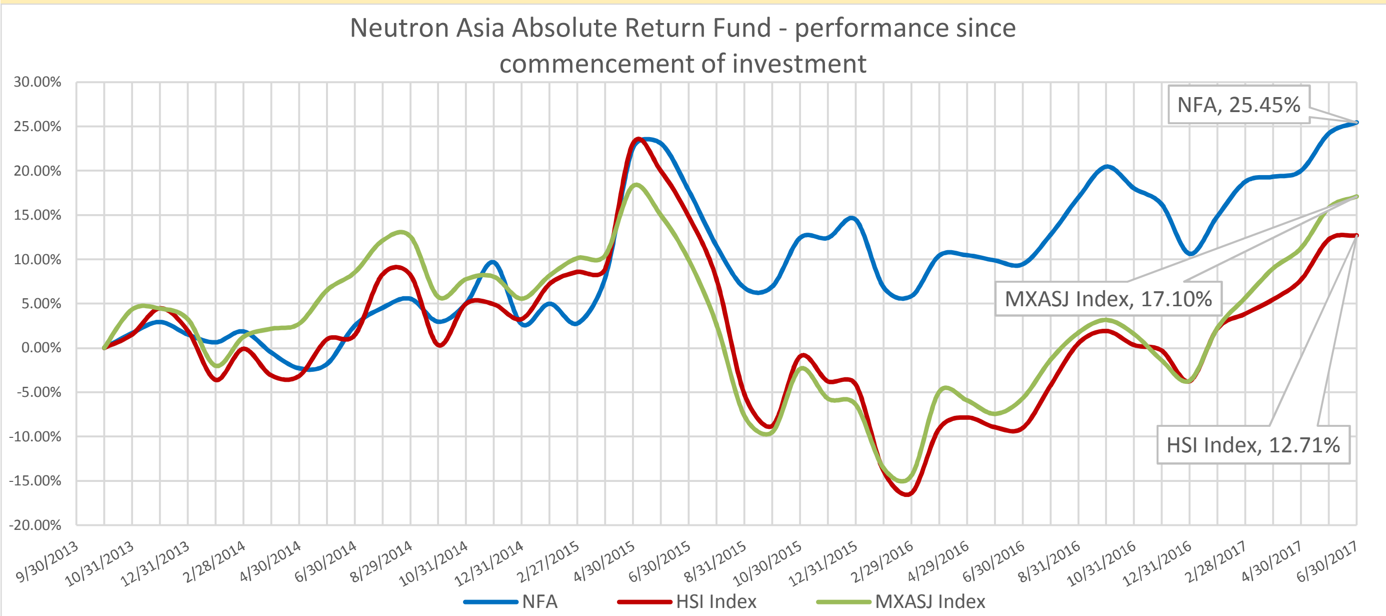
Historical Net Monthly Returns

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	+1.01							**+13.41**
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$458 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 June, the fund gained +1.01% net of fees. The NAV is 1247.3431 as of June 30th. As a consequence, the fund has gained +13.41% year to date.

Once again, at the start of the month an additional subscription to the portfolio was put to work as we aimed to maintain the high levels of both gross and net exposure. Our strategy was to preserve the weightings of our existing liquid positions and add some new names. By the end of the month, that meant that we initiated six new long and two new short positions whilst selling out of three previous holdings. With regards to performance attribution, our holdings provided widely diverse results. Thirteen long positions made a positive contribution whilst eight detracted. On the plus side, the main driver of performance came from a surge in our two main Chinese industrial companies. This was supplemented by our internet names which continued to move higher a month after their results. In addition, our holding in a special situation in a HK financial made a notable contribution as news on the special dividend began to surface. The main portfolio detraction came from our large, state owned enterprise position which gave back a good portion of the previous month's gains. Further detraction came from our domestic construction company - in which we halved the position - together with our property and consumption plays. On the short side, our single stock shorts provided a net negative despite mixed performance. Due to the new subscription, short exposure was once again reduced. Our index futures positions made a small negative contribution in much reduced trading activity.

A notable contributor to the portfolio this year has been our only small cap holding, Cosmo Lady (2298 HK, mkt cap U$865m). It is the largest branded intimate wear company in China albeit in a highly fragmented market. The company is very much a fallen angel from the booming China consumer sector where the stock touched a closing high of $8.25 in April 2015 before falling dramatically to $2.05 in March this year. A combination of poor strategic positioning, surging inventories, loss making stores and management mistakes lead to the decline. In 2016, earnings fell over 50%. Nonetheless, our interest was sparked after the appointment of a new management team so we went to see the company. The new CFO, who would be familiar to those following HK/China consumer sector, broadly outlined the ambitious, new strategy. There would be a change in distribution channels, reducing sales to franchisees, focusing retail outlets and strong push into the previously neglected e-commerce segment. Near term, this would involve a costly closure of loss making stores, inventory write-downs and clearance including through alliances in ASEAN, improved products and an image upgrade. At the time, the company was trading on 8x P/E, yielding 4% with 21% of the market cap in cash. So as the market leader (3.2% share) with a full spectrum of product segment brands, the largest retail network in China and a new motivated management team, it seemed that all was not lost. In fact, it was an impressive large scale fashion show / trade fair in April that drew an audience of more than 10,000, including over 3,000 customers, 2,000 franchisees, 300 supplier chain partners and internet celebrities that convinced us this was a popular consumer brand on the up. It was streamed live on Tencent whilst we watched on Youtube. A few weeks later, news came through of a placement to Fosun Group of 240 million shares at HK$2.50 per share, a notable 9.2% premium to the closing price. The subscription shares represent 12.59% of the company's existing issued share capital or 11.18% of the enlarged issued share capital. Interestingly, management guaranteed that core net profit of the company will increase 20% yoy in FY17 and 15% yoy in FY18, failing which they will pay Fosun HK$100m. That transaction illustrates strong confidence in the turnaround strategy. We went to see the management again and reaffirmed the compelling investment case despite the over 40% gain in share price since March. We remain holders.

For us, June marked the end of two solid, positive quarters for HK/China. Although not making international headlines, the improving corporate operational performance has not gone unnoticed by global investors whose funds have now begun to trickle back. What did make the headlines was the MSCI decision on June 20th to include mainland Chinese shares into their main emerging market index. This is an important milestone in the process of approval and acceptance of China into international equity markets. The decision now obliges global funds to analyse and invest in Chinese securities. Going forward, it should also encourage the Chinese authorities to step up reform and address the previous impediments to inclusion such as free capital repatriation, shareholder rights and rules on trading suspensions. Although an initial step, this is clearly a positive and will bring much needed attention and momentum to the region. We believe the portfolio is well positioned for this. As a consequence, we remain confident in our selective strategy with a focus on structural growth and value with catalyst.

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