Neutron Asia Absolute Return Fund

Monthly Newsletter (November 2017)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,377.9329	↑ 2.29%	↑ 25.29%	↑ 38.59%

Historical Monthly Returns

NFA – Net 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	+3.23	+1.55	+0.39	+2.62	+2.29		**+25.29**
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										+1.68	+1.24	-1.37	**+1.52**

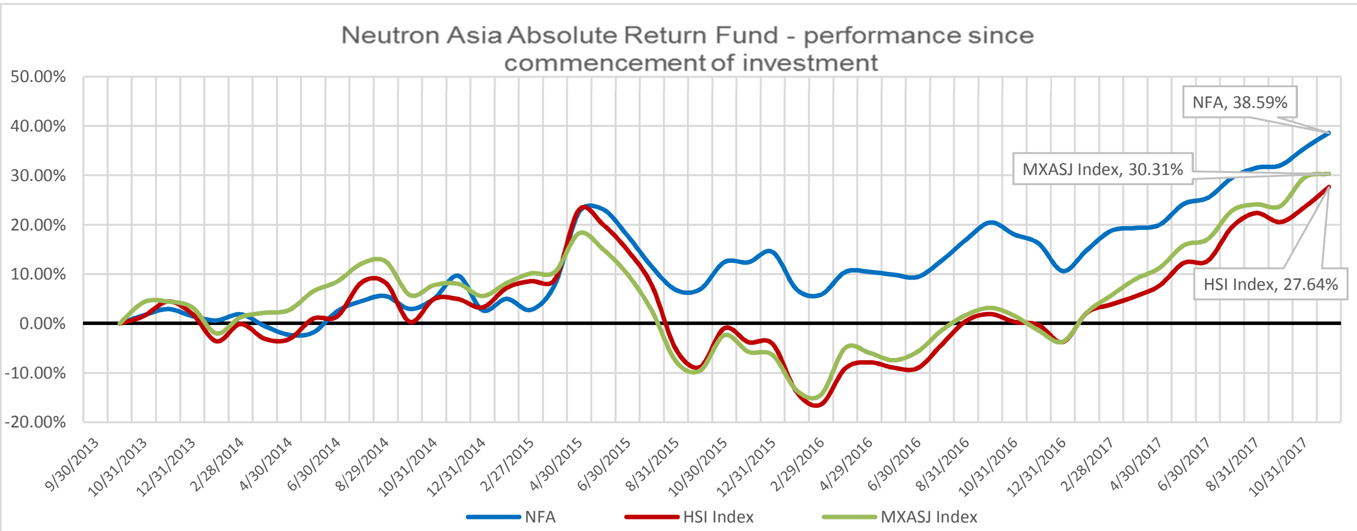
Hall Park Capital – Gross Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013	+11.98	+1.76	+2.87	+6.79	+9.71	-7.19	+2.83	-1.79	+2.08				**+31.39**(1)
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**

(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market conditions prevailing during the period. The account was closed after September 2013, with assets transferred to NFA. Additional information can be provided upon request.

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$488 million Approx. US$63 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 November, the fund gained +2.29% net of fees. The NAV is 1,377.9329 as of November 30th. As a consequence, the fund has gained +25.29% year to date.

For the portfolio, November was a more volatile month. Performance raced away in the opening weeks only to be paired back in the final week. Our trading activity notably picked up and as a result we lowered both the gross and net exposure of the fund. Our portfolio rotation saw us exit five holdings, reduce exposure in several existing names and add two new positions. With regards performance attribution, the portfolio ended the month with eight long positions making a positive contribution, whilst the majority, twelve detracted. Seven of our top ten names provided gains whilst the majority of our smaller holdings weighed on performance. On the plus side, the main positive contribution came from the large cap China, namely non-bank financials. There was a mixed performance in the internet, travel and industrial names. The main detraction came from a large internet holding together with property and construction exposed companies. On the short side, our single stock short provided a solid gain, whilst our index futures positions provided a positive contribution in more active trading.

One of the main positive contributors this month was Xinyi Glass (XYG, 868 HK, mkt cap U$4.4 bn). It is an industry leader and China's largest most diversified glass producer. It was last mentioned in the newsletter in May as low priced, China industrial holding that is exhibiting both rising sales and sharply improving margins. At the time, the company 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 generate pollution. This government directive is accelerating. Recent reports state that nine production lines have been shut down in Hebei, near Beijing. These lines were part of approximately 40-50% of the glass production in China that still uses oil or coal for fuel. All of Xinyi Glass's production uses natural gas. As a result, margin expectations continue to rise due to higher average selling prices and a weakening soda ash price which can account for up to 35% of float glass production cost. Float glass prices have remained unusually high throughout the traditional low season and in fact XYG have lifted utilization rates to meet demand. Furthermore, XYG are accelerating their overseas expansion with the construction of two new glass production lines in Canada. This is in addition to the build out in Malaysia and their target of increasing capacity by 50% by 2020. Despite the recent analyst upgrades this month, the supply side capacity constraints and the persistently high margins remain clearly underappreciated. As we look at the consensus valuation for FY 2018, it remains a depressed 8.4x P/E, RoE of 25% with a dividend yield of 6.4%. The ongoing regulatory changes are certainly improving the company's competitive position and that should further re-rate the multiples. We remain holders.

The headline event in November was undoubtedly President Trump's visit to China. In general, the press coverage of the controversial President focusses on his abrasive and socially divisive comments. Expectations are consistently painted for a negative outcome. In this case however, there was no confrontational comments or talk of a potential trade war. The visit was far more amicable and produced trade deals across several industries reportedly amounting to a massive U$250bn. This was 'job-based diplomacy' according to the White House. There was little detail on the deals and many are non-binding which may add an asterisk to that number. That said, the variant perception here is that Trump's policy on China is to address the trade deficit with a hard push more business into China rather than imposing trade restrictions. That is clearly more positive than the previous consensus view.

For domestic China, the news centred on the ongoing directives to reduce the capacity in certain heavy industries to promote better quality of growth and address environmental concerns. In addition, we saw renewed credit tightening moves that would be impactful to infrastructure, construction and housing. This is of increasing concern to investors that see rising rates, bond yields and credit restrictions as a pressure on GDP growth. For our holdings, the restrictions on capacity has helped to bring pricing power back and expand margins. It has improved the companies' competitive position and the re-rating is underway. Despite the pullback in share prices at the end of the month, we maintain that valuations are relatively attractive and we believe the portfolio is well positioned to benefit. We are confident in our selective strategy with a focus on structural growth and value with catalyst. In addition, the fund has received notice of a further subscription to come next month.

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