Neutron Asia Absolute Return Fund

Monthly Newsletter (December 2017)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (**"NFA"**)	1,426.0212	↑ 3.49%	↑ 29.66%	↑ 43.43%

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	+3.49	**+29.66**
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**

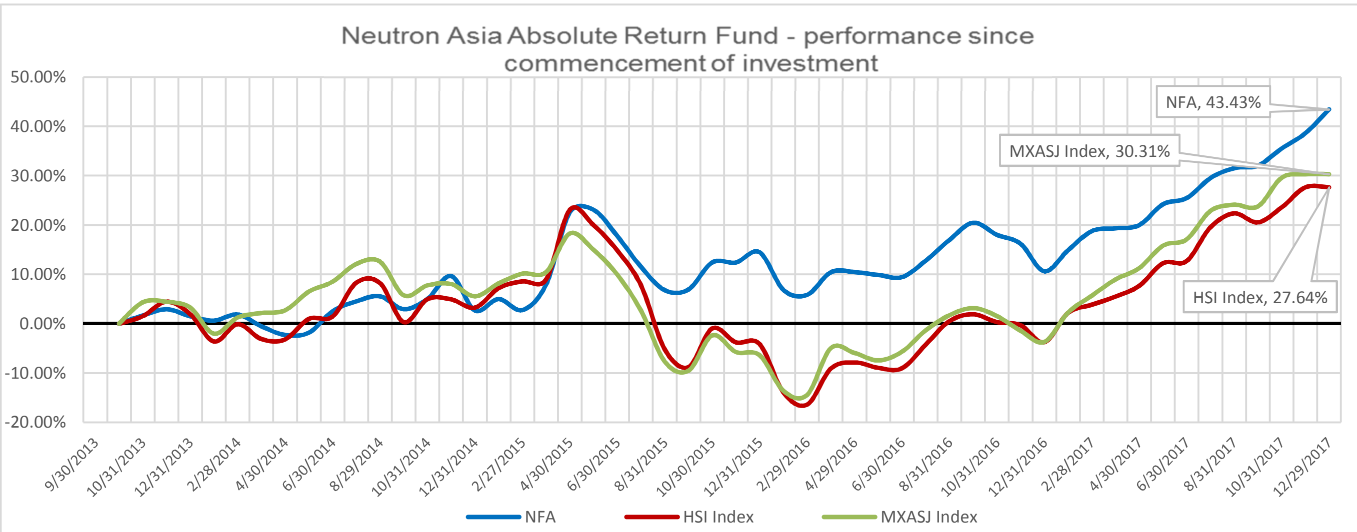
Hall Park Capital – Gross Returns

	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$505 million Approx. US$65 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 December the fund gained +3.49% net of fees. The NAV is 1426.0212 as of December 31st. As a consequence, the fund advanced +29.66% for the full year 2017.

For the portfolio, the fund performance rallied back across the month from early softness to close at the highest levels of the year. There was a notable increase in trading activity with general repositioning and some housekeeping. Our portfolio rotation saw us exit seven holdings, initiate five new positions and add to some existing names. As a result, we increased both the gross and net exposure back towards the higher range. With regards performance attribution, the portfolio ended the month with eighteen long positions making a positive contribution, whilst only two detracted. On the plus side, the main drivers of performance were our internet, gaming and non-bank financial holdings. The detractions were a China industrial name and a domestic consumer play. On the short side, there were no single stock short positions, whilst our index futures weighed slightly on performance in much reduced activity.

For the whole of 2017, our main holdings did not alter too much. The major performance contributors were various internet plays, gaming, non-bank financials, Chinese domestic industrials and travel names. It has been a solid, steady year with twelve positive months. The fund saw broad gains this month and all our main holdings have been mentioned previous newsletters. To avoid going over well-trodden ground, we thought it would be more constructive to look ahead to the coming year and see how we are positioned.

As we enter 2018, with bitcoin and the mega-cap tech companies dominating the news, some investors may be feeling weary and apprehensive. Such a narrow focus may give that impression. However, we see several clear reasons to remain enthusiastic and optimistic for our portfolio. In 2017, our strategy to concentrate on structural growth, value with catalyst or special situations had led us to target holdings in North Asian equities over the more expensive ASEAN markets. Despite the strong gains in North Asian equity markets, valuations are not bloated or stretched. When analysing on a price to earnings or price to book metric, the HK/China markets closed the year at only the midpoint of their historical range. For the Hang Seng Index the p/e is currently 12.5x (10 year average: 12.3x, hi: 22.5x lo: 8.3x), with the p/b at 1.34x (10 year average: 1.52x hi: 2.57x lo: 1.02x). Bear in mind, the skew from the index's heaviest weight Tencent (700 HK mkt cap U$538 bn) that has a p/e of 53x and a p/b of 15x. For HSCEI it is a similar story: a p/e 8.12x (10 year average: 10.7x, hi: 20.8x lo: 5.9x) with the p/b at 0.95x (10 year average: 1.53x hi: 3.16x lo: 0.79x).

To further reinforce the argument, we have a positive corporate earnings outlook. In many cases, our companies are exhibiting solid earnings growth and we expect further upward revisions to consensus. Supported by the current favourable economic environment, we see clear evidence that many of our companies are growing revenues, expanding margins and raising dividends. Importantly, on a political level, this year saw President Xi extend and consolidate his power. For investors, this brings increased stability and valuable assurance that his deliberate push for financial and corporate reforms will be ongoing and intensify. For us, this brings a wealth of opportunities on an individual company level. As a testament to the drive for better operational performance, China's securities regulator directed several large State Owned Enterprises to raise dividends this year. This should be considered as a deliberate open-ended policy directive to increase shareholder returns. On the whole, many corporates are coming off a low base in terms of return on equity. That said, there are some potentially easy wins ahead in reorganizing or restructuring these companies. This is a target area for us. Currently, seven of our top ten holdings are earmarked for spin-offs or reorganization in the coming twelve months.

In addition, it is important to note that the positioning of global equity investors still remains clearly underweight and although the sentiment is improving, it is far from enthusiastic. The fund inflows momentum is undoubtedly developing and this reallocation will continue to support the market. Furthermore, liquidity in Asia has notably improved. This broadens the attraction and helps push multiples. On a macro level, the weakening US dollar provided a notable tailwind to emerging markets this year. Despite the pending Fed rate rises, US policies tend to point to an extended period of dollar weakness ahead. The government initiatives in China, the US and arguably Europe are also constructive for growth. In China, the 'One Belt, One Road' initiative continues to roll out and impact the region. Ongoing directives to reduce capacity in certain industries to promote better quality growth and address environmental concerns are intensifying. These restrictions have helped to bring back industry pricing power and improve margins. In the US, tax reform and infrastructure plans have lifted GDP expectations. Moreover, following the Trump visit to China, fears of a trade war have dissipated. The perceived policy to address the trade deficit is to push for more trade between two countries rather than imposing trade restrictions. This is a clear positive.

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History dictates that it is never plain sailing in markets. There are always risks. Besides the headline grabbing geopolitical turmoil, regulation and policy change remains the primary risk to our concentrated portfolio. Credit tightening, markedly slower growth and sharply rising interest rates are also a notable concern. With the upcoming change in the Fed Chairman, any pickup in inflation may point to a quickening pace in the hike of US interest rates. As a consequence, a shift to a rising US dollar environment would be a considerable headwind for emerging market equities. In summary, we are cautiously optimistic for 2018. We maintain that valuations are relatively attractive combined with solid earnings growth. We believe the portfolio is well positioned to benefit. We are confident in our concentrated strategy with a focus on structural growth and value with catalyst. The fund received an additional inflow this month and there are expectations of a further subscription in the coming months.

Our best wishes for a happy, healthy and prosperous new year.

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