

Neutron Asia Absolute Return Fund

Monthly Newsletter (January 2018)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("NFA")	1,503.7351	↑ 5.45%	↑ 5.45%	↑ 51.24%

Historical Monthly Returns

NFA – Net Returns

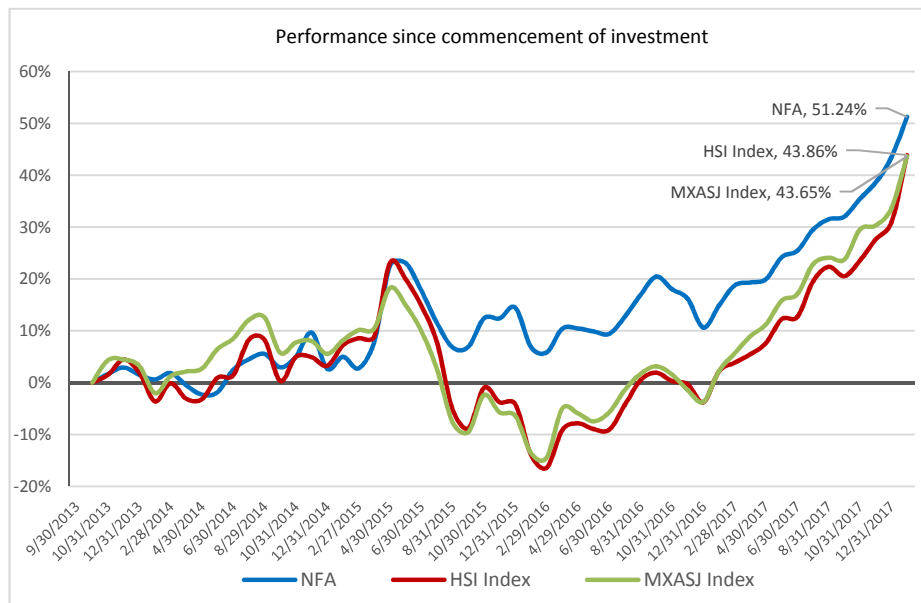
MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	+5.45												+5.45
2017	+3.86	+3.37	+0.47	+0.56	+3.51	+1.01	+3.23	+1.55	+0.39	+2.62	+2.29	+3.49	+29.66
2016	-6.64	-0.96	+4.32	+0.04	-0.53	-0.39	+3.04	+3.73	+2.98	-2.03	-1.55	-4.79	-3.37
2015	+2.26	-2.12	+5.02	+13.59	+0.41	-4.31	-5.33	-4.22	+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

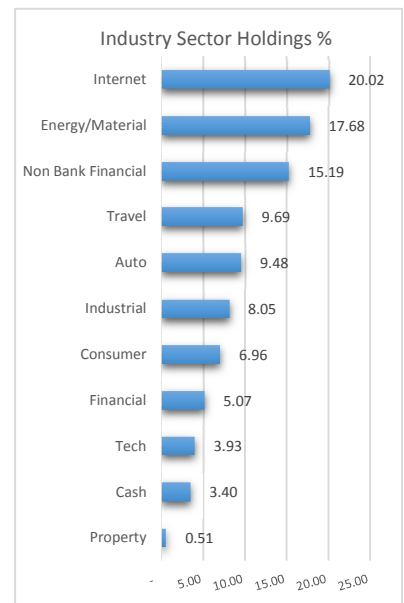
MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013	+11.98	+1.76	+2.87	+6.79	+9.71	-7.19	+2.83	-1.79	+2.08				+31.39⁽¹⁾
2012	+2.45	+6.61	-4.36	-1.41	-2.89	+1.28	+3.28	+1.30	+0.63	+3.89	+2.11	+4.24	+16.61
2011	-3.10	-4.20	+5.57	+0.28	-0.87	-1.56	-1.53	+3.11	+1.29	-3.73	-0.27	-1.10	-6.11
2010	-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.

Performance



Industry Sector Holdings



For further information, please visit Bloomberg ticker: BNNEUTA:KY; or website <http://neutronasiabsolute.bricneutron.com/>

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\$592 million Approx. US\$75 million	Fiscal Year End	31 December
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
Dealing	Monthly	Redemption Fee	1% for early redemption in the first year



Neutron Asia Absolute Return Fund

Monthly Newsletter (January 2018)

In January the fund gained +5.45% net of fees. The NAV is 1503.7351 as of January 31st 2018.

For the portfolio, January continued on a positive note although with more subdued trading activity than December. Our portfolio rotation saw the sale of three existing holdings and the purchase three familiar names. The broad theme was to rotate out of underperforming smaller/mid cap names into larger cap companies. The companies have a specific catalyst and would benefit from the surge in fund flows from both global and southbound mainland investors. As a result, both the gross and net exposure was maintained towards the higher end of the range. With regards performance attribution, the portfolio ended the month with fifteen long positions making a positive contribution, whilst five detracted. On the plus side, the main drivers of performance continued to be non-bank financials, internet, gaming and further support from basic materials plays. The detractions were in our internet names, autos and tech holdings. On the short side, there were again no single stock short positions, whilst our index futures weighed slightly on performance in low-level activity.

One of the main contributors this month was a relatively new holding, BAIC Motor Corp (1958 HK, mkt cap: US\$10.4bn). The company had previously dropped off the investment radar due to its valid perception as an unattractive state-owned enterprise, whose businesses lines continued to suffer despite a buoyant sector. In recent months however, things are changing dramatically. Management is revamping their existing business lines and has engaged in a radical restructuring which will transform the listco. This year, their existing lucrative Mercedes Benz JV (51% owned) expects surging volume growth on a strong model pipeline, improving capacity and continued margin expansion. Similarly, their Hyundai JV (50% owned) should rebound sharply after the dismal 2017 accentuated by the damaging political fallout with Korea. Furthermore, the restructuring of their own brand business which includes the reported spin-off of the 'Wevan' brand to the parent company would likely remove an estimated Rmb2.2bn loss. The parent company also announced the spinoff of Beijing Electric Vehicle (BJEV) in the A-share market in 2H18 which is 8.15% owned by the listco. As a result, the company would book a one-off gain. The size of the gain will depend on the listing price, but initial estimates have it above Rmb 1.0bn. These moves would make a considerable impact. In addition, the board has approved an A share issuance of up to 485 million shares scheduled for mid-2018. The proceeds of which will be used for the continuing revamp and strengthening of their remaining own brand business. This will not be more of the same old cars. In fact, the influential designer, Lowie Vermeersch has been brought in to develop the 'Capital Style' designs for its new generation models including the new fast selling D50 sedan. The new designs saw sales surge to over 3,000 units in Dec 2017 from around 75 units a month previously. For us, BAIC is an example of a tired Chinese corporate now driven to make drastic changes in the pursuit of better operational performance and higher return on equity. Previously, the stock was under-owned and consensus forecasts lagged with outdated, conservative assumptions. The news releases are changing that. The stock gained +18% this month.

The theme of companies reorganizing or restructuring for value crystallization and better operational performance is a target area for us this year. As mentioned in our previous newsletter, currently seven of our top ten holdings are earmarked for spin-offs or reorganization in the coming twelve months. Having a portfolio with many deals specific names can reduce correlation to general market moves. Consequently, regulation, policy change and now execution remain the primary risks to our concentrated portfolio. That said, we believe this to be an ongoing theme in China as companies are now incentivized and directed to improve and create value.

The theme of reform was further emphasised to the world at Davos where Liu He, widely regarded as China's top financial and economic adviser to President Xi Jinping, delivered a comprehensive speech. He talked about the 'opening up' of China and wide-ranging reforms. He earmarked 'structural improvement' and stated that 'some measures will exceed the expectations of the international community.' For domestic China, he focused on quality of growth and strong efforts to address environmental concerns. For the investor, we expect ongoing directives to reduce the capacity in certain dirty industries and promote cleaner alternatives. Furthermore, he laid out the intention to address poverty, pollution and financial risk, namely a reduction in leverage and shadow banking. For the investor, this restructuring is clearly an opportunity. We aim to position the portfolio accordingly. We remain confident in our selective strategy with a focus on structural growth and value with catalyst. The fund has received notice of a further subscription to come next month.

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



Investment Manager: BRIC Neutron Asset Management Limited

Tel: (852) 2810 5338 **Fax:** (852) 2810 5700

Address: Suite 3601, 36th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong

Disclaimer: Possession of this document does not constitute an offer or solicitation to purchase shares of the Fund. The information in this document is for reference purposes only and shall not be construed as a solicitation to invest. Professional investors should refer to the Private Placing Memorandum prior to investing in the Fund. The contents in this document have not been reviewed or approved by the Hong Kong Securities and Futures Commission (SFC).