Neutron Asia Absolute Return Fund

Monthly Newsletter (March 2018)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,203.1085(*)	↓5.68%	↓5.11%	↑36.09%

Historical Monthly Returns

NFA – Net Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	+5.45	-4.59	-5.68										**-5.11**
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**

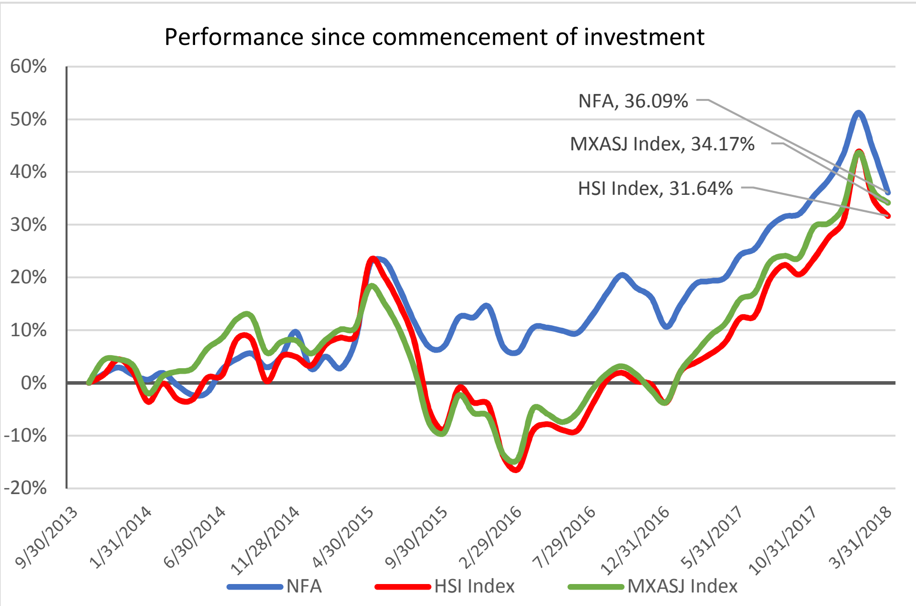
(*) ex-dividend $150, NAV/Share before and after dividend were $1,353.1085 and $1,203.1085 respectively.

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**

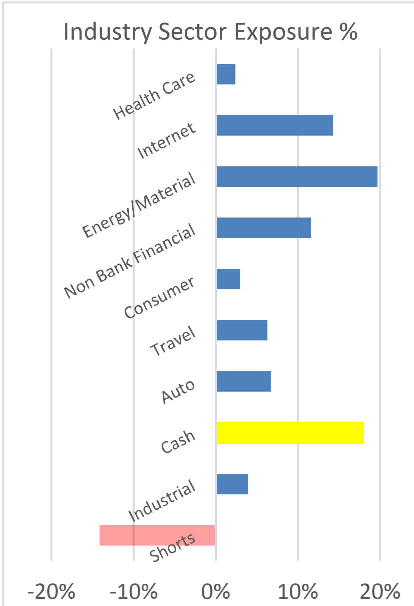
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market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

Performance



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

Industry Sector Holdings



For short position, investments group as shorts.

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$476 million Approx. US$61 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

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In March the fund fell -5.68% net of fees. The NAV is 1,203.1085 as of March 31st, 2018 to leave the fund at -5.11% year to date.

For the portfolio, March was a damaging month. On the face of it, the results season provided some encouraging data on improved operational performance and actions for increasing shareholder value.

Nonetheless, positive company news was outweighed by the global macro events and the headlines on a potential trade war. For us, in times of a sharp deterioration in performance, our first move is to go smaller. As a consequence, we have cut positions and reduced exposure across the board. The rotation in the portfolio saw the exit of five existing holdings with the initiation of two new names. On the short side, we continued to be active with both futures and single stocks. As a result, both the net and gross exposure of the portfolio were reduced significantly to the lowest levels since December 2016. With regards performance attribution, the portfolio ended the month with only five long positions making a positive contribution, whilst twelve detracted. The detractions were broad and led by certain results driven names, notably a non-bank financial and our internet holdings. In addition, we were positioned in several deal specific companies that have suffered disproportionately to the market as the negative environment threaten the deal's execution or impacted the valuation expectations. These were costly in aggregate. The positive contributions were confined to an oil company, a gaming company and a travel play. On the short side, we had a positive contribution from four out of five single stock positions. Our index futures positions were whipsawed around throughout the month resulting in little positive impact.

One of our major holdings, Ping An Insurance (2318 HK, mkt cap U$187bn) reported strong 2H results that surprised on the upside on almost every data point. The 2H17 earnings were a significant beat coming in at Rmb 46bn vs consensus forecast of Rmb 31bn. Underneath the headline, there was an acceleration in the important operating metrics of life embedded value up +38% and new business value up +33%. In addition, there was a momentous doubling in the dividend to Rmb 1.5 vs Rmb 0.75 in 2016. The company presentation was once again impressive. They illustrated the huge structural growth story in their business segments overlaid by innovation and implementation of technology. As a further catalyst, investors can look forward to up to four potential business segment spin-offs. It is conservatively estimated that these could crystalise approximately $14 per share. The most anticipated of these being the online healthcare 'Good Doctor' and Lufax, the fintech business. That said, despite the better than expected results, the price action was surprisingly negative. Macro factors and concerned investors looking to quickly reduce exposure caused the stock to fall -4.4% over the month. For us, the results firmly reinforced the investment case. However, for the time being, the stock is swimming against a negative market tide.

One positive contributor was the State-run oil company, Sinopec (386 HK, mkt cap U$122bn) which delivered an encouraging set of results. Net profit rose +10% yoy in part driven by a robust core refining segment which saw EBIT gain +9% qoq. We continue to argue that investors under-appreciate this quasi-cost-plus price mechanism that delivers a higher quality earnings stream than the previous method. In addition, the chemical and marketing segments saw strong growth whilst the persistent detractor, E&P weighed in with losses and an additional Rmb 10bn impairment. There was renewed talk about the spin-off of the Marketing business earmarked for IPO in 2H18. Progress has been arduous and investors have become disillusioned which had been reflected in the share price. The real surprise was the significant step up in the final dividend to Rmb 0.40 (Rmb 0.50 FY17) equating to 9.4% yield or 118% payout ratio. This is a milestone event. Analysts suggest that 100% payout ratio could be the new normal for Sinopec. With oil above $60/bbl even the E&P segment could pivot to profitability and the accelerating cash flow could easily support this. Importantly, this is a fulfilment of a government policy directive and part of the broad economic reforms. By compelling the SoEs to pay larger cash dividends, the government enforces operational discipline and efficiency. This is a highly constructive, value-added theme for China investors. The stock has begun to re-rate gaining +9% in March.

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As previously mentioned, March was another tough month. Volatility in global equities is back with a vengeance. Much of it caused by tweets and sensationalised headlines rather than the more sober and considered facts. The interviews with Secretary of Commerce, Wilbur Ross are far more enlightening and practical than the media outlet coverage. The objective of these moves is to hasten more economic trade with reciprocal agreements. That said, the markets do not like uncertainty or trade wars headlines. Consequently, the price action has been far more erratic. In the first three months of 2018, there have already been 22 days in which the S&P 500 moved more than 1 percent. That is triple the total number for the entire full year of 2017. This year is going to be a far rougher ride. These rising trade tensions are spooking investors and threatening to derail the sustained expansion of the global economy. For China, these macro headlines have overshadowed some clear positives. The governmental NPC meeting concluded on March 20th with encouraging economic reforms installed. The removal of the presidential term limit effectively cements the reform process, reduces reluctant implementation and curtails political uncertainty. In addition, pro-reform and pro-market personnel have taken up high profile, top positions. On the whole, it has been a positive corporate earnings season with a theme of improved operational performance and notably rising dividends. We continue to target structural growth and companies reorganizing and restructuring, but in a less aggressive manner. As expected, the Fed raised US interest rates by 25bps in March and in China there remains a valid concern over the effects of the ongoing deleveraging especially with the newly merged supervisory watchdog in the financial sector. That said, we believe the government's wide-ranging reforms are gathering momentum and will bring structural improvement in many areas of the economy. On a micro level, companies are increasingly incentivized and directed to reform and create value. We remain confident in our selective strategy with a focus on structural growth and value with catalyst.

Please note that the fund paid a dividend in March. This was at the request of the seed investor who needed to realise the gains for their own accounting. The dividend was HK$150 per unit. All unit holders were notified and if they wished to remain invested, the dividend amount was invested back into unit with no costs. As a consequence, a unitholder will have more units at a lower amount with the same overall value. The portfolio manager remained invested.

BRIC NEUTRON ASSET MANAGEMENT LIMITED 尚金資產管理有限公司

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