Neutron Asia Absolute Return Fund

Monthly Newsletter (April 2018)

NAV & Returns

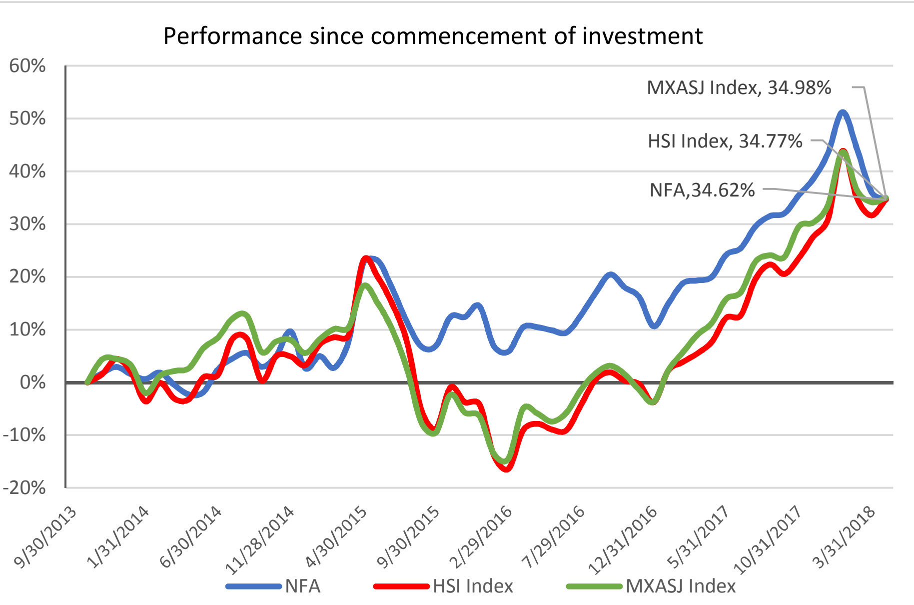
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,190.0489	↓ 1.09%	↓ 6.14%	↑ 34.62%

Historical Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
NFA – Net Returns													
2018	+5.45	-4.59	-5.68	-1.09									**-6.14**
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													
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**

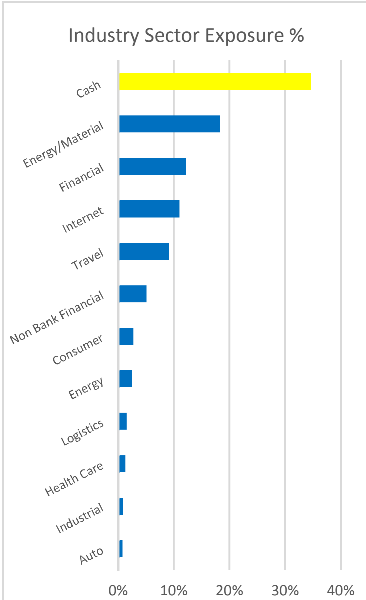
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$481 million Approx. US$62 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 April, the fund fell -1.09 % net of fees. The NAV is 1,190.0489 as of April 30th, 2018 to leave the fund at -6.14% year to date.

For the portfolio, April was a month to rebuild after reducing exposure to recent low levels in March. The first quarter results season continued to provide some encouraging metrics, but price action remained less reassuring as downward momentum persisted in several cases. Crowded investor positioning and deteriorating sentiment seemed to weigh on certain names. The portfolio rotation saw the exit of five existing holdings with the addition of seven new names including one in Singapore. On the short side, we continued to be active with both index futures and single stocks positions. As a consequence, both the net and gross exposure of the portfolio increased marginally from the low levels at the start of the month. With regards performance attribution, the portfolio ended the month with nine long positions making a positive contribution, whilst eight detracted. Of the new additions, five out of the seven provided gains whilst three of the five exited positions weighed on performance. On the plus side, the main drivers were our energy names, an internet company and a non-bank financial. On the negative side, the detractions were driven by two deal specific names that broke down. One with a discounted placement and the other with an off-market sale at a markdown price to an industry participant. These two names were largely responsible for our negative performance. There was additional softness in a travel holding, a Macau name and a China industrial. On the short side, our index futures positions provided a more notable positive contribution, whilst we covered all our single stock shorts by month end.

One of our holdings, China Molybdenum (3993 HK, CMOC, mkt cap U$16.5bn) was a disappointing case in point. CMOC is a leading copper miner and the world's second largest cobalt producer. The company reported a strong set of Q1 results that significantly beat the consensus numbers. This was mainly due to stronger commodity prices and higher cobalt production volume. In the past year, the prices of copper (44% revenue) and cobalt (21% revenue) have risen by 29% and 96% respectively. For the company, the key asset is the Tengke Fungurume mine (56% equity interest) in the Democratic Republic of Congo which is rich in copper and cobalt. The doubling in the price of cobalt is caused by the structural shift by global carmakers to produce electric vehicles. Production is concentrated in the DRC which has over 60% of the world's cobalt. It is a critical metal for electric car batteries and demand is set to surge. To put in perspective, approximately 10 kilos of cobalt is used in an electric car battery, more than 1,000 times the amount used in an iPhone. CMOC have remained tightlipped, but earlier this year Glencore made the headlines in the FT by signing a supply agreement with a Chinese battery materials maker for approximately a third of its cobalt production over the next three years. Glencore's CEO told the FT, 'the motor car industry hasn't woken up to the fact, I don't think, how important cobalt is and how 'tight' cobalt is.' We can add to that comment that the world underestimates the extent to which China will push for electric vehicles in the future. The market penetration of new energy vehicles is currently in its infancy so we expect more supply agreements to come. Glencore certainly does. It aims to increase its production of cobalt from the country by more than 67% over the next three years. Disappointingly for shareholders, the stock price fell back after an initial surge and ended the month up just 1%. The copper price has not been that supportive, but the real concerns centres around regulation and political instability in the DRC. There is also anxiety that CMOC will use their net cash position for large acquisitions paying national service prices. For investors, we can clearly identify the long-term structural growth trajectory of new energy vehicles – especially in China. Improving technology will reduce the amount of cobalt per vehicle, but it is the growth in the volume of cars remains huge. In 2017, more than 777k NEVs were sold in China, making it the world's biggest market. NEVs currently hold 2.7% market share from 1.8% in 2016. For CMOC, we believe that the current consensus forecasts significantly underestimate the longer term price and production volumes of cobalt. This may be a rough ride, but we maintain our holding.

The equity market volatility continued in April. The macro threat of US-China trade tensions with a further headwind of a rising US dollar and tick up in bond yields combined to aggravate investors. However, tensions seemed to ease after a well-publicised speech by President Xi at the Boao Forum provided a more constructive tone. In a preliminary step towards addressing the Trump administration's complaints, he announced a further opening of China's economy with specific plans to lower tariffs for autos, concessions in the financial industry and enforcement of the intellectual property rights of foreign firms. He also stated that China will 'work hard' to increase imported products that are required by the population. Furthermore, the dramatic de-escalation in the North Korean situation will have been orchestrated by negotiations with China. This would be a considerable diplomatic coup that President Xi would bring to the negotiating table. The expectation of some progress in the trade negotiations has markedly improved. For investors, this should be encouraging news. In addition, the economic data both in US and China continues to reassure. For us, we remain encouraged by the operational performance and guidance of our holdings. The price action of the portfolio has not reflected this and we have repositioned in a less aggressive manner. Going forward, we believe China's wide-ranging reforms are gathering momentum and will bring structural improvement in many areas of the economy. On a company level, we see management increasingly incentivised or directed to reform and create value. We remain confident in our selective strategy with a focus on structural growth and value with catalyst.

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