Neutron Asia Absolute Return Fund

Monthly Newsletter (May 2018)

NAV & Returns

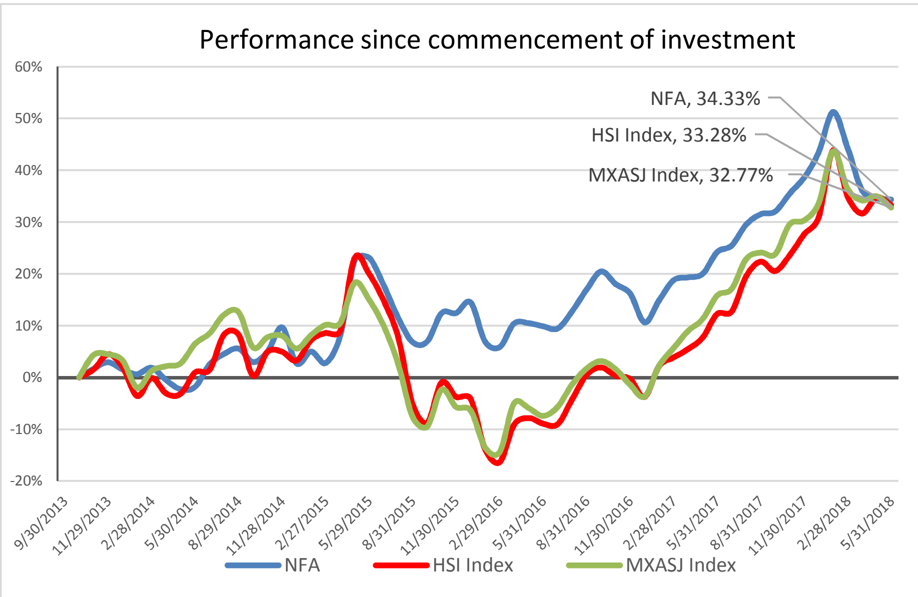
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,187.5302	↓ 0.21%	↓ 6.34%	↑ 34.33%

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	-0.21								**-6.34**
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**

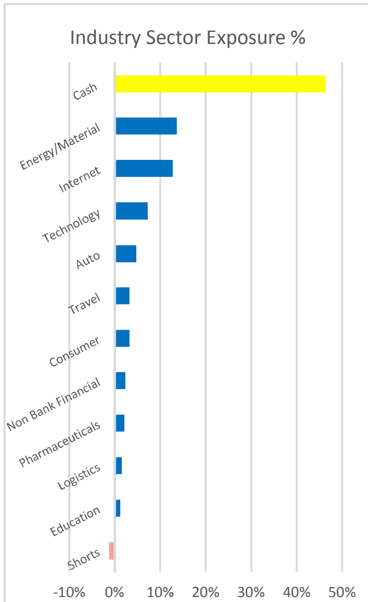
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$480 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

Neutron Asia Absolute Return Fund

Monthly Newsletter (May 2018)

In May, the fund fell -0.21% net of fees. The NAV is 1,187.5302 as of May 31st, 2018 to leave the fund at -6.34% year to date.

For the portfolio, May brought wholesale changes. Headlines from the US/China trade negotiations and policy change domestically combined to produce erratic stock price movements. The portfolio rotation saw the exit of twelve existing holdings and the addition of eight new names. On the short side, we continued to be active with both index futures and single stock positions. As a consequence, both the net and gross exposure of the portfolio decreased marginally from the end of the previous month. With regards performance attribution, the portfolio ended the month with eleven long positions making a positive contribution, whilst three detracted. Of the new additions, six out of the eight provided gains, whilst six of the twelve exited positions weighed on performance. On the plus side, the main drivers were our energy names, a pharma company and a non-bank financial. On the negative side, the detractions were driven by a travel holding, a commodities name and an auto company. On the short side, our index futures positions provided a negligible contribution, whilst our single stock shorts were negative by month end.

One positive contributor was our holding in PetroChina (857 HK, mkt cap U$218bn). The company benefitted from government reform of regulated pricing policies. On May 25th, the NDRC announced that it would unify the residential citygate gas prices to the same level as industrial gas prices. Residential gas accounts for c20% of gas sales and was priced at a discount of 20%. Under the existing policy, PetroChina pays market prices for the gas it imports, whilst it sells the gas domestically at prices that are set and regulated by the government. As the regulated prices are lower than the market based prices - to promote the shift from coal to gas – PetroChina was saddled with significant ongoing losses. Consequently, this change in pricing reform is material. It is estimated that every 1% change of FY18/19 citygate prices would lead to 4.5%/4.2% change in EPS for FY18f/FY19f. The demand for gas is sizeable and growing quickly. So by reducing the gas losses, it relieves a heavy burden and should trigger a re-rating in the stock. Under the previous policy, PetroChina's valuation traded at discounted 0.8x price to book, making it one of the cheapest global integrated oil majors. Investors should view this pricing reform as a decisive move in an ongoing process. The timing is uncertain, but an expected future step would require the unbundling of gas transport from gas sales. This will mean separate pipeline reform. PetroChina has close to 80,000km of pipelines – the second largest network in the world. Although there are several options on how to establish a separate pipeline company, initial estimates value the pipeline business at a conservative 1.4x price to book; Rmb 619bn (U$96.8bn) or HK$4.20 per share - around 65% of the current share price. International peers trade on 1.7x p/book. Looking forward, these reforms would be transformational for the company. As progress is made, we believe that investors will begin to recognize the clear, compelling value in the sum of the parts valuation and the discount will narrow. Furthermore, as we approach the half year, analysts will update their oil price assumptions which at the moment look universally too low. This should lead to upward earnings revisions. We added to our position in May.

The theme of reform or restructuring for value crystallization and better corporate operational performance is a target area for us. This month provides further evidence that the government's strong intent for wide-ranging reforms is gathering momentum. This is delivering positive, structural improvement in many areas of the economy. For us, this can be a double-edged sword as regulation, policy change and their execution remain the primary risk to our concentrated portfolio. A recent example is the unexpected lowering of tariffs in the auto sector. That said, we see that companies are now more incentivized and in fact, directed to improve and create value. The addressable market for this is enormous, but it is essential to see progress being made. The open-ended trade negotiations create uncertainty in policies and timing which generate a rough ride for investors. For us, the big picture for China is that aggregate earnings are growing at a healthy pace, cash flows are improving, dividends are being raised and return on equity metrics are increasingly attractive. For the investor, the reform and 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.

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