Neutron Asia Absolute Return Fund

Monthly Newsletter (June 2018)

NAV & Returns

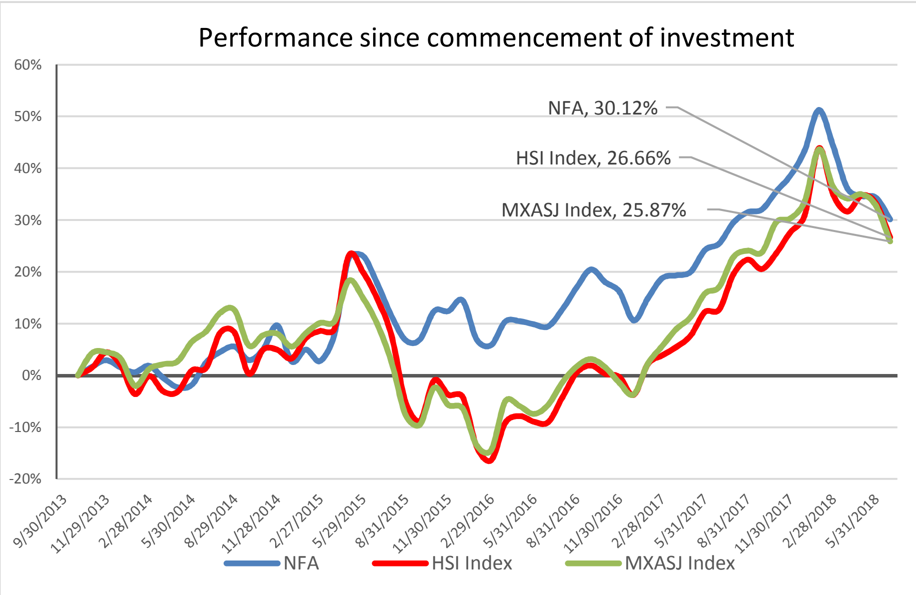
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (“**NFA**”)	1,150.3524	↓ 3.13%	↓ 9.27%	↑ 30.12%

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	-3.13							**-9.27**
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**

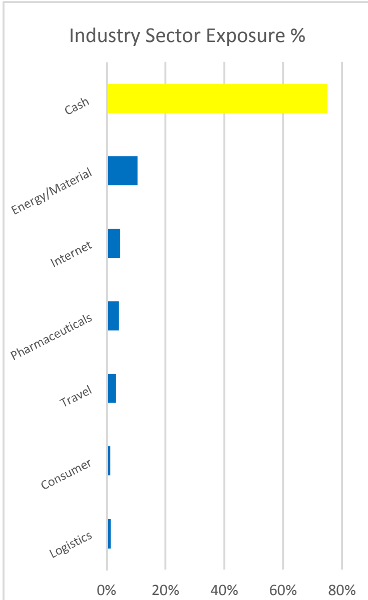
(1) The Hall Park Capital Account is provided for illustrative purposes only, and represents the portfolio manager’s personal account. The account pursued an investment strategy that was substantially similar to NFA with any differences due primarily to portfolio management decisions given the market 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$465 million Approx. US$60 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 (June 2018)

In June the fund fell -3.13% net of fees. The NAV is 1,150.3524 as of June 30th, 2018 to leave the fund at -9.27% year to date.

For the portfolio, June saw the erratic stock price movements take a distinct step lower. A number of factors combined to trigger such a negative price action that provoked a further reduction in our exposure. By the end of the month, the portfolio rotation saw the sale of eight existing holdings with the addition of four new names. As a result, the portfolio was left with ten long holdings only. Consequently, both the net and gross exposure of the portfolio decreased significantly from the end of the previous month leaving our cash levels approaching 75%. With regards to performance attribution, the portfolio ended the month with four long positions making a positive contribution, whilst six detracted. Of the new additions, two out of the four provided gains, whilst six of the eight exited positions weighed on performance. On the plus side, the contributors were limited to our internet names and a logistics play. On the negative side, the detractions were broad, but driven by our energy plays, a commodities name and an internet company. On the short side, our index futures positions provided some positive contribution, whilst our single stock shorts were closed by month end.

The main headlines for this month were the combination of factors that contributed to the sharp sell-off in equity markets, particularly the China shares. For the month, the Hang Seng fell -5%, whilst the Shanghai Composite fell -8%. For us, the decision to further move into cash was due to an accelerating negative price action throughout the month triggering warning levels in numerous holdings. Significantly, the Hang Seng broke its 200-day moving average in June and we witnessed bouts of hard selling with a drying up of liquidity. As an investment fund we are mindful of keeping a high cash level, but deem it appropriate in the short term. There was a notable deterioration in the US/China trade talks that have derailed from their constructive tone to a more combative stance. The first batch of tariffs is to become effective on July 6th with additional areas set to follow. An early resolution now seems improbable. A simple glance at the balance of trade situation illustrates that the Chinese economy will suffer major casualties in a trade war with the US. Furthermore, the US negotiators seem to want to demonstrate their superior bargaining position before the negotiations move forward. To compound the issue, the normally steady Chinese Renminbi depreciated -3.2% in June further spooking investors. This move is significant as it undermines confidence and brings about negative earnings revisions. In addition, weaker than expected data, notably in Fixed Asset Investment saw the infrastructure component decelerate markedly to +8.5% in 5m18 from +10.1% in 4m18. This was impacted by tighter funding constraints as part of the ongoing deleveraging measures. Perhaps more worryingly, the consumption data, namely retail sales slowed to +8.5% in May – the lowest since July 2003. Given this environment, investors refreshed their concerns over the rising corporate bond defaults and the extent of the large A share pledge borrowing situation. In response, the PBOC announced a 50bp cut in the RRR and a broadening of the collateral pool for medium-term lending facilities at the end of the month. This had little impact. As a consequence, the combination of negative data points provoked huge emerging market outflows from international investors. Moreover, the mainland southbound investors also turned to produce significant outflows in May which have further accelerated in June. Global investment funds and the weight of passive money look to intensify the selling pressure and expectations are for sizable redemptions. These factors contributed to broad-based indiscriminate selling. Perhaps looking back later in the year at all these negatives, this sell-off may be seen as the buying opportunity. However, at this point in time, any escalation or prolonged period of the trade war will materially impact GDP, currency and earnings. We see the risk firmly to the downside.

For the portfolio, many remaining positions have been markedly reduced in size. We have maintained some exposure in our oil companies that have benefitted from the recent reform in the regulated pricing mechanism. Furthermore, we expect the value-accretive pipeline restructuring to materialize in the future. Moreover, the oil price continues to push towards three year highs whilst the stocks suffer a short-term break in correlation. Elsewhere, we continue to monitor a shopping list of companies where we identify structural growth and value with catalyst. The government's strong drive for wide-ranging economic reforms is still gathering momentum. The evidence of reform, restructuring and better operational performance is unmistakable. For the investor, the reform and restructuring coupled with a rush for the exits and increasingly bearish views will provide incredible opportunities. We stand ready 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