Neutron Fund Limited – Neutron A
Monthly Newsletter (January 2015)

NAV& Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron A (“**NFA**”)	1043.9039	↑2.26%	↑ 2.26%	↑ 4.99%

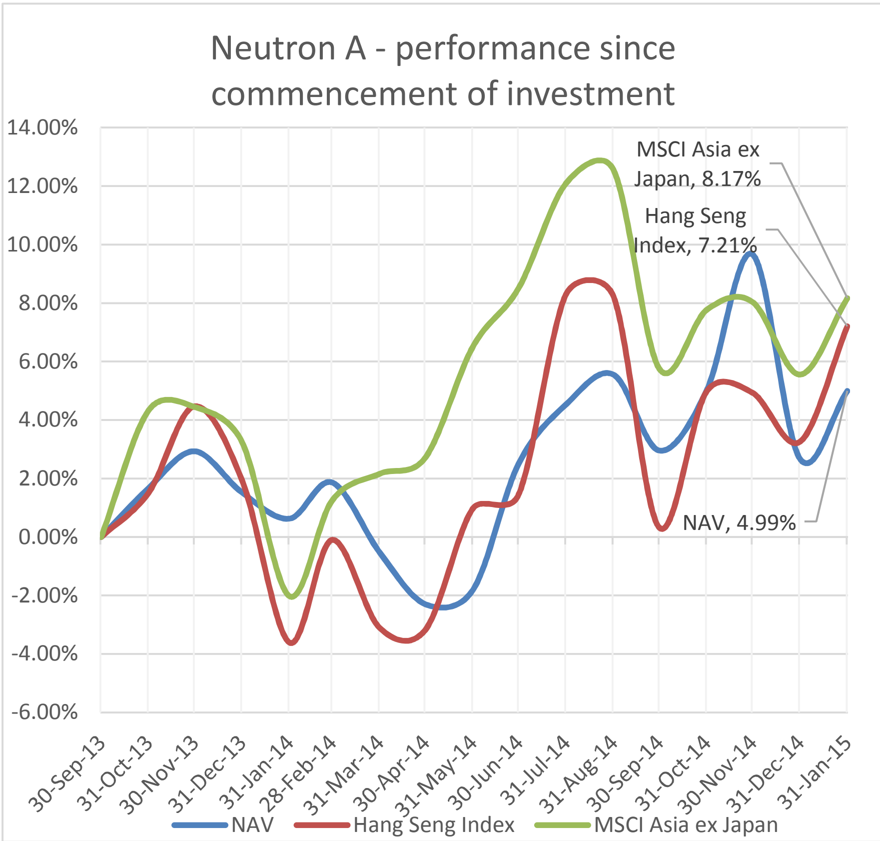
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	+2.26												**+2.26**
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*													
2013	+11.98	+1.76	+2.87	+6.79	+9.71	-7.19	+2.83	-1.79	+2.08		Neutron A		**+31.39**
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**

*The Strategy was previously expressed through Hall Park Capital from January 2009 to September 2013. This was run as a smaller managed account gross of fees.

Fund Information

Investment Objective	The investment objective of Neutron A’s 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$126 million
Dealing	Monthly
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



For further information, please visit Bloomberg ticker: BNNEUTA:KY

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The fund started the year well gaining +2.26% in January net of fees. The NAV was 1043.9039 as of January 31st. Over the same period the Hang Seng Index gained +3.8% and the H share Index fell -2.2%

For Asian equity markets the volatility continued in January. The further weakening of currencies and commodities accentuated the price moves. For China, the equity markets finally seem to be taking a breather. The Shanghai Composite ended January slightly lower after surging +34% in the last two months of 2014. Mainland investors may have grown unaccustomed to negative months. The last down month for Shanghai Comp was eight months earlier in April. That late surge on colossal volume was sparked by the first interest rate cut in over two years. Investors now believed that the PBOC had initiated a cycle of monetary easing accompanied by further liberalization and reform. Their unwavering belief was that the government policies would successfully address the current economic woes. However, in January the economic data had stopped being decidedly mixed and was undoubtedly surprising on the downside. China was facing its slowest expansion in over twenty years and had a corporate sector under an enormous weight of debt. The PBOC had stated they aimed to ease the burden of debt and financing in the system. Next up was the RRR cut of 50bps which was earlier than anticipated and now confirmed a much quicker loosening policy. Interestingly, the day after that announcement the Shanghai Composite opened on the highs and closed down on the lows. The acceleration and magnitude of the deteriorating economic data was now seen to be outstripping the policy action. Investors are now more skeptical that the government policy is effectively addressing the worsening slowdown. In addition, the restrictions on margin financing from brokers gave a warning that the government was concerned about the sharp rise in leverage in the stock market. It is clear that the economic data is worsening, but it is the policy response and the reaction to it that is driving share prices.

For the portfolio, January delivered broad gains in the majority of our holdings, with performance driven by our large cap names. However, most of our mid-caps stocks did not recover from the sharp declines in December and some continued to weigh on the portfolio. The lower oil price or the belief that prices will stay lower for longer helped our travel and transportation names. Our internet holdings rebounded strongly and made notable positive contributions. Our short positions had a mixed month, but on the whole provided a small detraction from performance. We sold out of three existing holdings and initiated five new ones. All of these five were liquid names. As we saw from December’s brutal price action, the liquidity risk in some positions had reduced the margin of safety considerably. Although we have analysed our investment case to be confident of intrinsic value, the current volatile environment means that illiquid names have a heavier short term risk weighting. As we heading in to the start of earnings season we look for our companies to assure investors of their value.

One of our main drivers of performance in January was China Mobile (941 HK). It rebounded strongly from the decline in December by gaining +13.3% over the month. We reiterate our view that the adoption of 4G is accelerating faster than originally expected. Analysts have been slowly upgrading their EPS numbers and consensus forecasts continues to rise. Investors are beginning to appreciate the earnings stability and that the pace of monetization should accelerate in the years ahead.

Another major contributor was Netease (NTES US) which gained +10.2% over the month as investors began to appreciate the series of growth catalysts. Not only is there a continued rollout of successful PC and mobile games, but the surging non-gaming business (e-commerce and advertising sales) is attracting more attention. In January, the company announced a partnership with Sinotrans, one of China's largest logistics service providers. Sinotrans will be responsible for international shipping logistics for Kaola, NetEase's self-operated cross-border e-commerce platform. The companies said their alliance will allow Chinese customers to more quickly receive products they buy online from overseas suppliers. This news is an additional catalyst for the company and these businesses command a high multiple than pure games companies. Next month’s year end results will be the catalyst to provide investors with a valuable update and future guidance.

Looking ahead to earnings reporting season, we expect further confirmation in our investment cases. The valuations remain relatively attractive, but the new trend of worsening economic data and the potential of policy change ahead make for erratic times. Many of our holdings have strong balance sheets, several with net cash and although not directly benefiting from the rate cut environment we remain confident that they are good businesses. In this volatile environment ahead we maintain our strategy of focusing on structural growth stories and companies exhibiting clear value with catalyst.

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