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

NAV& Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron A (“**NFA**”)	1021.7648	↓ 2.12%	↑ 0.09%	↑ 2.77%

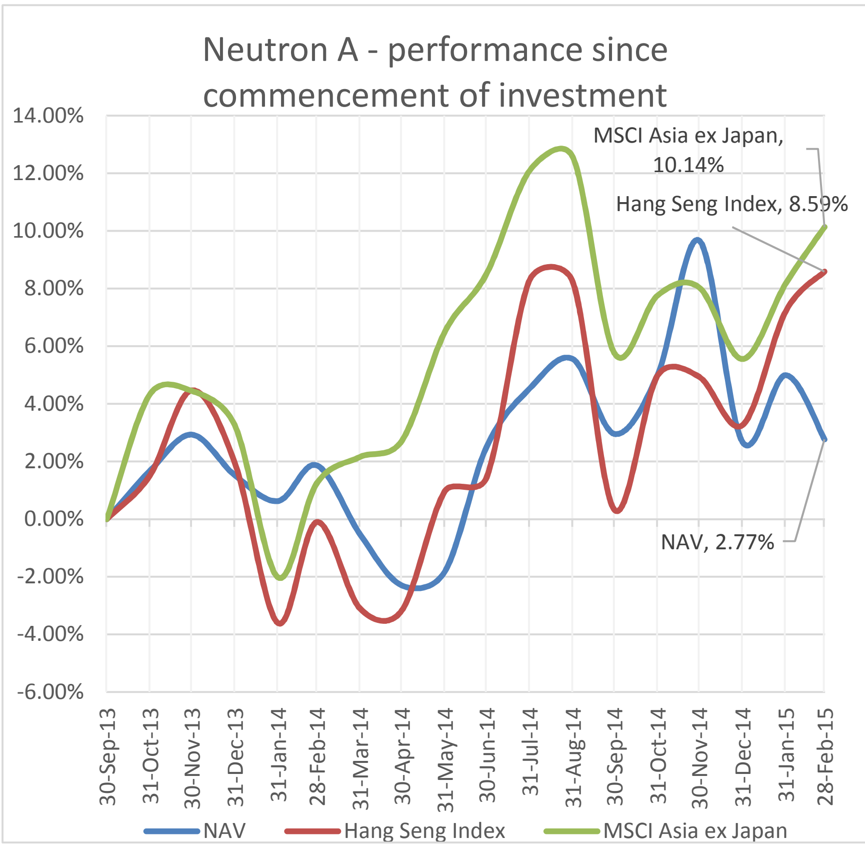
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	+2.26	-2.12											**+0.09**
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$123 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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In February the fund lost -2.12% net of fees. The NAV was 1021.7648 as of February 28th. We remain slightly up +0.09% year to date.

For the global markets, the main story was the persistent rise of the US dollar and further worldwide government loosening measures or stimulus. At the time of writing, 16 countries had eased monetary policy so far this year in an attempt to address slowing growth and falling prices. More are likely to follow. For China, the PBOC initiated their monetary easing in January and due to worsening economic data there was a further RRR cut in February. Despite the fact that the data has continued to surprise on the downside, this has only heightened investor appetite for more market boosting stimulus. For many sectors, the forthcoming earnings reporting season will likely reflect the poor economic performance rather than the prospect of stimulus. In Hong Kong, valuations remain largely subdued reflecting the gloomy investor sentiment.

For the portfolio, February handed back much of the gains we saw in January with the majority of our companies weakening over the month. The main detraction from performance was from our China internet holdings, Netease and Baidu, followed by the travel/transportation names and further softness in the mid-caps. China Mobile (941 HK) was one bright spot extending its gains by +2.8% in February. Our short positions weighed slightly on performance and many were covered across the month. With regards to rotation, we sold out of five existing holdings and added six new companies of which five made a positive contribution. As we head into earnings season we are looking for our companies to confirm their clear investment case.

In early February, our long time holding, Netease (NTES US) reached a new closing high of $116.11 just ahead of 4Q results. The results did not disappoint, beating on both top and bottom lines despite a slight softening in operating margin. Revenue grew +43% which was driven by online gaming +36% yoy, advertising +22%, and the increasingly important E-commerce business which surged +228%. We have outlined our investment case and the catalogue of upcoming catalysts for the company in previous newsletters. These results confirmed our view. That said, the stock seem to suffer from a sell on the news and pressure in the broader China internet sector. The stock eventually fell -8.1% over the month. Interestingly, many of the upcoming games are not factored into analyst's numbers. This may be justified because as an industry, the games can be hit or miss and they can also be delayed. So analysts are being conservative and not counting any chickens. However, as investors we see quite a few eggs. With net cash 25% of the market cap, the cash-flow to net income ratio of 1.23 and a strong pipeline of releases ahead there is a significant margin of safety.

Later in the month, we saw Baidu (BIDU US) report 4Q results with revenue in line with forecasts, however, earnings came in lower due to higher than expected operating expenses. Guidance for 1Q15 was also below consensus and many analysts lowered their earnings and target prices. The stock ended down -6.5% for the month. We sold our position taking profit and will wait for a better entry point. One major positive in the results was the strong and growing mobile engagement now registering 42% of revenue contribution. That said, investors clearly preferred to focus their concerns on the margin pressure. It is the short sighted nature of markets that fails to grasp that it is a critical time to attract and keep mobile users. In late December, the China Mobile management significantly raised their 2015 4G subscriber target from 110m to 170m. Their data had shown that the 4G subscriber numbers for November were 50% above the 3 month average. Here is the evidence that the adoption of 4G in China is accelerating faster than anyone expected. If there was ever a time to spend on sales and marketing and attract and keep new customers - sacrificing margin in the short term - it is now. In the coming months we expect investors to refocus on the user growth, mobile monetisation and the several new initiatives that will driver revenue growth in the quarters ahead. The heavily owned China internet sector has come under intense pressure this month. There are several companies whose results or news releases have disappointed the high expectations and have fallen sharply. Others have had their credibility questioned. Baidu is clearly amongst the best in class and we are targeting a more attractive re-entry level.

Looking forward and as we progress through the earnings season, Asian companies face the headwinds of worse than expected economic data with volatile currency and commodity moves. For the investor, the potential of policy change at both macro and sector level will make for erratic times. Many of our holdings have strong balance sheets, several with net cash and although not directly benefiting from the interest rate cuts we remain confident that they are good businesses. We will continue in our strategy of focusing on structural growth stories and companies exhibiting clear value with catalyst.

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