

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

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron A (“NFA”)	1073.0489	↑ 5.02%	↑ 5.11%	↑ 7.92%

Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	+2.26	-2.12	+5.02										+5.11
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\$130 million

Dealing Monthly

Administrator & Custodian DBS Bank Ltd.,
Hong Kong Branch

Auditor Ernst & Young Limited

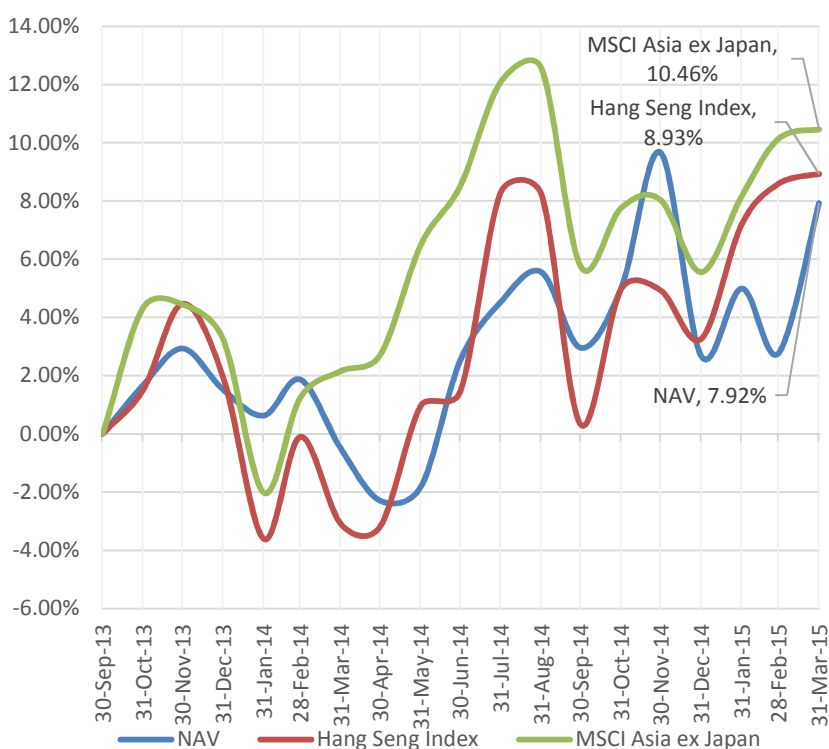
Directors Vincent Leung
Patrick Harrigan (Independent)
Sean Flynn (Independent)

Portfolio Manager Jonathan Garrick
jonathan@bricneutron.com

Management Fee 1.5% p.a.

Performance Fee 15% of profits above hurdle

Neutron A - performance since commencement of investment



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



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In March the fund gained +5.02% net of fees. In contrast The Hang Seng Index rose +0.31% and the HSCEI rose +1.31%. The NAV was 1073.0489 as of March 31st. We are now +5.11% year to date.

For the portfolio, the majority of long positions provided a positive contribution in March. In a reversal from February's performance, our travel/transportation companies and internet names produced the main boost to the portfolio whilst China Mobile (941 HK) gave back the gains from the previous month. Our mid-caps were mixed, but the gains out weighted the declines and our short positions were a slight detraction on performance. With regards to rotation, by the end of the month we sold out of five existing positions and added three new companies all of which made a positive contribution.

We have long had exposure to the structural growth story of China's travel industry. We have previously mentioned our long time holding in Travelsky (696 HK) in this regard which gained +6.9% over the month. However, another of our holdings China Southern Airlines (1055 HK), reported operational data in March that provided further evidence to support this theme. One particular highlight was the strong growth in the international segment where the RPK (Revenue Passenger Kilometer) grew +20.2% yoy and average passenger load factor reached a 5 year high of 70.4%. The lower than expected operating costs, mostly from lower jet fuel, also helped to fatten the margins. Going forward, CSA will expand its fleet and is planning a +7.2% increase in passenger capacity in 2015. What was interesting to us was that the company was trading at an inexpensive 0.7x price to book heading in to a sweet spot of positive news drivers; Demand is growing, revenues are surging, the operating costs are less than expected and the oil price now looks to be holding at lower levels for longer. According to Bloomberg, the average price for the WTI generic contract for the first 3 months of the year is \$48.57. Analysts have average oil price assumptions for 2015 substantially higher than this. That said, not all of this is lower oil price flows through to the bottom line as prices adjust and there is the negative headwind of the rising dollar. Nevertheless, investors have now appreciated that the positives far outweigh the negatives. The good news for the portfolio was that the stock gained +40% in March as the company quickly re-rated to a more positive above price to book valuation.

Another significant positive contribution came from our long time holding in online games company, Netdragon (777 HK) which surged +29% over the month. They also reported results and despite better than expected revenue growth, they missed profit forecasts due to higher operating expenses incurred by the new online education business (BAE). The initial reaction was for some analysts to slash earnings expectations. They see this new venture as a drain on the business which will take too long to bear fruit - if at all. They assume no value for BAE and discount the cash holding. Initially, some scepticism may be justified. We have visited the company a couple of times in recent months and although they mention that they are using part of the substantial cash pile to invest in this business, hard information on the new venture was sparse. There was nothing to show and no details of the future plans. That said, eyebrows were raised after Series A funding round for BAE was completed and valued the company at US\$477.5m (ND's 70.16% stake theoretically worth US\$314m). It was on the company's conference call that they elaborated further on their ambitious plans and listeners were given the impression that this was going to be a business of significant size and scale with a technological advantage. Investors are beginning to appreciate this. In addition, their online games business is growing well driven by the strong performance of Eudemons online and Calibur of Spirit. With large proportion of the market cap in cash and a track record of building and selling industry leading technology companies – ND sold app store 91 Wireless to Baidu for US\$1.85bn in 2013. ND had 57.41% stake. We feel that investors are under appreciating the intrinsic value and future growth of this company.

Interestingly, the recent sharp price moves and renewed interest in the HK/China shares may seem excessive, however, these stocks have long been in discarded by international investors in favour of the more liquid markets with a tail wind of monetary loosening. It is worth noting that valuations still remain comfortably below the 10 year average. At the end of March, the Hang Seng index traded at around 10x p/e vs a 10 year average of 12.9x (high 22.9x, low 8.03x). The China shares, HSCEI traded around 8.8x p/e vs 10 year average of 12.9x (high 31x, low 7.07x). That is even more surprising when compared to global stock market p/es that trade at the higher end of the valuation range; S&P at 18x p/e vs 10 year average 16x and EuroStoxx at 22x p/e vs 10 year average of 15.3x. Whilst HK has bounced off lows and attracting attention it is also undoubtedly benefiting from the overflow of the meteoric rise in the Shanghai Composite which is up a further +24.7% in 2015. The A/H share valuation premium is still substantial, but now narrowing at pace. Whilst the economic data remains uninspiring, we sense more opportunity in the significant re-rating of valuations in many of our holdings. We will continue in our strategy of focusing on structural growth stories and companies exhibiting clear value with catalyst.



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