

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

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron A (“NFA”)	1223.8081	↑ 0.41 %	↑ 19.88%	↑ 23.09%

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	+13.59	+0.41								+19.88
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*											Neutron A		
2013	+11.98	+1.76	+2.87	+6.79	+9.71	-7.19	+2.83	-1.79	+2.08				+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\$147 million

Dealing Monthly

Administrator & Custodian DBS Bank Ltd.,
Hong Kong Branch

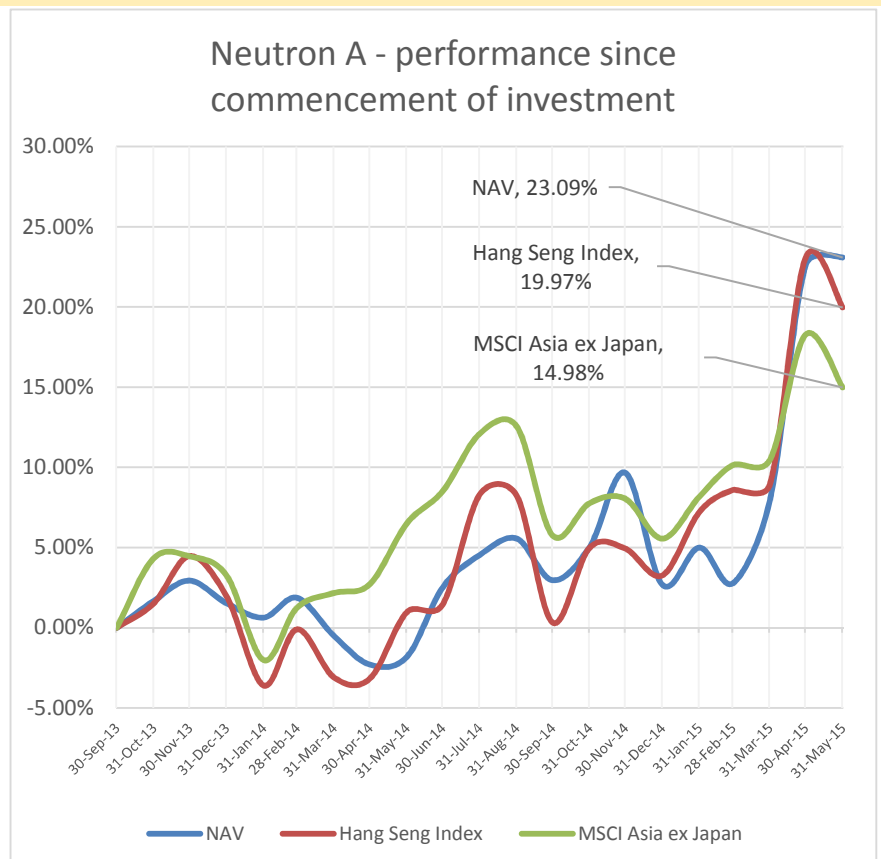
Auditor Ernst & Young Limited

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 gained +0.41 % net of fees in May. The NAV was 1,223.8081 as of May 31st. In comparison the Hang Seng index fell -2.52% and the HSCEI fell -2.27%

May started by taking back some of the hefty gains from April. The Chinese markets suffering at the hands of the short term liquidity drains for Chinese IPOs or margin finance restrictions. Investors are becoming accustomed to the new era of volatility and by the end of the month many shares prices had recovered most of their earlier losses.

For the portfolio, May was a decidedly mixed month after the strong gains in April. That said, the individual price moves continued to be oversized. Our Travel/Transportation names eased back after the strong surge previously and were the main detractor on performance. Despite this, our Internet holdings continued their solid gains with positive news flow and growth intensifying. On the short side we ended the month with one single name short and managed the exposure using index futures. With regards rotation, we exited six of our holdings whilst initiating on six new names.

Our long time holding, Netease (NTES US) reported encouraging Q1 results on May 14th that beat the street forecast on both top and bottom lines. Revenue grew +55% yoy and earnings rose +20% yoy with all three business lines registering strong growth: gaming +45%, advertising +35% and ecommerce +275%. Further encouragement was given by the growth in the mobile games business which surged +50% QoQ to now contribute 20% of all gaming revenue. The business outlook continues to shine as the mobile blockbuster, Fantasy Westward Journey (FWJ) has topped China's iOs app store by daily grossing since its release in late March. For the larger PC games segment the growth is almost certainly going to be back-end loaded with two major titles to be released in late 2Q. NTES did not provide 2Q guidance, but these results and the success in the mobile segment sparked analysts to raise their target prices. In our February newsletter after the 4Q results, we mentioned that many of the upcoming games are not factored into analyst's numbers. To a large extent that remains the case and we are increasingly confident in the company's strong pipeline. In addition, NTES announced in late May an exclusive mobile and online publishing partnership for Chronoblade. This is the US company nWay's free to play multiplayer game. Massive news for gamers, but for old school investors and analysts, not so much. What is clearly underappreciated is that effective distribution in the Chinese market is essential to Western game developers. nWay CEO said 'Netease is the number one company in China for core games on mobile and we're truly excited to work with them.' With Activision (ATVI US) already a long time partner, Netease's position continues to strengthen. With 17% of the market cap in cash, strong cash flow and a bumper pipeline the clear structural growth story remains firmly intact.

Citic Telecom (1883 HK) is a holding that has performed well since our initial purchase in March. Interestingly, we have owned this name before in 2013 when it acquired Macau's telecom operator, Companhia de Telecomunicacoes de Macau, which now account for c80% of CT's ebitda. As our readers will know we like the 4G growth story, but this time our interest was aroused by the signing of an MOU with the parent of China Express Networks (CENC). This company owns two valuable assets: a basic telecom licence and a 32,000 km fibre optic network. If the transaction completes, CT's market and potential business will grow substantially. It will be only the 4th company permitted to sell internet bandwidth in China where demand for quality



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bandwidth is strong. Investors have been gradually pricing in the likelihood of this deal. With solid, growing telecom assets as the intrinsic value, this deal provides a significant upcoming catalyst. Our position gained over 40% since initiating.

Following on from last month's update, Fosun International (656 HK) raised HK\$9.3bn (US\$1.2bn) through equity placement. The deal caught the headlines due to some high profile investors including Tencent's Pony Ma and Alibaba's Jack Ma. With internet finance in its embryonic phase, some suggest that aligning the interests of the main protagonists should be a solid strategy going forward. The company deal flow continues. Earlier in the month it acquired the remaining 80% of US insurer, Ironshore that it does not own already for US\$1.84bn. Insurance now accounts for around 35% of assets and more acquisitions are expected. In addition, the progress of another catalyst, the Shenzhen listing of Focus Media (27% stake) is gathering momentum. According to a May 20th filing, Shanghai Zhezhong Group (002346 CH) announced they will purchase a 0.3333% interest at a consideration of RMB150m. The price implies a valuation of RMB45bn (US\$ 7.25bn) for Focus Media. This seems to be a friends and family pre IPO price, but nevertheless nearly double the US\$3.7bn acquisition valuation that many hold in their NAV. We expect more headlines and a pipeline of catalysts ahead. The stock gained +3% in the month.

This month provided a breather from the hefty gains in April. However, the continued oversized price volatility forewarns that investors are in for a rough ride in HK/Chinese equities. For Hong Kong, the surprising factor continues to be the widening of the A/H share spreads. The China A shares are driven ever higher by a retail base confident that Chinese government policy will be there to support the market. Loosening measures in property, a rate cutting cycle, able liquidity, reforms and restructuring all over-ride the concerns on valuations and economic data. In contrast, the international investor and the HK market are not buying this. Valuations on the Hang Seng Index are still below the 10 year P/E average of 12.8x. One plausible reason is that the A share market offers an ocean of liquidity and foreign ownership levels are tiny. Daily trading volumes have soared and regularly top US\$300bn which is now in excess of the US market. It is this liquidity that the large investment funds need and demand. To illustrate the point, let us look at a relatively liquid holding of ours, China Southern Airlines (1055 HK). So far this year, the average daily turnover in HK is HK\$166m (US\$21m). In Shanghai, the A share listed company (600029 CH) has an average daily turnover of HK\$1,986m (US\$256m) – nearly 12 times the liquidity. For that liquidity, investors are paying an 83% premium. That has risen from the recent average of 55%. We do not have the good problem of having to invest billions of dollars, but are mindful of the forces in the market. As such we will continue to concentrate on our strategy of focusing on structural growth stories and companies exhibiting clear value with catalyst.



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