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

NAV& Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron A (“**NFA**”)	1171.0052	↓ 4.31 %	↑ 14.71%	↑ 17.78%

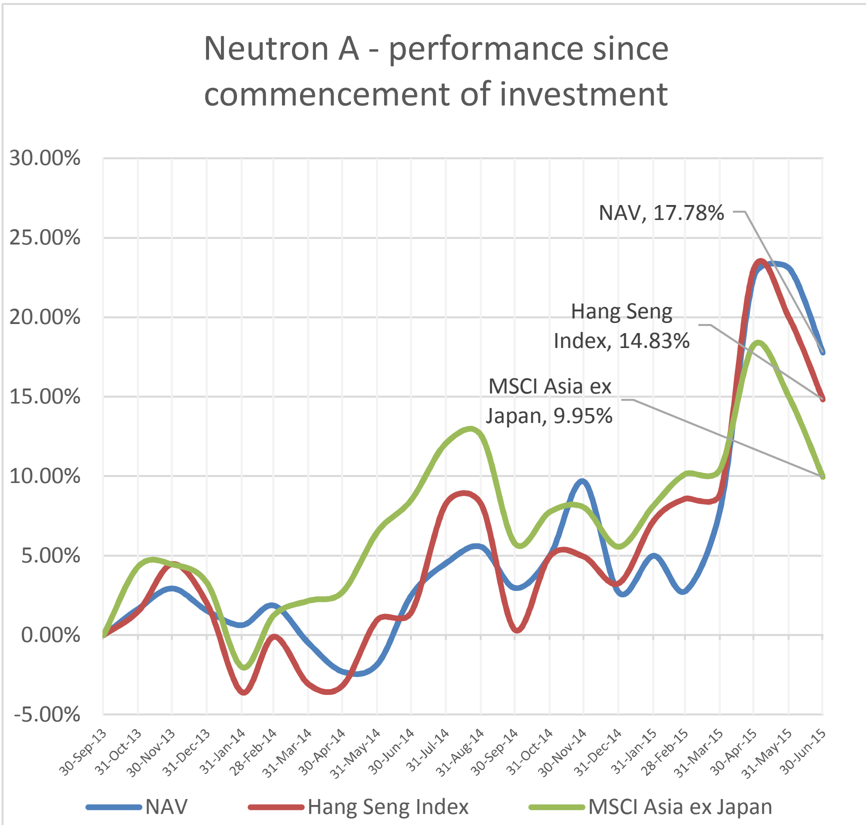
Historical Net Monthly Returns

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	-4.31							**+14.71**
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$141 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 lost -4.31% net of fees in June. The NAV was 1171.0052 as of June 30th. In comparison the Hang Seng index fell -4.28% and the H share index dived -7.96%. The fund remains up +14.71% year to date.

The sell-off in China shares intensified in June. The high level of margin lending sparked aggressive selling on the Shanghai Composite Index which fell -7.24% over the month and this panic overflowed into the HK listed names. Stocks popular with southbound investors were hardest hit, especially small and mid-caps.

For the portfolio, June was a disappointing month. All but one of our long positions made a negative contribution. The remaining one was flat. Our short positions that included some large cap single stock names, but primarily index futures did make a positive contribution. However, this did not compensate for the oversized falls in some individual names and it was our mid-caps that bore the brunt of the negative attribution. The recent strong performers including our Travel/Transportation names weighed disproportionally on the portfolio. On the other hand, our internet names, although reduced in number, held up well and were only just in negative territory. With regards to rotation, nine positions were exited and three new companies added. Both gross and net exposure was notably reduced.

In the majority of our previous newsletters we have focused on the positive contributors. For this month we will highlight where we have lost performance and analyse the companies involved.

A major negative contributor was APT Satellite (1045 HK, mkt cap U$827m). This is a company we are familiar with and have held since inception. It had been performing well this year gaining +33% ytd. Ironically, the stock price hit a high of HK$9.69 on June 1st. The management had recently given a positive update that the industry pricing will stabilize in 2H15 and transponder utilization should remain firm. As for growth, the pre marketing for new satellite, Apstar9 is going well and management sees a high utilisation rate at the scheduled launch in 4Q15. Revenue and earnings will accelerate in 2016 and future capex plans can be sufficiently funded by its net cash position of about HK$650m and strong operational cash flow of around HK$800m going forward. Normally, this business is considered more defensive with visible, stable earnings. Our investment case saw notable value in the company as it is trading at significant discounts to global peers and has clear growth catalysts. That said, the stock is illiquid with average daily value of only U$1.6m. This is the issue. The company has been hit by an aggressive sell off, pushing the stock price down -24% over the month. The company now trades at 10x p/e, net cash and with earnings expected to accelerate. For industry comparisons, it trades on an EV/Ebitda of 6x vs 10x for global peers. Clearly, there is the risk of Apstar 9 launch failure or new aggressive price competition. However, it seems the company has been punished by indiscriminate selling or a substantial holder rapidly exiting the position in an illiquid stock. We did lighten up our holding early in the month, but would expect this company to rebound once the panic is over and analysts start using the 2016 numbers in their forecasts.

Our long time holding, Travelsky Tech (696 HK, market cap U$3.7bn) weighed heavily on the portfolio by falling -15% over the month. The company has strong competitive position as the dominant provider of IT solutions and back end services, such as ticketing for the airline industry in China. The 3 main airlines are significant shareholders, it has zero debt and a net cash position ~Rmb 4.5bn (US$ 719m, 19% of mkt cap). They are a stable play on the flourishing travel industry in China. Essentially, they clip a small fee on every ticket or cargo movement. They also increasingly provide value added services which are growing rapidly. Their earnings history and cash generation is solid. They produce monthly operating data that show an accelerating trend with the fastest growing area being the higher margin foreign carriers. Year to date the share price has been a star and jumped +68% in April alone. It is not that illiquid with an average daily trading value of U$19m, however, it has since been hurt by the China small/mid-cap sell off and a reduction in holdings by a major shareholder. In recent years, the company has been on a significant build out of operations with the entire capex internally funded. The capex will taper off in the years ahead leaving a significantly bigger operation with better returns. We remain comfortable that this solid company has a dominant and sustainable competitive position in a structural growth industry.

During this time of market turmoil, it is necessary to stress each company's investment case. We look at the risk to company's earnings, competitive position and valuation multiple. Clearly, the valuation multiple can compress to trough levels and trade relative to a falling market. However, on this occasion it seems that we are suffering from a vicious market repositioning after extremely high levels of leverage on the Shanghai market. As the market fell, margin calls ensued and stocks reached limit down – which means you cannot sell until a buyer appears. From here it becomes a more serious liquidity issue and investors have to frantically sell what they can. The losses on leveraged positions can be brutal and a sharply declining stock market shatters confidence. We are cognizant of our positioning in the market and have made adjustments. Although, this predicament may persist in the coming months, we remain confident that the structural growth industries in China will continue to develop. Value will emerge from this crisis as good companies are thrown out with the bad. We see clear cut opportunities in the structural growth stories and companies exhibiting value with catalyst. We are glad to report new inflows into the fund.

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