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

NAV& Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron A ("**NFA**")	1108.6444	↓ 5.33 %	↑ 8.60%	↑ 11.50%

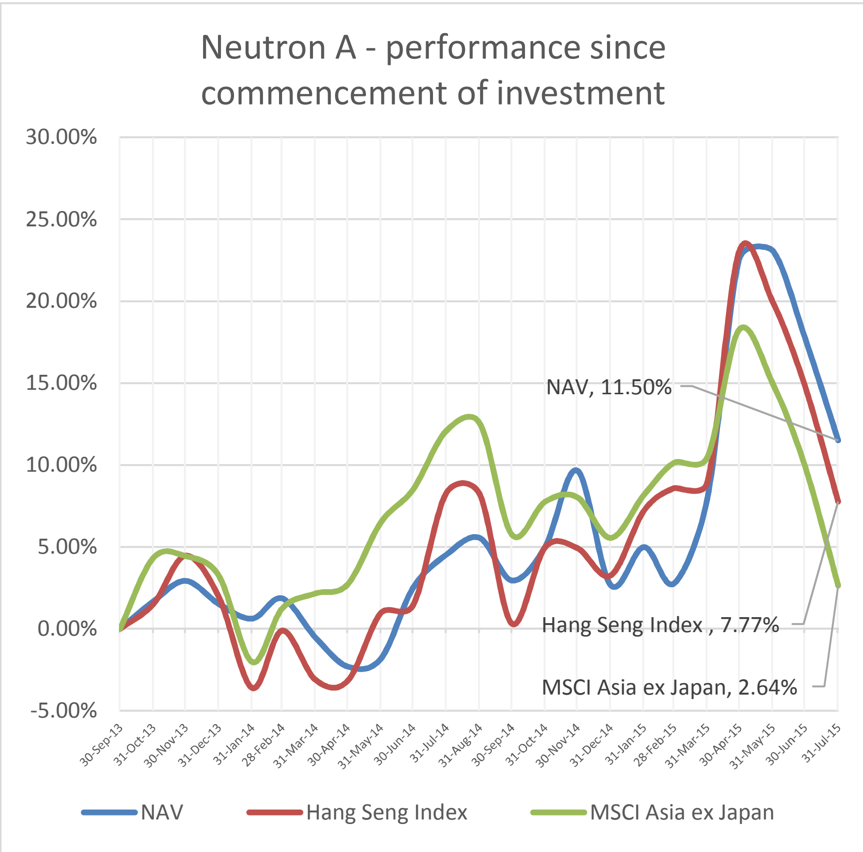
Historical Net Monthly Returns

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	-5.33						**+8.60**
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$157 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

The fund lost -5.33% net of fees in July. The NAV now stands at 1108.6444 as of July 31st. Over the month, the Hang Seng index fell -6.15% and the H share index dived -14.25%. The fund remains up +8.60% year to date. In comparison, year to date the Hang Seng is up +4.37% and the HSCEI down -7.12%.

It has been an incredible and historic period in HK & China equity markets. On June 12th the Shanghai Composite hit a seven year high of 5178. Chinese domestic investors were in a buying frenzy spurred on by government policies of reform and liberalization together with easy access to sizeable leverage and an unwavering belief that the market will keep rising. However, one week later the index had fallen -13% and by July 8th had fallen -30%. To stem the panic, more than half of China's 2,808 listed companies suspended trading. The government banned large shareholders and executives from selling shares and ordered a quickly assembled 'National Team' to buy stocks. The world watched the unprecedented events unfold. In reality, the losses are overwhelmingly a domestic affair with only an estimated 1.7% owned by foreign investors. Where international investors felt the pain was in the Hong Kong listed stocks. In HK, there had been no real market frenzy and the valuations were already significantly discounted to trade at more sober and realistic levels. That said, there was no government support or limit down either. So when Shanghai stocks were suspended or traded limit down the money was frozen and it became a more serious liquidity issue. Now investors had to sell what they can. As a result, it was the HK listed shares that saw the selling intensify. The HSCEI fell -26% from the peak in late May. Small and midcap companies that had risen on the HK-Shanghai connect dived dramatically as liquidity dried up on panic selling from retailers facing margin calls.

Although the excessive leverage and valuations grabbed the headlines, it must not be overlooked that the economic data was clearly accelerating to the downside. The PMI is declining at a faster rate and many other data points such as electricity production and car sales all point to a sharp slowdown. As sales dry up, the ability to service debt will be severely weakened. The repercussions of a stock market crash have yet to unfold, but expect consumer confidence and spending to be hit hard.

For the portfolio, July was another disappointing month. Not least because our lower exposure, rotation into more defensive names and increased in short positions did not provide any reward. Three long positions made positive contributions, two remained flat, but nine holdings weighed heavily on performance. Our short positions in consumer, oil and gold names provided gains, but are notably smaller in size than our long positions and did not compensate for their poor performance. Our Travel/Transportation names again weighed heavily on the portfolio. Our outperforming internet holding also pushed lower at the end of the month. With regards rotation, four long positions were exited and four were added. Our short book increased comprising of index futures and four large cap stocks. Both gross and net exposure were further reduced.

As a sign of the times, a positive contributor was our short position in PetroChina (857 HK, mkt cap U$300bn). The recent macro events around the world has seen the Brent oil price break lower after stabilizing for two months at around U$65/bbl level. This contradicts the previously held consensus opinion of a rebound to notably higher oil prices in the second half of 2015. For PetroChina, the Q1 results saw a -82% decline in EPS to Rmb 0.03 (vs Rmb 0.19 in 1Q14) due to the lower oil prices. Full year consensus EPS remains at Rmb 0.323 and although many expect a 2Q15 numbers (Aug 26th) to improve due to inventory gains, the outlook remains distinctly bleak. In the 1H15 the Brent oil price averaged U$58/bbl and at the end of July the price had actually pushed lower at U$52.21/bbl. In addition to this the NDRC is expected to cut gas prices with a similar effect on the company's earnings sensitivity. Analysts are scrambling to cut earnings and adjust down their Brent oil forecasts. Even the lowest major analyst on the street has Brent at U$58/bbl and U$63/bbl for FY15/16 making his target price of HK$6.80. His FY15 EPS forecast is Rmb0.25 vs consensus 0.323. On his EPS forecast PetroChina is trading on around 19x p/e against a 5 year average of 11x. However, it is fair to say that even as earnings fall there is support from the price to book value. There is also the upside risk of government policy. That may be a merger, reorganisation or reform. The A share still trades at around 80% premium and is frequently used by the 'National Team' to help support the Shanghai index. That said, it is clear that consensus is factoring in much higher oil prices (both near and longer term), no significant cut in gas prices and a better economic environment. That is likely to change.

For investors, crises are a worrying time. If we look at Hong Kong and China markets today, it is clear that the valuations on the A shares remain excessive and the SHCOMP index remains curiously above its 200 day moving average. Government support, suspended stocks and selling restrictions have stabilized the market for now. Nonetheless, the valuations are unsustainable in the context of global equity markets. On the other hand, Hong Kong looks relatively cheap. The HSCEI now trades at 8x price to earnings, 1.13x price to book with a 3.7% dividend yield. The Hang Seng Index trades at 10.5x price to earnings, 1.31x price to book with a 3.4% dividend yield. Even more attractive when you consider the expensive Tencent (700 HK) is the second largest weighting at 9.7% has a price to book of around 11x. Be that as it may, it would be fair to say that this value premise was true last month and we have moved lower. We have not had any improvement in economic data points or policy change to cling on to. In fact, the economic and broad company data is worsening. Cheap stocks become cheaper and irrational moves weaken confidence and conviction. This predicament may persist in the coming months and we remain sensitive to that. The structural growth industries in China will continue to develop although at a slower pace and a cheaper price. Value will emerge from this crisis as good companies are thrown out with the bad. From crisis comes opportunity.

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