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

NAV & Returns

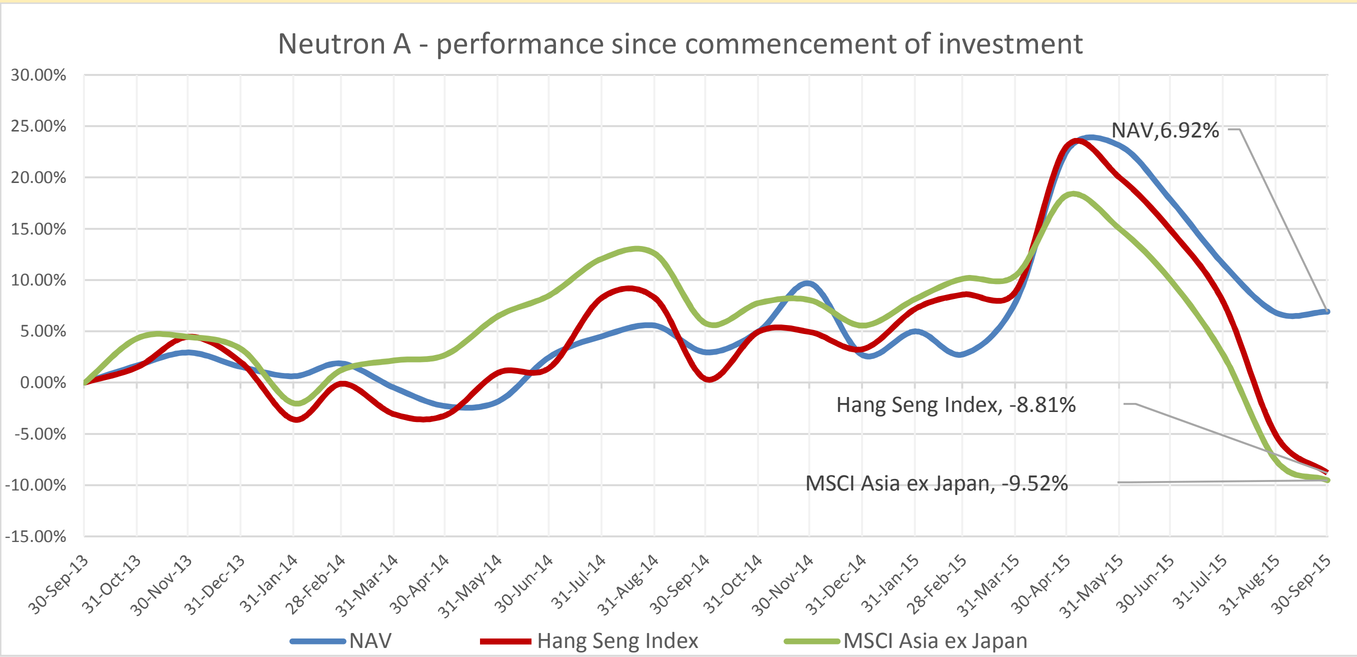
Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron A (“**NFA**”)	1063.0744	↑ 0.12 %	↑ 4.13%	↑ 6.92%

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	+13.59	+0.41	-4.31	-5.33	-4.22	+0.12				**+4.13**
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	+11.98	+1.76	+2.87	+6.79	+9.71	-7.19	+2.83	-1.79	+2.08*	+1.68	+1.24	-1.37	**+1.5 +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**

* Hall Park Capital, 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

Investment Objective	The investment objective of Neutron A 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$150 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

Despite the continuing slide for a third month in Asian equity markets, the fund gained +0.12% net of fees in September and the NAV stood at 1063.0744 as of September 30th.

In comparison, both the Hang Seng Index and HSCEI fell an additional -3.8% and -3.45% respectively. The fund remains up +4.13% year to date whereas the Hang Seng has now fallen -11.69% and the HSCEI is down -21.52% over the same period.

For global markets the main event in September was the Fed decision to keep rates on hold. From the words that followed, it seems the judgement hinged on the global uncertainties and benign inflation. Confusingly, the Fed seems to be taking on more data points from which to base their decision. Despite conflicting signals and differing opinions, rates are still expected to rise before the end of 2015. For China, the problems of debt, overcapacity and a slowing economy persist. Recent policy moves had been distinctly underwhelming. The economy is over producing and under consuming and effective policy measures should address these areas. Ahead of President Xi's visit to the US with a large business delegation there was some expectation of good news. The markets began to anticipate and at the end of the month there was a 50% cut in small vehicle purchasing tax followed days later by a reduction in mortgage down payment for first time buyers from 30% to 25%. Investors acknowledged these moves as notable and effective boosts to consumption.

For the portfolio, September saw our positioning start to take effect. We stopped the bleeding with relatively low exposure at the start of the month. Our defensive positioning in large liquid names with stable earnings together with a more active short book steadied the ship. On the long side, positive contributions came from our travel sector holdings which rebounded strongly as did our internet position which we increased over the month. Our two, new consumption names also made a positive contribution. Our short book performed satisfactorily with oil, materials and tech names adding to gains from our from futures positions. The bulk of the negative attribution came from our heavyweight holdings in Telecom names. With regards rotation we initiated four new, large cap companies and added to some existing holdings. We exited four names and covered the majority our single stock short positions by the end of the month. From a low base we substantially increased our gross and net exposure, however, we kept the long concentration to ten holdings.

One company in the consumer space that started to look interesting was Haier Electronics (1169 HK, mkt cap U$5.5bn). It has the number one market share in washing machine, refrigerators and water heater businesses in China. The first half results were weak and the slowdown in home appliance sales would hit the company hard. By the start of September the stock had dived over 50% from April highs. Valuations now stood at around 11x P/E (the 5 year average is 16.6x with a low of 9x) however, it now has around 30% of the market cap in cash. Although the outlook is not good, it's not diabolical either. On the post results conference call, management guided that washing machine and water heater sales would grow at 4-5% with gross margin upside in washing machines as new products were to be launched in 3Q15. Integrated Channel Services (ICS) sales would continue to be weak in 2H15 as the distribution business is yet to recover. That said, the company did guide for some second half improvements in distribution over the first half. Another positive was its logistics business growing at +44% with third party logistics surging +113%. This expansion brings further upside to logistics' gross margins as new business have margins around 14-16% which are significantly higher than appliance logistics at around 8%. So not that diabolical after all. Haier Electronics has a solid balance sheet, number one market share with a recognized brand name and extensive network. Historically, its return on equity has been in the mid-twenties or higher. This is not a bad company. We also expect further consumption boosting policies from the government. Investors are seemingly pricing in a sharp economic slowdown and further weakening consumer demand. This looks over done.

Towards the end of the month the government did provide a consumption boosting policy for the beaten down auto sector. The State Council cut small passenger vehicle (no bigger than 1.6L engine) purchase tax by half, from 10% to 5% effective from October 1st to the end of 2016. It also aimed to further implement favourable policies for new energy vehicles (NEV). A company in that beneficial sweet spot is BYD Co (1211 HK, mkt cap U$19.5bn). An estimated 60-70% of their vehicles sold are in the small vehicle category and has the leading position in electric vehicles. It has been a rough few months. Since June, the stock had suffered almost a 50% drop due to weakening consumer demand and eroding need for NEVs as the oil price collapsed. The decline was further intensified by a substantial short selling that left short interest of approximately U$350m at the end of September. With the market position so negative, the government tax cut policy was a significant catalyst. In addition, it has also alluded to an acceleration in electric vehicle charging infrastructure construction. All good news for BYD Co who have a pipeline of new EV models to come and have seen E-bus sales surge on Shenzhen's new purchase plan. The share price rebounded sharply +6.8% on the day of this news.

For investors, the vicious sell-off of the previous three months has been painful. Despite this, our strategy has maintained positive returns throughout the year. We have watched cheap stocks become cheaper and irrational price movements sparked by the heavy redemptions. This led the valuations of HK listed stocks to be the cheapest amongst the world's main stock markets by a notable margin. We recognized that both positioning and sentiment towards China had become bearish in the extreme. Value was emerging in companies with strong balance sheets and a sustainable competitive position. Overcapacity and debt are significant structural problems, but the growth of the Chinese consumer is real. Nike sales are up +30% yoy in China to U$886m. Uniqlo sees 'no impact' from the China slowdown. Tim Cook says iPhone sales are actually accelerating. He also added "I continue to believe that China represents an unprecedented opportunity over the longer term…. most importantly the growth of the middle class over the next several years will be huge." As investors, we employ a selective strategy. Avoid overcapacity, look for the under consumption and the structural growth. September was a pivotal point for the portfolio. We stopped reducing exposure and started adding it. We believe that value has emerged and opportunities are becoming available. Please contact us for further information.

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