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

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron A (“**NFA**”)	1117.6681	↑ 5.14%	↑ 9.48%	↑ 12.41%

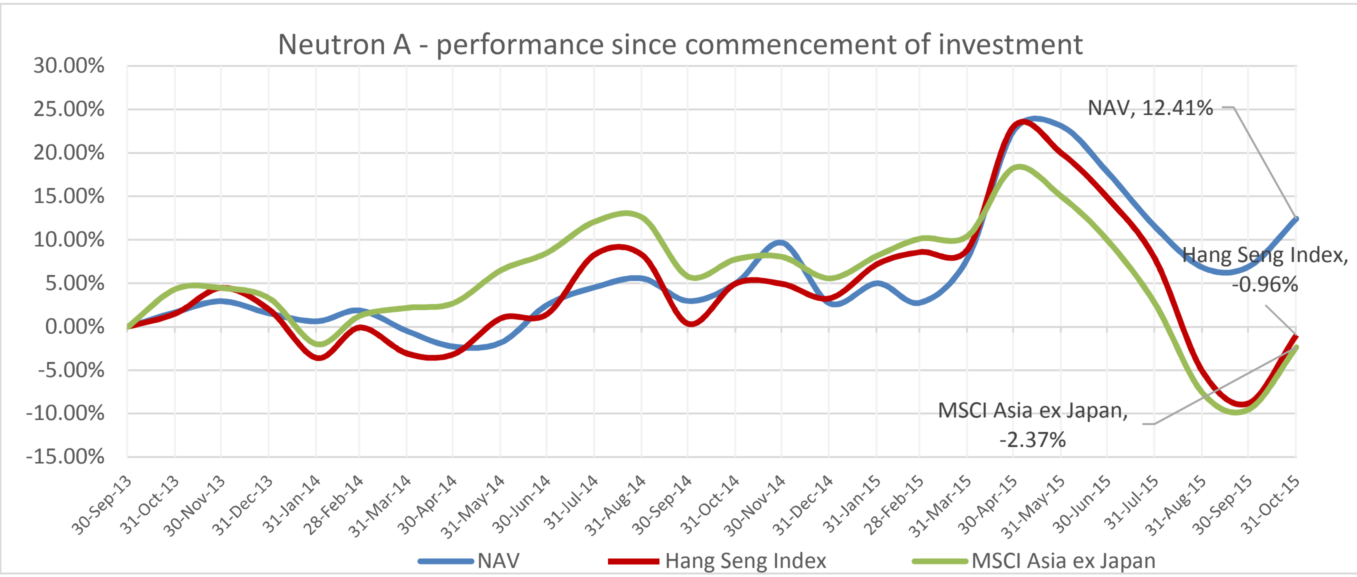
Historical Net Monthly Returns

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	+5.14			**+9.48**
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	**+1.52** **+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

Fund Information

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$158 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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In October, the fund gained +5.14% net of fees to leave the NAV standing at 1117.6681 as of October 31st. The fund remains up +9.48% year to date whilst in comparison, the Hang Seng Index and HSCEI are down -4.09% and -13.25% respectively over the same period.

For global markets, China continued to make the headlines this month. Persistent concerns over slowing growth and a series of discouraging economic data releases saw the Chinese government step up their monetary easing policies. On Friday October 23rd, the PBOC cut interest rates for the sixth time in less than twelve months. They also reduced the Reserve Requirement Ratio (RRR) by 50bps to 17.5% for their main lenders. The market euphoria was short lived. Monetary easing alone has not been enough to stimulate demand the world's second largest economy. Investors are anxiously waiting for further tangible polices to address over-producing and under-consuming. All eyes were on the release of China's 13th 5 year plan from the Fifth Plenary session which presents social and economic goals and reforms. The boldest policy move to boost consumption was the abolition of the one child policy to now permit all Chinese couples to have a second child. This is in addition to more targeted directives such as the tax cut for small vehicles and reduction in mortgage down payment for first time buyers. There is no doubting the Chinese government's determination to raise consumption. Investors should anticipate more policies in the near future.

For the portfolio, October brought a sharp rebound in several companies' share prices. On the long side, exposure had been notably increased with now eleven holdings making a positive contribution whilst five companies detracted from performance. The bulk of the positive attribution came from our internet names, our midcaps and travel/tourism companies. On the short side, our single stock positions were markedly reduced and the index futures position weighed on the portfolio. With regards to rotation, we added seven new names and exited two existing holdings. The majority of the new initiations were related to domestic consumption and these made a positive contribution to performance. Both gross and net exposure was increased in October.

In our June newsletter, we highlighted two companies that were impacted by the disruption in markets during that period. This month, both companies have recovered and made a major positive contribution to the portfolio's performance. Firstly, APT Satellite (1045 HK, mkt cap U$920m) is a company that we are familiar with and have held since inception. It is in a structural growth industry yet its business model is considered defensive with stable, visible earnings. This month the stock price rebounded a healthy +14% and is now back into clear positive territory for us. The main catalyst for this was the successful launch on October 17th of the Apstar 9 satellite into its designated orbit. The new satellite has a total of 46 transponders that will increase APT's transponder capacity by 26%. Earlier in the year, management had guided that pricing would stablise in 2H15 and transponder utilization should remain firm. Previous concerns that the industry had seen a heavy, new supply had led to softer leasing rates and a weaker share price. However, going forward the supply pipeline schedule is set to ease off and so alleviate some pricing pressure. After the successful launch, revenue and earnings are set to accelerate in 2016. The future capex plans can be sufficiently funded by its net cash position of HK$626m and in excess of HK$700m of operating free cash flow every year over the next three years. There is also demand growth from the industry. Apstar 9's sophisticated Ku-band coverage reaches over a huge area from the East India Ocean to the West Pacific Ocean and can now offer inflight and maritime connectivity. This capability is attracting new customers. In terms of valuation, the company is trading on 12.5x P/E with net cash and accelerating earnings. For industry comparisons, it trades on a discounted 6x EV/EBITDA vs 9x for global peers. With the risk overhang of a successful launch now removed, we expect the valuation discount to narrow significantly. In addition, APT's market capitalisation is hovering just under U$1 billion. Once above that level we expected an upsurge in interest from investors and analysts. We have added to our position since June.

The other long time holding, Travelsky Tech (696 HK, market cap U$4.4bn) also rebounded a sharp +17.7% in October. The company has a strong, sustainable competitive position as the dominant provider of IT solutions and back end services for the airline industry. Essentially, they clip a small fee on every ticket or cargo movement. They also increasingly provide value added services which are growing rapidly. The three main domestic airlines are shareholders. Their earnings history and cash generation is solid. They have zero debt and a net cash position of ~ Rmb4.5bn. (U$709m, 16% of market cap). They produce monthly operating data that show an accelerating trend with the fastest growing area being the higher margin international business. The structural growth of China's travel industry remains robust despite the macro headwinds. The domestic airlines continue to buy more planes and fly to more destinations both domestically and abroad. They are also using more value added services. To manage this expansion, the company has been on a significant build out of operations with the entire capex budget internally funded. The capex cost will taper off in the years ahead leading to an acceleration in earnings and a bigger operation. The company remains largely under the radar with only one Japanese broker publishing research.

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For investors, October saw a rebound in many of the companies that suffered during the ferocious sell-off over the summer. As we mentioned at the time, investor positioning and sentiment towards China had become bearish in the extreme. Huge money out flows from heavy fund redemptions had accelerated into irrational selling. According to the Investment Association, Asian equity funds in August actually experienced their worst month on record for capital outflows. That is significant. Although there are serious structural problems in the economy, we believe this is the time to look quality companies with strong balance sheets and a sustainable competitive position. Value is emerging from this crisis. We maintain our selective strategy with a focus on structural growth and value with catalyst. We further increased our exposure over the month.

BRIC NEUTRON ASSET MANAGEMENT LIMITED 尚金資產管理有限公司

Investment Manager: BRIC Neutron Asset Management Limited
Tel: (852) 2810 5338 **Fax:** (852) 2810 5700
Address: Suite 3601, 36th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong