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

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron A (“**NFA**”)	1117.6762	↑ 0.001%	↑ 9.48%	↑ 12.41%

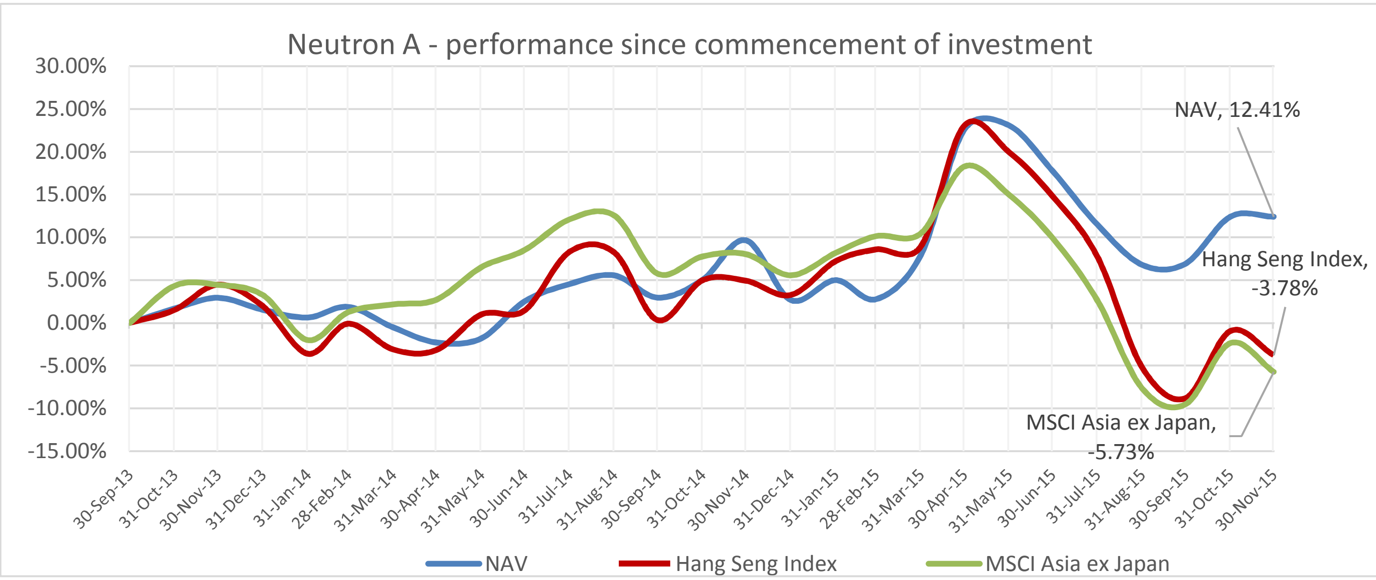
Historical Net Monthly Returns

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	+0.00		**+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 November the fund managed the smallest of gains rising +0.001% net of fees to leave the NAV at 1117.6762 as of November 30th. In comparison the Hang Seng Index fell -2.84% and the HSCEI dived -5.83% over the month. The fund remains up +9.48% year to date, whilst the Hang Seng Index and HSCEI are down -6.81% and -18.31% respectively over the same period.

For the portfolio, November showed wide dispersion with six long positions making a positive contribution and eleven holdings detracting from performance. On the short side, all our single stock positions performed well and the index futures positions helped to mitigate the losses from the long side. Broadly speaking, most positions lost money during the month and it was the chunky contribution from only three positions - an internet name, a travel company and a short resource company position that alleviated the wider weakness. With regards rotation it was an active month. We sold out of eight existing holdings and added back eight new positions. The majority of the new positions were in relatively defensive names with earnings visibility and solid balance sheets. Despite all the movement, both our gross and net exposure ended the month at the same level at which we started. There was little change in our top five positions as the structural growth themes seem to outperform during the cyclical weakness.

One of our strongest cases for structural growth company in China is online games company, Netease (NTES US, mkt cap U$22bn). This long time holding had stumbled over the summer on investor concern over the entry into a new E-commerce business. However, the company fully restored confidence with a strong set of 3Q results in November. Revenue surged +114% yoy and earnings grew +62% yoy, both exceeding the already lofty street expectations. All three business lines of online games, advertising and e-commerce saw strong revenue growth of +124%, +11% and +162% yoy respectively. What excited investors this time was the huge performance of the online games business with revenue surging +124% yoy and +43% qoq. This was mainly driven by the mobile games division where revenue increased +104% qoq and is now accounts for 53% of total games revenue. At this time, the company has over 50 mobile games titles and the current pipeline remains heavy and exciting. A strong outlook is well supported. As smartphone penetration and migration to 4G accelerates in China, Netease is increasing market share in clear, structural growth industry. Investors are beginning to appreciate the effective distribution platform and the quality and pull of its titles. Contrary to the prior concerns, Netease confirmed it is executing well in the mobile space. The company's cash generation is impressive at over U$1 billion per annum. It increased its quarterly dividend to U$0.67/share according to its 25% payout ratio. Net cash equates to ~U$31 per share and on valuation terms, it trades on 17x FY 16 (14x ex cash). Although the company has been a re–rated, the investment case remains compelling. Going forward, we expect further momentum and share price catalysts from games releases, resumption of lottery sales and strong E-commerce revenue growth. We have maintained our position in the stock.

The recent turmoil in the mainland stock markets appears to be normalizing. This month the CSRC announced that they would resume the IPOs in the China stock markets before the end of 2015. One company to that should benefit from this is Zhejiang Expressway (576 HK, market cap U$5bn). Before the suspension, Zheshang Securities, as 52% owned subsidiary of ZE, was expected to be listed this year. That situation had since been put on hold. The 3Q results this month placed the company back in the spotlight. They were a solid beat with net profit up +37% yoy and the 9m15 profit already accounting for 83% of the FY15 consensus. Both toll road revenue and securities business exceed expectations. Earlier in the year the company had disposed of 2 non-core operations, a maintenance company and a petroleum products JV. Both were low margin businesses with unsteady income streams. In addition, the company acquired an 80.6% stake in Zhejiang Hanghui Expressway from its parent for Rmb1.7bn which the management said has an equity IRR of 10.4%. This is a company seemingly doing the right things. That said, investors remain unimpressed. They are also adopting a wait and see approach to the valuation of the securities business. The current estimate, stripping out the toll roads valuation, is around 1.1x price to book. That looks conservative versus an average of 2.5x p/b for large A share listed brokers and a premium 3x p/b for mid-cap brokers. The company has other favourable factors when comparing with the sector. The brokerage revenue grew 60% in 3Q against a sector average of 42% growth and Zheshang Secs was less impacted by controversial losses from the trading accounts. On the whole, Zhejiang Expressway's current valuation of 12x FY16 with a solid balance sheet, steady free cash flow with a 4.3% dividend yield is compelling especially given the upside catalysts ahead.

As previously mentioned in last month's newsletter, fund outflows from Asia ex Japan have hit record levels with investor positioning and sentiment remaining bearish in the extreme. China's monetary easing and initial consumption boosting directives have done little to stimulate the broader economy and re-attracted foreign investors. Expectations of further devaluation in the currency increase the apprehension. In addition, market liquidity is drying up and is now significantly below the levels earlier in the year. As a consequence, valuations remain at trough levels and at a substantial discount to all the major world markets. We are cognizant of the serious structural problems in the economy especially in the over-capacity in the old, heavy industries. There will be no quick fix or sharp, broad rebound. Nonetheless, there are undoubtedly growth industries and quality companies that will thrive going forward. Our view is that value is emerging from this difficult environment and global investors will eventually return to the world's second largest economy. We maintain our selective strategy with a focus on structural growth and value with catalyst.

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