# *Neutron Fund Limited – Neutron A*
# *Monthly Newsletter (December 2015)*

## NAV & Returns

| Neutron Fund Limited | NAV/Share (HK$) | MoM | YTD | Since Investment |
|---|---|---|---|---|
| Neutron A# (“**NFA**”) | 1,138.1279 | ↑ 1.83% | ↑ 11.49% | ↑ 14.47% |

# Please note that as of January 1st 2016 the name of the fund has been modified to **Neutron Asia Absolute Return Fund.**

## 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 | +1.83 | **+11.49** |
| **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**<br>**+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

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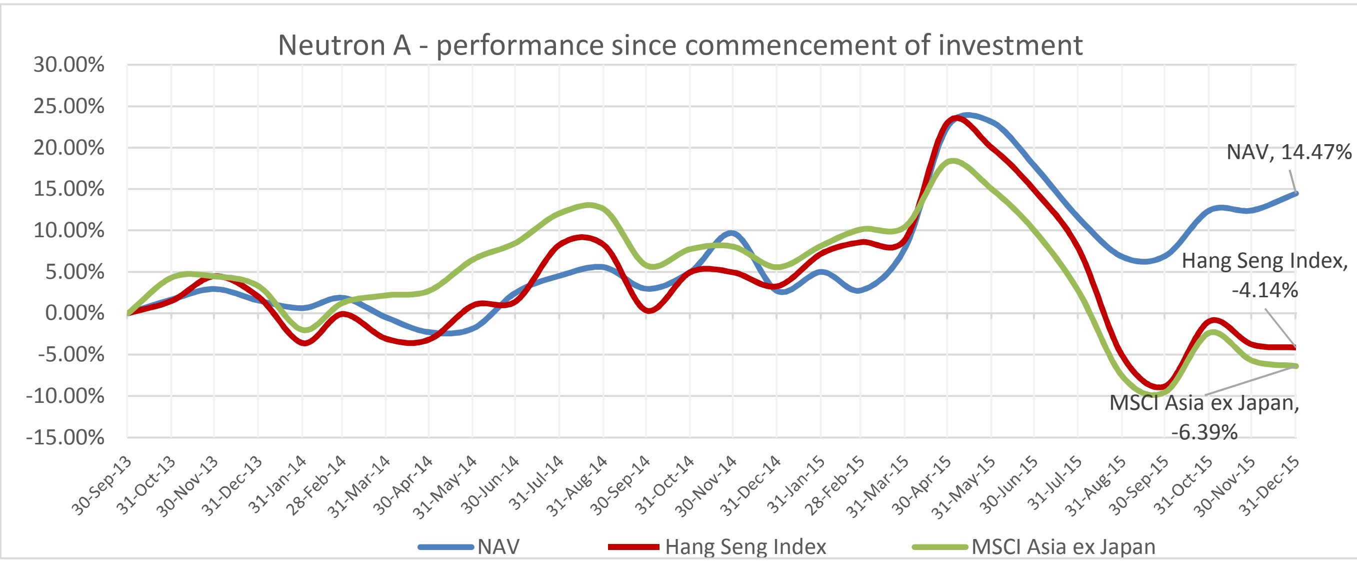
|---|---|---|---|
| **Investment Objective** | The investment objective of Neutron A is to focus on but not limited to Asia ex Japan and aims to generate positive returns in all market conditions. | | |
| **Investment Style** | It is a concentrated portfolio of stock picks employing a fundamental value 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$161 million | **Dealing** | Monthly |
| **Administrator & Custodian** | DBS Bank Ltd.,<br>Hong Kong Branch | **Auditor** | Ernst & Young Limited |
| **Directors** | Vincent Leung<br>Patrick Harrigan (Independent)<br>Sean Flynn (Independent) | **Portfolio Manager** | Jonathan Garrick<br>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 December the fund gained +1.83% net of fees to leave the NAV at 1138.1279 as of December 31st. In comparison, the Hang Seng fell -0.37% and the HSCEI weakened -1.32% over the month. For the full year 2015, the fund ended up +11.49% whilst the Hang Seng Index and HSCEI were down -7.16% and -19.39% respectively.

For the portfolio, December followed last month seeing a wide dispersion in the long book with ten names making a positive contribution and seven holdings detracting from performance. Despite the mix, it was the solid gains in four of our larger holdings - an internet name, a conglomerate, an asset injection story and a China consumption play – that produced the majority of the positive return. With regards portfolio rotation, it was a less active month as we sold out of one name, added four new positions and increased some of our existing holdings. Both the gross and the net exposure increased over the month to be notably higher than at the end of November. On the short side, we increased our single stocks exposure. All made a small, but positive contribution whilst our index futures positions detracted from the portfolio gains. There was little change in the top five names, however we increased the size of our holdings in three of them. All of our top five positions are in liquid names.

One of our value with catalyst holdings, Shenzhen Investment (SZI, 604 HK, mkt cap U$3.3bn) finally confirmed an accretive asset injection from their parent and at more favourable terms than we expected. SZI is a Chinese property company with the Shenzhen government as the controlling shareholder (60.7%). We met with the company and saw it has over 70% of its land bank value in Shenzhen and has gross margins around 34-38% which is higher than the sector average. Like other larger SOE developers, they are able to secure prime location development projects at lower cost. This asset injection confirms this premise and analysts estimate the gross margin on this project to be around 50% and to enhance the NAV by 4.7%. However, in contrast to the other SOE developers, SZI trades on a high 49% discount to NAV, 8x p/e, 5.2% yield with net gearing at a relatively conservative 59%. The issue maybe its smaller size and lack of coverage with only 2 mid-tier brokers covering them. Or perhaps it’s Shenzhen. For some international investors, Chinese property outside of Beijing or Shanghai bring up images of ghost cities and empty apartment blocks. Shenzhen is no ghost city. In fact, it’s booming. It’s been dubbed China’s Silicon Valley due to the numerous tech companies headquartered there. This year, the tech heavy Shenzhen Composite Index surged +63% versus a +9.4% rise in Shanghai. It’s a city with a growing, young population of over 10.6m. Importantly for SZI, Shenzhen property prices have risen in excess of 30% this year, the highest rate in China. SZI is well positioned and well connected. Expectations are for over 20% revenue CAGR in 2015-17 driven by a rapid increase in contract sales. Going forward, more injections are expected. The parent still holds 2million sqm of GFA land in Shenzhen and 0.3m sqm GFA in Nanjing. The company will grow bigger. At 49% discount to NAV, investors seem to be underappreciating the security of a state owned developer with over 70% of its land bank value in a booming Tier 1 city that is best performing property market in China. We expect as the company’s market cap increases the discount will narrow from 49% to around 30%. A significant upside potential.

Over the past year, we have gained conviction in our strategy to focus on structural growth industries and value with catalyst within Asia. That said, it’s been a rough ride. The markets have not been favourable. The powerful growth story of the Chinese economy has faltered and exposed the serious structural problems of over-capacity and under consumption. The outside world focusses on the index heavyweights – financials, oils and heavy industries – where the outlook is indeed grim. Economic reform has been much talked about, but progress has been underwhelming. Corruption and powerful vested interests are clearly hindering progress. Investors, both offshore and onshore, have less confidence that China’s monetary easing and policy directives can address the problems it faces. This is well illustrated recently by the disastrous introduction of new circuit breakers on the Shanghai Stock Exchange that sparked a panic sell off that spread around the world. Expectations of further devaluation in the currency has added to the volatility and apprehension. We have previously mentioned that investor positioning and sentiment was already bearish in the extreme. Given that this report is being written in the first week of January, that view has taken another leg lower. The cheap valuations have just moved even cheaper. Valuation multiples are compressing with momentum to the downside. The rough ride of 2015 looks set to continue, if not intensify in 2016. Nevertheless, our position remains that despite the significant macro headwinds, the structural growth industries – internet, travel, healthcare, education and consumption - will continue to develop unabated. Crisis will bring opportunity. The quality companies with strong balance sheets will thrive going forward. We maintain our selective strategy with a focus on structural growth and value with catalyst. We are pleased to report new inflows into the fund.

Please note that as of January 1st 2016 the name of the fund has been modified to **Neutron Asia Absolute Return Fund.**

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