

Neutron Asia Absolute Return Fund

Monthly Newsletter (September 2017)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("NFA")	1,312.6987	↑ 0.39%	↑ 19.36%	↑ 32.03%

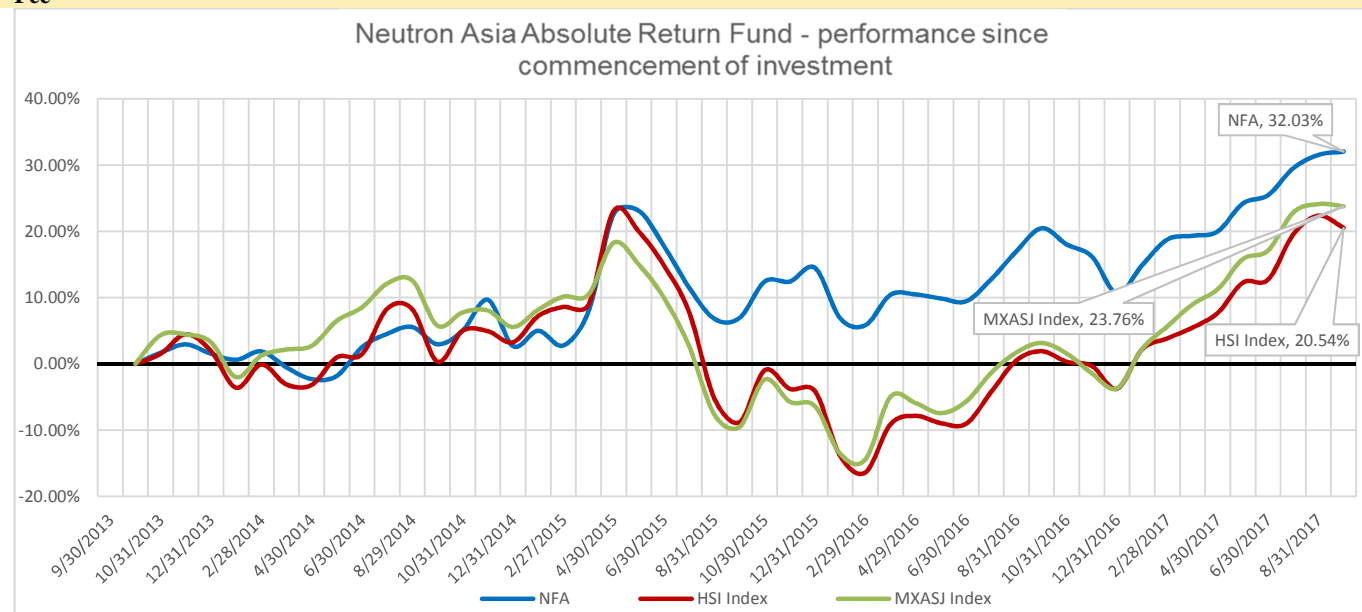
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	+3.86	+3.37	+0.47	+0.56	+3.51	+1.01	+3.23	+1.55	+0.39				+19.36
2016	-6.64	-0.96	+4.32	+0.04	-0.53	-0.39	+3.04	+3.73	+2.98	-2.03	-1.55	-4.79	-3.37
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	+31.39* +1.52
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 Asia Absolute Return Fund 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\$464 million Approx. US\$60 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 or website <http://neutronasiaabsolute.bricneutron.com/>



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In September, the fund gained +0.39% net of fees. The NAV is 1,312.6987 as of September 30th. As a consequence, the fund has gained +19.36% year to date.

For the portfolio, September provided some choppy price action yet our trading remained subdued. Our portfolio rotation meant that we initiated on two new long positions, one single stock short and sold out of three. With regards to performance attribution, we had an even split with ten long positions making a positive contribution, whilst the other ten detracted. On the plus side, the main gains were driven by our China internet plays and our travel sector holdings. On the down side, the main detractors were China industrial companies and some technology names. On the short side, we ended the month with a new single stock short position, whilst our index futures trades provided a small positive contribution to performance.

One solid contributor this month was YY Inc. (YY US, mkt cap US\$5.5bn) China's online live streaming platform that enables users to interact in live online groups. What is interesting is that China is the world leader in monetising live streaming and it is hard to find a western equivalent. There lies the opportunity. The company has had an eventful past including a non-binding privatisation proposal in 2015. That was eventually withdrawn in June 2016 sparking a dive in the share price. This year the company is undergoing a revamp. New management has been added and there is renewed vigour and purpose from one of the founders who has returned to the acting CEO role. Despite the turmoil and growing competition, YY has maintained its leadership due to the established platform and content. We met the new CFO to learn more. A visit to the website will show you YY live – the main revenue generator. It has similar layout to YouTube with a collection of video links to numerous genres with talent shows being the major constituent. In addition, they have a popular, dedicated video game live broadcasting platform called Huya. The platform model is driven by the use of guilds who are essentially agents promoting and providing their content. The audience sends virtual gifts to the content providers as revenue. YY shares between 20% to 50% of the revenues of the virtual items with broadcasters and guilds. This is a lucrative business and a win-win for all parties. In 2016, YY's live streaming revenues were over US\$1bn and in the first half this year it has already reached US\$645m. The CFO is confident that their product innovations and development of mobile are increasing the engagement and retention. A recent report stated the company had 66 million monthly active users for mobile live streaming and 5.7m quarterly paying users in 2Q17 - implying 27% and 26% yoy growth. 76% of paying users came from mobile devices. What is clear is that this platform is in resurgence with the shift to mobile. The guilds and broadcasters are highly incentivized to provide better content and ideas to generate revenue. The audience is growing and increasingly inclined to pay small amounts to be involved. As the scale increases, the operating leverage of the platform will improve. In spite of the strong growth in revenue (+35%) and earnings (+59%) with net cash on the balance sheet, analysts are designating that the company trades on a P/E multiple of 13-14x. This is the average forward P/E multiple since IPO in 2012. Investors must acknowledge that there is a checkered past and regulatory and competitive threats. Nonetheless, the consensus seems to dismiss the new development of mobile users, improved content and increased engagement. It is also overly punitive when compared to a China internet sector that regularly trades on P/E greater than 20x. We expect earnings to accelerate with further developments and innovation on the platform. We added to our position after our meeting with management.

Despite the mixed nature of the portfolio this month, we remain encouraged and constructive on equity markets in the region. Some investors may feel fatigued from the rally so far this year. One new headwind this month was the rebound of the US dollar after the Fed signaled rise in rates in December. Other macro-political events combined to undermined confidence. Be that as it may, we remain cautiously optimistic as valuations in our focus area remain relatively attractive and recent data points continue to improve. Looking ahead, we focus on the China's 19th party Congress beginning on October 18th. This is a significant event. President Xi will promote stability for the nation and lay out his vision for the next five years. Throughout the year we have highlighted the new economic and corporate reforms that have driven the markets higher. We expect this theme to be ongoing and intensify. On the whole, this should be a positive driver for many industries, however stiffer financial regulations and property curbs may mean a slower headline growth in GDP. The following month the President of the United States visits China. The headlines will no doubt be taken by the North Korean situation, however, both sides would like to produce some substantial trade agreements. These events will put China in the global spotlight. For investors, we still see persistent evidence that the positioning remains underweight and that any fund inflows will continue to support the market. The pick-up in Northbound turnover into China from Hong Kong is an interesting data point to monitor. The portfolio is positioned for this. We are confident in our selective strategy with a focus on structural growth and value with catalyst.



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