TANTALLON INDIA FUND

The Tantallon India Fund is a fundamental, long-biased, India-focused, total return opportunity fund, registered In the Cayman Islands and Mauritius. The Fund invests with a 3-5 year horizon, in a concentrated portfolio (25-30 unlevered positions), market cap/sector/capital structure agnostic, but with strong conviction on the structural opportunity, scalable business models, and in management's ability to execute.

Tantallon Capital Advisors, the advisory company, is a Singapore-based entity, set up in 2003, holding a Capital Markets Service License in Fund Management from the Monetary Authority of Singapore.

Performance, in USD

(*Inception on September 1, 2015*)

	Tantallon India Fund	MSCI India	Over/(Under)perf
November 2015:	-2.09%	-2.91%	+0.82%
2015 YTD:	-0.90%	-4.56%	+3.66%
2014:	nm	+24.4%	nm
Inception:	-0.90%	-2.86%	+1.96%

Compound Returns	-3.52%	Volatility	5.99%
3 month US T-bill	+0.21%	Sharpe Ratio	-6.22

November was a volatile month with the Tantallon India Fund down 2.1%, reflecting (a) the growing *angst with China's manufacturing and export data,* and (b) *central bankers signaling an increased unwillingness / inability to continue to underwrite leveraged 'risk.'* The cacophony of buzzwords and backward looking talking heads is numbing, and for most, quite frankly, paralyzing *(if only we had a dollar for every time we heard someone speak, ever so authoritatively, of Chinese 'melt-downs,'and 'global growth crisis,' 'crowded trades,' and 'collateral damage' from the Fed finally hiking…!).*

Keeping it simple: the visible green shoots would suggest that the growth upturn in India will be sustainable, of high quality, and with few(er) imbalances relative to history. Crude is trending at levels last seen in the dark days of February/March 2009; the markets are starting to price in a more muted and uncertain growth outlook; and *in a growth challenged world, India stands out* given improving macro and micro fundamentals, a nascent investment cycle, political pragmatism making a belated appearance, committing to facilitate sustained investment-driven growth, and importantly, companies poised to deliver on substantially above-trend growth in revenues, profitability, and cash flows.

A note on 'political pragmatism:' As we mentioned in the last update, we believe that the election setback in Bihar has been a 'good' wake-up call for Modi, the BJP, and their allies. In the past few weeks, Modi and an array of cabinet ministers have made concerted efforts to reach out to the Opposition on a host of proposed policy measures. It is completely unrealistic to expect sweeping reform packages to be passed in the current Parliamentary session; however, we would make the case that the aggregation of policy initiatives across multiple segments of the real economy will surprise positively on the upside. *We are particularly impressed with the renewed sense of urgency, and a focus on deliverables – something that the markets would seem to be under-appreciating at this point.*

The resilience of domestic fund flows does bear further mention: November saw another US$964m in net inflows into domestic mutual funds. *YTD, domestic mutual funds have bought $10.2bn of equities – the highest, on record, ever.*

FUND DETAILS
The Tantallon India Fund

AUM USD 14,000,000

Investment Advisor: Tantallon Capital	**Minimum Investment:** USD 5,000,000
Administrator: Trident Trust Company (Mauritius) Ltd	**Fees:** 1.5%pa Management fees 12.5% on annual returns in excess of 7.5% USD hurdle
Domicile: Mauritius	**Dealing:** Monthly
Feeder funds US Feeder and Non-US Feeder (Cayman Islands)	**Lawyers:** Maples & Calder; Shearman & Sterling LLP; Rajah & Tann Singapore LLP
Auditor: KPMG	**Contact:** Alex Hill (alex@tantalloncapital.com)

Our conviction is that we are at the start of a structural shift in household savings from physical to financial assets, with domestic retail investors looking to invest in marginal change. *With less than 3% of domestic household assets in equities, there is still a long way to go.*

On the Fund's exposure to generic pharmaceuticals: our conviction is clearly differentiated, and our positions reflect a view on industry consolidation globally, both on the buy side (hospitals, insurance, and distribution) and the sell side, and the ability of a handful of focused specialty and branded generic pharmaceutical businesses to take market share globally, to sustain growth (with limited-competition new product launches off-setting natural price erosion in their existing portfolios), and to command premium valuations. *We expect that we will continue to build our exposure to the sector.*

YEAR	RETURNS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	-0.90%												
2015	-0.90%									-0.14%	+1.36%	-2.09%	

The specialty and the branded generic pharmaceutical business globally has evolved over the last few years, from high volume, price-challenged me-2's with low entry barriers, to businesses with real moats: (1) significant and growing cost of product development and complex generic filings in niche therapy areas with limited competition; (2) the increasing costs and significance of maintaining stringent FDA compliance at all manufacturing locations; (3) adequate portfolio breadth complementing scale in specific therapeutic niches, are pre-requisite to compete for new revenue opportunities being tendered out within consolidating hospital and pharmacy chains; (4) the commitment to sustained physician out-reach and education on new product launches; and (5) the aspiration, and the balance sheet strength to commit to systematically developing a nascent, albeit highly uncertain, new molecule pipeline.

The key risks to flag: (1) full compliance with FDA norms is absolutely crucial; we expect that the FDA's scrutiny of Indian manufacturing sites will only intensify (FDA inspections of Indian manufacturing facilities have doubled over the past three years, in-line with Indian pharmaceuticals' share of the US generics market); the costs of full FDA compliance (and in particular, on automated data capture, reporting, and access controls), can only go up – creating entry barriers, and probably limiting irrational price competition; (2) volatility in reported revenues/earnings given the distribution footprint in Emerging Markets and the embedded exposure to EM currency volatility; (3) M&A risk – the path to building a specialty/branded generics business in the developed markets does require a thoughtful, valuation-disciplined acquisition strategy upfront, and significant people/financial resources to ensure successful integration.

We would like to highlight our holding in ***Natco Pharma***, an emerging specialty generics manufacturer tracking below the market's radar screen, and punching well above its weight. Natco is a company in transition from being an API manufacturer with a small, but very profitable domestic generic oncology portfolio, to being an R&D driven, complex generics manufacturer with a strong oncology and hepatitis B/C focused franchise, and a compelling, high potential new product launch pipeline in the US over the next 3 years. The near term catalyst, no question, is the Copaxone 20mg launch approval (in partnership with Mylan) in the US, in April 2016; but, we are just as enthused about its pipeline of complex generic launches including Tamiflu, Entocort, Tracleer, and Gleevec, as well as the licensed launch of Sovaldi across the Emerging Markets. It is not inconceivable that US$140m in revenues in FY2015, scales to close to US$400m+ in FY18e revenues, with profits growing 4x.

Reflecting on this past month's stock price movement, there's clearly been a re-set of expectations, and in particular for foreign investors, who seem to be finally internalizing the adage that 'in India, the shortest distance between two points is *never* a straight line!' Starved for big bang announcements, and with expectations having been disappointed, ***the market (valuations) now appears to be under-estimating the cumulative positive impacts of incremental reforms, fiscal consolidation, a disciplined central bank regime …and the tailwind from significantly lower crude prices.***

On a final note, from our families, to yours: Happy Holidays! Much Joy, Good Health, Peace, and a Prosperous New Year!

Portfolio Overview

Top 5 Positions
Natco Pharma Ltd
Bajaj Finance Ltd
ZEE Entertainment Enterprise
Kotak Mahindra Bank Ltd
Orient Cement Ltd

Sectoral Break-down:	As % NAV
Agriculture:	2%
Autos:	7%
Building Materials:	11%
Consumer Discretionary:	19%
Financials:	19%
Industrials:	16%
Infra Backbone:	12%
IT Services:	3%
Pharmaceuticals	11%

Sector Performance	MTD Performance
Agriculture:	-0.26%
Autos:	-0.51%
Building Materials:	-0.09%
Consumer Discretionary:	+0.14%
Financials:	-0.12%
Industrials:	-0.90%
Infra Backbone:	-0.20%
IT Services:	-0.06%
Pharmaceuticals:	-0.09%

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