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
September 2015:	-0.14%	-0.87%	0.73%
2015 YTD:	-0.14%	-2.61%	nm
2014:	nm	+24.4%	nm
Inception:	nm	-0.87%	nm

Compound Returns	nm	Volatility	nm
3 month US T-bill Returns	-0.01%	Sharpe Ratio	nm

FUND DETAILS
The Tantallon India Fund

AUM US$14mn

Investment Advisor: Tantallon Capital	**Minimum Investment:** USD 5,000,000
Administrator: Trident Trust Company (Mauritius) Ltd	**Fees:** 1.5%pa Management fees 7.5% on annual returns in excess of 7.5% USD hurdle for Founder shares
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)

The first month is in the books, and The Tantallon India Fund closed down -0.88% after accounting for the start-up expenses: relative calm on the surface, and hardly reflective of extremely volatile global markets. We have conviction that the current market volatility is giving us an opportunity to be buying into a high conviction portfolio at a time when expectations on the ground are rather subdued, with the rupee having trended lower in line with the regional currencies, with earnings yet to inflect higher off a cyclical trough, and where valuations are now anchored to much more realistic deliverables. We are happy to share with you that the portfolio is 90% invested; 65% of which is vested in stocks under US$2bn in market capitalization. Our key convictions on a 3 year+ view remain companies in the consumer discretionary space, private sector financials, light industrials, infrastructure and building materials, and pharmaceuticals.

I was in India last week, visiting regulators and companies in Delhi, Mumbai, and Bangalore. The focus was on 'revised' expectations of the Modi deliverables and the implications of a revival in domestic business confidence, the fallout for Emerging Markets and for commodities specifically from the slowdown in China, and on 'Fed-speak' and the implications for interest rates, global risk-premiums, and regional currencies.

On the macro specifically:

- We remain comfortable with our assumptions of ***GDP growth averaging 7.5% over the following 3 years*** on the back of infrastructure investments, an industrial recovery, and pent-up consumption.
- ***India is the big winner of lower energy and commodity prices,*** which, together with the government's demonstrated commitment to reining in subsidies, have helped anchor lower inflation prints (currently sub 5%), and significantly lower inflationary expectations.
- As we expected, ***the Reserve of India cut rates by 50bp,*** encouraged by the government's fiscal restraint, the improvement in the current account and the fiscal deficit, and the clear trends on falling inflation. *We expect the RBI to remain strongly supportive of a nascent investment cycle.*
- We believe the ***rupee trades in a band between Rs.63-Rs.70 / US$*** over the next 3 years, reflecting inflation differentials, and the policy intent to create sustainable export competitiveness.

The ***market feels starved for 'big-bang,' 'feel-good' announcements*** – disappointment over Modi's inability to push through the high-impact land acquisition and GST Bills, while corporate India remains reluctant to commit to big-ticket capital spending given lingering concerns on under-utilized domestic capacity, and concerns over Chinese capacity being 'dumped' on global markets.

- The ***country is in transition,*** and the bureaucrats and the corporate sector are still learning to calibrate the 'new normal,' i.e., clear policy targets, transparent bidding for contracts, and being held accountable.
- The ***rural slowdown*** (on the back of a poor monsoon season and the significant scaling back of subsidies) will be a short-term drag on consumption.
- The good news is that ***we are finally starting to see visible signs of government spending on roads, mass housing, and social infrastructure (schools and hospitals) as contracts are awarded.***

The negative take-away was that the ***genuine problem cases in the power sector and the commodities space, and by extension, in the books of the public sector banks, have yet to be resolved.***

- The *lack of depth beneath Modi, and in particular in the second rung*

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

of the bureaucracy, remains a concern (either because Modi continues to centralize all decision making, or because there is a genuine talent gap), and is a clear drag on the reform agenda.

- The *public sector banks are severely capital constrained,* and the RBI's prodding notwithstanding, it limits their ability to be decisive in acknowledging and providing for the 'walking dead.'

Shifting lenses to focus on the portfolio:

We did sell Motherson Sumi in the immediate aftermath of the VW scandal breaking, realizing a small loss, but with the stock still trading below our exit price, it does seem like the right thing to have done. Bottom-line, *we would like to own MSS again at some point* – MSS will continue to be a consolidator within the auto ancillary space thanks to their 'most-favored' relationships with the German and Japanese OEMs; management has demonstrated impressive discipline in acquiring and turning around distressed assets; the focus on profitability and the dividend payout will translate to sustainably high ROCE and earnings growth. That said, it is simply too soon to tell what the real damage to reputation and brand is for VW; the ongoing investigations and lawsuits will be a major distraction for the new VW management team, and will severely constrain their focus on protecting the R&D budget, and on new product design and launches – and worse, at a time when their China franchise seems particularly vulnerable. For MSS, there are no direct implications – they have nothing to do with diesel engines and faking emissions output data. Nevertheless, the VW group (VW, Audi, and Porsche) accounted for 45% of revenues for FY2015. A 10% drop in VW revenues will potentially impact earnings by 7%-8%, but given the risk of lower utilization rates for a period of time, and the FX headwinds amidst global currency volatility, margins will be under pressure for several quarters. Not the end of the world necessarily; but, obviously not good for a stock with very high embedded growth expectations.

The private sector financials – HDFC Bank, Kotak Bank, Bajaj Finance, and Max India – remain core convictions. The simple thesis is that (a) the public sector banks and financial institutions will remain capital-constrained and product-limited for the foreseeable future, and that (b) we expect that the high quality private financial institutions will continue to take market share on the back of compelling brand/product/technology/ service- orientation/product cross-sell dynamics. Our conviction is grounded in the significant investments that have already been made by the private sector to establish a core digital footprint allowing for targeted customer outreach and the methodical strengthening of the assets/liabilities franchise.

- India has 240m (20% of its population) in the 15-24 year old bracket. We expect that India's mobile banking penetration will increase 7-fold from 36m on-line accounts currently, to 250m+ on-line accounts by 2020 (and this, is in the current context of 500m+ 'brick and mortar' bank accounts, 935m mobile phone users, and 120m smartphone users), as the 3G/4G/LTE-enabled smartphones become more affordable, and the banks expand their mobile offerings to target the needs of this emerging, digital-savvy consumer.
- With improved mobile connectivity, the significant investments in data analytics and the cloud to create a seamless customer interface on savings and loans products, and superior products and productivity, the private sector banks and financial institutions will drive increased penetration and market share gains in semi-urban and rural India, without expensive brick-and-mortar infrastructure.
- We expect that the by 2020, on-line banking platforms will account for close to $500bn of the banks' balance sheets, 20%+ of profits, and 30%+ of incremental profits, anchoring our expectations of strong market share gains and loans growth for the private sector banks, improving underwriting standards and lower credit costs, rising fee income growth from cross-sell opportunities, ROAs sustainably at 2%+, with improving ROEs to trend in an 18%-20% band.

Reiterating our simple message from last month, given the structural opportunity we see in India on a 5 year+ view ***we want to take advantage of the current volatility, with the market having shed its post Modi-victory euphoria, and the rupee testing a two year low.***

- *Valuations are attractive on a 3-5 year* view on recovering earnings and cash flows.
- *India is the major global beneficiary of a structural contraction in Chinese demand* – in particular, depressed energy prices will be a significant tailwind for India.
- *Local investors believe, and are systematically getting invested.*

More specifically, ***over the next 5+ years, we would want to be invested in Indian financials, urbanization, industrialization, consumption, healthcare, e-commerce supply chains, infrastructure, and long-term savings pools.***

Please do let us know if you would like us to follow-up directly with you.

Portfolio Overview

Top 5 Positions	Sectoral Break-down:	As % NAV	Sector Performance	MTD Performance
Natco Pharma Ltd	Agriculture:	3%	Agriculture:	-0.95%
Asian Paint Ltd	Autos:	8%	Autos:	-3.76%
Bajaj Finance Ltd	Building Materials:	11%	Building Materials:	-0.55%
Kotak Mahindra Bank Ltd	Consumer Discretionary:	15%	Consumer Discretionary:	+0.83%
Glenmark Pharmaceuticals Ltd	Financials:	18%	Financials:	+2.43%
	Industrials:	16%	Industrials:	-2.47%
	Infra Backbone:	14%	Infra Backbone:	+1.11%
	IT Services:	3%	IT Services:	+0.52%
	Pharmaceuticals	12%	Pharmaceuticals:	+2.45%

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