TANTALLON CAPITAL

December 2017

THE TANTALLON FUND

The Tantallon Fund is a Cayman Island vehicle which invests in listed equities in the Asia Pacific region. The fund targets a concentrated portfolio of 35 names, with a 3-5 year investment horizon. At the portfolio manager's discretion the fund may hedge its market and currency exposure, and short sell individual securities.

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

Performance

Tantallon Fund Size USD 37mn (Cayman is Feeder)
(Inception Nov 03)

	Tan	MSCI Pacific Free Index	Over/(Under)perf
Dec 2017	**+4.36%**	+1.57%	+2.79%
2017 YTD	**+37.04%**	+21.57%	+15.47%
2016	**-11.32%**	+1.49%	-12.81%
2015	**-3.01%**	+0.44%	-3.45%
Inception	**+143.86%**	+80.08%	+63.78%

Compound	+6.49%pa	Volatility	+14.93%
3 mth T-bill return	+1.40%	Sharpe Ratio	0.34

FUND DETAILS

Investment Manager:
Tantallon Capital
(Cayman Islands)

Fees:
1.5%pa Management fees

Administrator:
Portcullis Trust
(Singapore) Ltd

Minimum Investment:
USD 1,000,000

Domicile:
Cayman Islands

Prime Broker:
Morgan Stanley

Feeder funds
Onshore (Cayman LP), Offshore (Cayman Is)

Auditor:
Pricewaterhouse Coopers

Lawyers
Maples & Calder
Shearman & Sterling LLP

Dealing:
Monthly

Contact:
Alex Hill
(alex@tantalloncapital.com)

The fund rose +4.4%, leaving us up +37.04% for the full year.

There were no excuses for not making good money this year, and while we succeeded in avoiding some of the most spectacular gainers in the region, notably Samsung and the Chinese internet and financial names, we managed to eke out some respectable returns from a portfolio which I suspect looks very different from the consensus. Our long book in fact rose +45.5%, but losses from our residual futures positions in January before the fortunate epiphany dawned that we should just load up the truck and stop worrying, cost us -2.29%. And after an exceptional year in 2016, in which about the only thing we got right were our currency views, our stubborn optimism on the JPY, both as a beneficiary of geo-political stress and as a beneficiary of an eventual reduction of stimulus by the BoJ, cost -600basis points.

Having dragged us to a dire relative performance last year India, for 3 years over 40% of the fund's assets, repaid our patience handsomely, as demonetisation and GST increases were digested and Modi's grip of the economic narrative came to be seen as increasingly assured. India dominated December's results, led by another surge in LNG/LPG importer and distributor Aegis, and contributed roughly 60% of our total returns for the full year, in total +24%. Aegis, now our largest position, was the second largest contributor to full year returns, with Tata Steel and Kotak Bank running close behind. Our main disappointment was Gateway Distriparks, which declined some 30% on the year. I was also disappointed with the beta of Zee TV and Shree Cement, both purchased in the demonetisation sell-off last November, and although both stocks rose roughly 25% from our purchase price there are clearly sexier beasts and we have sold both names. India remains our largest country weight, and I am in the fortunate position of being able to pick the brains of my Indian team, Prem and Harsh, to add more mid-cap, under-researched names such as milk producer Heritage Foods (the last of our top 10 contributors) to the fund.

About the best that can be said of our views on China is that we recognised in time the error of our bearishness. Sadly, this did not lead

EAR	RETURN	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+143.86%												
2017	+37.04%	+2.69%	+6.43%	+6.00%	-1.17%	+5.74%	+0.96%	+6.75%	-1.59%	-0.19%	+2.14%	+0.33%	+4.36%
2016	-11.32%	+13.28%	-4.88%	-14.59%	+1.39%	+0.26%	-6.79%	+0.20%	+2.70%	-0.26%	+2.11%	-4.30%	+1.39%
2015	-3.01%	+1.79%	-4.91%	+2.46%	-5.89%	+2.71%	-1.05%	+4.50%	+8.99%	-4.50%	-6.25%	-0.84%	+1.12%
2014	+0.24%	-2.28%	+4.41%	-5.08%	-3.85%	-2.91%	+3.22%	-3.84%	-2.48%	-0.50%	+0.28%	+16.37%	-1.34%
2013	+20.14%	+6.23%	+5.97%	+2.90%	+3.62%	-3.88%	-5.55%	+2.56%	-0.05%	-2.19%	+1.86%	+5.75%	+2.08%
2012	-0.12%	-0.87%	-0.18%	-1.47%	-3.88%	-4.03%	-2.33%	-0.20%	-0.73%	+5.81%	+0.95%	+2.81%	+4.50%
2011	-9.85%	-4.09%	-1.64%	+3.28%	+3.93%	-0.67%	-1.51%	+2.01%	+0.47%	+3.46%	-6.24%	-6.44%	-2.16%
2010	-3.54%	-7.08%	-4.95%	+4.06%	+4.90%	-7.24%	-1.02%	-0.17%	-0.29%	+9.24%	+0.32%	-2.51%	+2.47%
2009	+29.45%	-5.50%	+4.43%	-2.25%	+3.46%	+13.97%	-0.12%	+7.32%	-1.34%	-2.12%	-1.45%	+4.23%	+7.03%
2008	-28.36%	-5.72%	+2.44%	-0.05%	-5.39%	-1.33%	-6.87%	-6.65%	-5.39%	-4.17%	+0.59%	+0.07%	+0.20%
2007	+20.24%	+0.39%	+4.60%	+1.34%	+0.05%	+2.44%	+4.19%	+4.86%	-0.38%	+3.66%	+4.35%	-3.07%	-3.40%
2006	+12.99%	+4.20%	-1.53%	-0.93%	+0.44%	-1.93%	+0.13%	+1.02%	-3.71%	+0.26%	+4.89%	+6.89%	+3.08%
2005	+22.75%	-0.55%	+3.77%	-0.68%	-1.45%	+0.54%	+1.92%	+4.23%	+0.87%	+7.76%	-4.00%	+5.28%	+3.56%
2004	+25.40%	+5.80%	+4.80%	+4.60%	-1.69%	-2.67%	-0.53%	-1.42%	-0.18%	+5.42%	+3.17%	+2.41%	+3.65%
2003	+2.00%											-3.50%	+5.70%

to a 180 degree change of positioning, but what we did purchase in the China space nonetheless performed creditably. Our biggest winner by far was Macau casino play Melco, purchased last February, which contributed roughly 8% to our full year result. We also saw excellent returns from Orient Overseas Containers, and from Pacific Basin Shipping, as China trade lead an upturn in global bulk and container rates. Our position in Nexteer Automotive also made our top ten gainers list, as the auto sector as whole, and that portion of it linked to autonomous driving technologies, enjoyed a robust rerating.

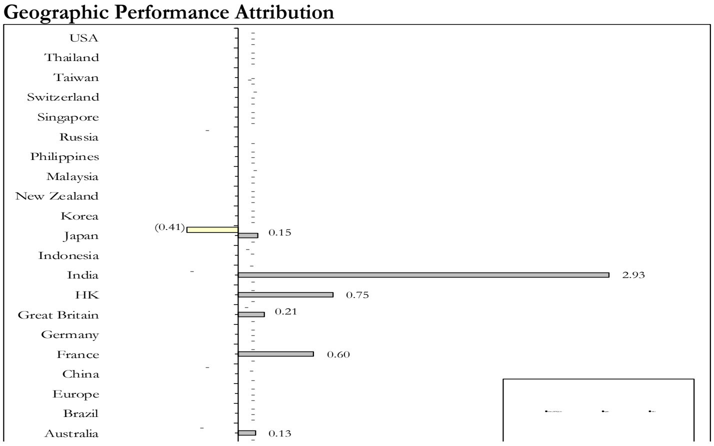
Australia, which we DID buy as a beneficiary of the change of mood on China, was somewhat disappointing, largely because we threw in the towel early on Santos, and Macquarie Bank was perplexingly indifferent to the global re-rating of the global financial sector. However, A2Milk, purchased in early May, returned +130% by year end, and together with a solid performance by Caltex Australia saw Australia contribute roughly 10% to our overall p+l.

Japan continues to frustrate me. We lost money there in equities in 2016 (although large gains in JPY actually made it the biggest positive contributor), and while we eked out a small return in 2017, principally on the back of a strong showing by Fanuc, adjusted for fx, we lost money. Like a dog to his vomit however, the fascination with the market remains strong, and while much of my impotence on stock selection is driven by a view of the yen which my elders and betters assure me is wrong, I have been slowly increasing our exposure here in the anticipation of a better year in 2018. We have built a large position in Nippon Sheet Glass, a one-time market darling now pretty much abandoned by analyst coverage, selling at a small fraction of sales and price/book, in anticipation of a continued recovery in both architectural glass principally in Europe and in the automotive sector. We have also added to our position in Bank of Kyoto, trimming somewhat our position in Shimano. We enter the year with roughly 25% of the fund in Japan, and a grim optimism that our views on the undervaluation of the yen will be vindicated!

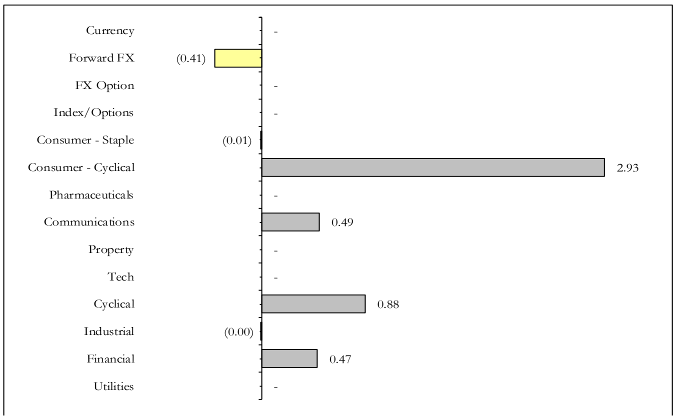
The new year has started with a bang, and I am very pleasantly surprised by the early results so far in January. This is what is must feel like to be a very stable genius! My optimism on a continued recovery in growth and confidence globally is undimmed, and equities still appear to me to be the only game in town. Significantly wiser heads than I, yet more stable geniuses, are calling for a melt up over the next 24 months and I am very much in accord with them. The fund has been long and geared for the last 12 months and if anything my main challenge is in maximising the beta in the portfolio. Full speed ahead, and Happy New Year. Toad, of Toad Hall.

% OF ASSETS ALLOCATION	EQUITY LONG	EQUITY SHORT	INDEX LONG	INDEX SHORT	NET EXPOSURE	GROSS EXPOSURE
Australia	7.79%				7.79%	7.79%
China						
Europe	11.29%				11.29%	11.29%
Hong Kong	30.12%				30.12%	30.12%
India	41.08%				41.08%	41.08%
Indonesia						
Japan	31.25%				31.25%	31.25%
Korea (South)						
New Zealand						
Philippines						
Singapore						
United States						
Total	**121.53%**				**121.53%**	**121.53%**

Geographic Performance Attribution



Sector Performance Attribution



Equity Positions

Long	23	Largest 10 Longs	70.74% of NAV	Long Liquidity	54.71days	Mkt Capitalization	>2Bn	52%
Short	0	Largest 10 Shorts	0% of NAV	Short Liquidity	0.00days	Gross Exposure	>500m-2Bn>	36%
						(USD)	<500mn	12%

Top 5 % Longs		Top 5 Contributors	Top 5 Detractors
Aegis Logistics Ltd	11.92%	Aegis Logistics Ltd (L)	Apex Frozen Foods Ltd (L)
Pacific Basin Shipping Ltd	8.67%	Vallourec SA (L)	Gateway Distriparks Ltd (L)
Melco International	7.86%	Monotaro Co Ltd (L)	Fanuc Corp (L)
Tata Steel Ltd	7.65%	Tata Steel Ltd (L)	Bank of Kyoto Ltd (L)
Fanuc Corp	6.09%	Nexteer Automotive Group Ltd (L)	Nippon Ceramic Co Ltd (L)

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