

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.

The Tantallon India Fund closed down -1.47% in August, after expenses. No question, we face uncertainty – from bellicose rhetoric invoking fire and brimstone in the face of North Korean provocation, posturing over the debt ceiling limits in Washington, and two extraordinarily damaging hurricanes (that might well impact US domestic output enough to give the Fed some pause as they 'normalize' monetary policy), to (increasingly) strident postulation on "haven" currencies and gold, (increasingly) acrimonious Brexit negotiations, and (increasing) confusion on ECB tapering, and Chinese measures to clamp-down on shadow banking, excessive domestic leverage, and currency outflows.

We are not oblivious to the uncertainties, and the embedded headline risks. However, our conviction stands that (1) we should continue to expect markets to remain volatile, and (2) the flows-driven volatility creates opportunities to intentionally increase our exposure to Indian equities.

- Modi's sweeping cabinet over-haul last week (with under-performing ministers being removed from their positions) is explicitly messaging that *Modi is gearing-up for the next General Elections (his government's current five year term expires in May 2019), and is aggressively focused on driving his pro-reform/anti-corruption agenda.*
- *Bottom-up, we have strong conviction in the idiosyncratic growth platform for our investments in financial services, discretionary consumption, mass housing, the digitalization of the real economy, and infrastructure.*

As we approach the end of the third quarter, we wanted to share with you some thoughts we've been mulling:

- **Our expectation of the real economy expanding at 7%+ annually over the next decade is intact.** The real economy grew 5.7% in the June quarter. The GDP growth 'disappointment' reflects the ongoing adjustments post demonetization, and the forced inventory de-stocking ahead of the July 1 implementation of GST. In our books, this 'slowdown' is not a surprise, and with PMIs starting to recover in July and August, it would seem that the economy is adjusting well, and moving ahead.
- **Domestic liquidity continues to surprise on the upside, and will be supportive of market multiples.** The inflows into domestic equity mutual funds (70% of which, importantly, are via systematic investment programs) are perhaps, an unintended consequence of demonetization, and the subsequent formalization of India's savings pool. *Net domestic equity inflows in August of US\$3.9bn is an all-time high; in five months of the current fiscal year, domestic equity inflows of US\$12.6bn compare*

Performance, in USD

(Inception on September 1, 2015)

	Tantallon India Fund	MSCI India(\$)	Over/Under Full Performance
August 2017:	-1.47%	-0.76%	-0.71%
2017 YTD:	+36.31%	+27.46%	+8.85%
2016:	-5.79%	-2.90%	-2.89%
2015:	+0.24%	-7.53%	+7.77%
Inception:	+28.72%	+22.85%	+5.87%
Compound Returns	+13.46%	Volatility	+21.10%
3 month US T-bill	+1.00%	Sharpe Ratio	0.590

FUND DETAILS

The Tantallon India Fund

AUM USD 26,000,000

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% US\$ hurdle rate compounding
annually

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)

impressively versus US\$13.2bn in inflows for the fiscal year ended March 2017.

- **Modi's 'surprise' ministerial reshuffle sends a clear message on expectations, performance, and gearing-up for the next General Elections.** Several important portfolios were re-assigned (including railways, defense, power, water resources, urban development, and housing), with four ministers being promoted to cabinet rank, nine new ministers being inducted, two ministers being moved to more minor portfolios, and five ministers being relieved of their positions.
- In our view, the excessively negative commentary in the financial press about demonetization misses the point; anecdotal and empirical data points would make the case that **demonetization has been uniquely successful in 1) digitalizing financial savings; 2) significantly broadening the tax net; and 3) creating an explicit paper trail for tax authorities tracking undisclosed income.**
- We are particularly enthused by our conversations with company managements, across sectors, highlighting explicit **government initiatives to continue to build out an infrastructure backbone, to sustain rural employment and income growth (irrespective of what happens with the**

YEAR	RETURNS	JAN	FEB	MAR	APR	MAY	JUN	JULY	AUG	SEP	OCT	NOV	DEC
Inception	+28.72%												
2017	+36.31%	+8.34%	+8.73%	+6.73%	+6.54%	-1.20%	+0.23%	+4.30%	-1.47%				
2016	-5.79%	-8.33%	-9.98%	+11.86%	+2.10%	+1.89%	+5.44%	+6.37%	+1.66%	-0.74%	-1.69%	-9.26%	-2.83%
2015	+0.24%									-0.14%	+1.36%	-2.09%	+1.14%

monsoons), on affordable housing, on renewable energy, and on the digitalization of the real economy.

- **The negative surprise has been with the exporters (IT Services, pharmaceuticals, consumer durables) sounding a note of caution, and signaling a slow-down in new hiring**, in part driven by growing protectionism in key overseas markets, in part, by the rising cost of regulatory compliance, and in part, by heightened competition overseas.

The stock we wanted to highlight this month is Max Financial Services, the controlling shareholder of Max Life, India's largest non-bank owned private life insurance company.

Having broken into the erstwhile monopoly of the government-owned and controlled Life Insurance Corporation (LIC), and having built differentiated distribution and product platforms, the Indian private sector insurance companies are now poised on the cusp of multi-year profitable growth. Sector fundamentals are compelling given low penetration levels and the ability to take market share sustainably from LIC, a stable regulatory environment, improving persistency, improving product mix, and scale and operational efficiencies.

Max Life has developed arguably, the highest quality insurance book in the country, with high persistency across the board, and a strong network leveraging both banc assurance, as well as independent agent distribution. The focus on traditional protection products, deliberately limiting the equity-linked business that most of the other insurance companies chased, has paid rich dividends, allowing the company to retain their book of business through periods of weak/volatile equity markets, building brand, product loyalty, and sustainable profitability.

The stock has pulled back over the last couple of months following the regulator's decision to turn down the proposed merger between Max Life and HDFC Life (which would have created by far, the largest, most profitable, private sector insurance company in the country). However, the proposed merger ratios, validates our long-term conviction in the inherent quality, growth prospects, and profitability of Max Life's book of business. Longer term, both managements remain open to a potential merger – once the regulator's concerns are met – and the significant synergies that will accrue to the merged entity.

Given the development of new bank distribution agreements, and anchored by 15%+ CAGR in renewal premiums, we expect gross premiums to compound in excess of 25% annually over the next three years (versus the market's more modest expectations of 12%-15% growth in gross premiums). We are particularly encouraged by the sustained mix improvement towards higher margin protection/guaranteed products, the improvement in persistency ratios, and the inherent operating leverage in the business, and are comfortable projecting returns on embedded value exceeding 20% over the next two years (while the market seems to have anchored expectations around a 15% RoEV).

To conclude:

- Despite the broad skepticism on growth/earnings being sustained (followings the massive adjustments in the real economy post de-monetization and GST implementation), we believe that **the leading indicators have turned, and that the growth cycle is re-asserting itself on the back of government spending, infrastructure development, job creation, and rural consumption.**
 - *In the lead-up to the 2019 General Elections, we expect the government to decisively deliver on fiscal stimulus and focused policy initiatives encouraging infrastructure development, rural uplift, industrialization, job creation, and the ongoing digitalization of the real economy.*
- **Market Valuations appear reasonable relative to history, and certainly does not appear to be pricing-in a meaningful multi-year growth cycle.**
 - *It is particularly worth noting that equity valuations remain compelling for local domestic investors relative to their alternatives in bonds and bank deposits.*
- **We retain our strong conviction in our concentrated holdings in financials, industrials, healthcare, building materials, and consumer discretionary stocks, and in their ability to sustainably grow markets/market share/earnings.**

Please do let us know if you would like a follow-up conversation, or a catch-up in the next few days.

Portfolio Overview

Top 5 Positions	Sectoral Break-down:	As % NAV	Sector Performance	MTD Performance
Bajaj Finance Ltd	Consumer Discretionary:	19%	Consumer Discretionary:	+0.49%
Natco Pharma Ltd	Consumer Staples:	6%	Consumer Staples:	+0.61%
HDFC Bank Ltd - ADR	Energy:	3%	Energy:	+0.01%
Kotak Mahindra Bank Ltd	Financials:	30%	Financials:	+0.02%
Housing Development Finance	Health Care:	10%	Health Care:	-1.82%
	Industrials:	10%	Industrials:	-0.99%
	Materials:	15%	Materials:	-0.43%
	Retail:	5%	Retail:	+0.64%
	Utilities:	2%	Utilities:	+0.00%

The Fund has appointed Hugo Fund Services SA, 6 Cours de Rive, 1204 Geneva, Switzerland, as its Swiss Representative. Banque Heritage SA, 61 Route de Chêne, CH-1208 Geneva, Switzerland is the Swiss Paying Agent. In Switzerland shares shall be distributed exclusively to qualified investors. The fund offering documents, articles of association and audited financial statements can be obtained free of charge from the Representative.