TANTALLON CAPITAL

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 Full Performance
September 2017:	-0.69%	-3.70%	+3.01%
2017 YTD:	+35.38%	+22.74%	+12.64%
2016:	-5.79%	-2.90%	-2.89%
2015:	+0.24%	-7.53%	+7.77%
Inception:	+27.84%	+18.30%	+9.54%

Compound Returns	+12.51%	Volatility	+20.68%
3 month US T-bill	+1.06%	Sharpe Ratio	0.554

FUND DETAILS

The Tantallon India Fund

AUM USD 33,000,000

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)

The Tantallon India Fund closed down -0.69% in September, after expenses. The broader market sell-off in stocks, bonds, *and* the rupee (which was down 2.1% for the month) was precipitated by sustained foreign fund selling through the month, reflecting the general global "risk-off," shorter-term concerns on the fiscal stimulus that might be required to off-set the GST-implementation triggered slowdown in industrial activity, and probably, most pertinently, the recent spike in crude prices on the back of the Turkish threat to cut-off oil exports out of Kurdistan.

At the outset, on the second anniversary of the Fund's launch, we would like to simply acknowledge our gratitude to our investors: we are truly grateful for your trust, and for your continued support and encouragement; thank you.

Heading into the fourth quarter, it is clear that the talking heads will have a field-day debating (1) the increasingly puerile rhetoric with the North Koreans, (2) the increased complexity of negotiating Brexit against the backdrop of muddled political posturing, the outcome of the Catalonia referendum, and AfD's success in the German elections; (3) the opening of the Peoples' Party Congress in China, and the imminent unveiling of the "new" leadership team; and (4) the implications of a now, near-certain, change of guard at the US Federal Reserve. *Certainly, a recipe for potentially uncomfortable year -end volatility!*

For the record, we are not oblivious to the geo-political uncertainties, and the embedded headline risks. However, we are clear in our conviction that the flows-driven ***volatility creates opportunities to intentionally increase exposure to Indian equities***

1. The market's focus on the short-term drag on domestic growth as the economy normalizes post the significant reform measures introduced over the last 6 months, does miss the point a bit – ***we are focused instead, on the improving quality of underlying corporate profitability as one looks out into 2018/2019;***
2. As Modi gears-up for the next General Elections in 2019, we ***expect a decisive stimulus package and targeted policy initiatives encouraging infrastructure development, rural uplift, industrialization, job creation, and the ongoing digitalization of the real economy.***

Over the last few months, we have talked about the potential uplift from the **digitalization of the Indian economy.** To put our expectations in context, here are some simple headline numbers that we would like to share with you:

- Over the past three years, 285 million Jan Dhan (financial inclusion) bank accounts have been opened…and yes, it does mean that virtually every Indian household now has a bank account.
- The Aadhaar program (India's biometric identification system) is now almost complete, with ~ 1.3 billion unique identifications having been registered.
- India currently has 800 million+ unique mobile phone users, with a third of the population currently accessing the internet over their mobile device.

In terms of our **core convictions,** we would reiterate the following:

1. **Demonetization / GST implementation are game changers** - broadening the tax basis, setting the stage for more aggressive tax compliance enforcement, and rewarding efficient manufacturing/distribution, as the organized sectors systematically takes share from the unorganized mom and pop operators…*and yes, we are looking at possibly another two quarters of disruptions to reported corporate earnings as the changes are internalized.*
2. **The Housing sector is at a tipping point**, and with improved affordability, and greater consumer protection, the sector is

YEAR	RETURNS	JAN	FEB	MAR	APR	MAY	JUN	JULY	AUG	SEP	OCT	NOV	DEC
Inception	+27.84%												
2017	+35.38%	+8.34%	+8.73%	+6.73%	+6.54%	-1.20%	+0.23%	+4.30%	-1.47%	-0.69%			
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%

poised to be the next significant growth driver for the economy.

3. **The digitalization of the real economy is transformative:**
    - The bottom-of-the-pyramid is now 'bank-able,' allowing for the direct transfer of subsidies, and importantly, for the stronger private sector financial institutions with deliberate outreach and low-cost delivery platforms into rural and semi-urban centers, to sustain strong growth over the next decade;
    - We should expect significant disruptions to the traditional retail distribution channels, even as e-commerce (B2B, B2C, and C2C) activity surges;
    - The consumption of on-line entertainment and content will provide significant new opportunities for sustained growth.
4. **The Capex cycle has bottomed out;** we are already seeing meaningful green shoots under-pinned by government spending, and I expect significant momentum in roads, railways, infrastructure, irrigation, water sanitation, and (renewable) power generation heading into FY2019.
5. **Domestic flows matter more than foreign investors at this point.** Foreign funds net sold US$1.75bn in September (after selling US$2bn in August). In contrast, domestic equity mutual funds saw inflows to the tune of US$4bn+ (after seeing August inflows of US$3.9bn).

The stock we would like to highlight today is **Apex Frozen Foods,** a leading shrimp processor with private label clients in the US (80% of revenues) and Europe. Apex currently has 12 million tons of annual capacity for its 'ready-to-cook' product, and is uniquely positioned to scale-up its export share over the next three years, given the increasingly serious challenges at many Vietnamese, Thai, and Chinese shrimp processors, including incidence of disease, diminishing water availability, growing pollution concerns, and falling yields. The real opportunity to drive mix/margins Apex sits 4-5 years out, as Apex invests in, and establishes its own brand in the 'ready-to-eat' product.

- **We expect revenues to conservatively compound close to 30% annually over the next three years** (versus market expectations of about an 18% compound annual run-rate on the top-line). No question, the immediate growth driver will be volume expansion, with the recent IPO raising the proceeds required to more than double its ready-to-cook capacity to 27 million tons per annum, and to add 5 million tons of annual ready-to-eat capacity.
- We are comfortable at this point projecting utilization rates being sustained at 85% on the enlarged capacity.
- We expect meaningful improvement in mix, and hence, average realizations, as the ready-to-eat capacity is commissioned and ramped up in FY2019.

We expect profits to compound at a 50%+ run rate over the next three years; the market's expectations are considerably more modest, with current consensus projections suggesting a 22% CAGR in report earnings.

- Over the next three years we expect current EBITDA margins of 8% to improve by close to 100bp annually on the back of scale economies, operational efficiencies, and mix improvement.
- We also expect a significant uplift to margins post the FY2019 commissioning of the ready-to-eat capacity, and post the FY2020 backward integration into feed stock.
- We expect Apex to be free cash flow positive by FY2019, to be in a net cash position by FY2020 (versus current net debt/equity of 0.4x).

To conclude:

- **We have very high conviction in our portfolio delivering on earnings and cash flows compounding well in excess of 15% annually over the next three years** on the back of underlying themes of urbanization, consolidation, financial intermediation, digitization of the real economy, enhanced agricultural productivity, and sustained job creation al income growth.
- **Despite the market having re-rated over the last two years, we believe that the markets are not pricing-in a meaningful multi-year growth cycle.** *We would specifically make the case that equity valuations remain very attractive for local domestic investors relative to their alternatives in bonds and bank deposits.*

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
Natco Pharma Ltd
Bajaj Finance Ltd
Kotak Mahindra Bank Ltd
Eicher Motors Ltd
Shree Cement Ltd

Sectoral Break-down:	As % NAV
Consumer Discretionary:	19%
Consumer Staples:	9%
Energy:	3%
Financials:	30%
Health Care:	11%
Industrials:	8%
Materials:	14%
Retail:	4%
Utilities:	2%

Sector Performance	MTD Performance
Consumer Discretionary:	-0.84%
Consumer Staples:	+0.78%
Energy:	+0.50%
Financials:	-0.71%
Health Care:	+0.27%
Industrials:	-0.26%
Materials:	-0.12%
Retail:	-0.19%
Utilities:	-0.15%