TANTALLON CAPITAL

**July 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 34mn (Cayman is Feeder)
(Inception Nov 03)

| | Tan | MSCI Pacific Free Index | Over/(Under)perf |
|---|---|---|---|
| Jul 2017 | **+6.75%** | +2.78% | +3.97% |
| 2017 YTD | **+30.47%** | +12.72% | +17.75% |
| 2016 | **-11.32%** | +1.49% | -12.81% |
| 2015 | **-3.01%** | +0.44% | -3.45% |
| Inception | **+132.16%** | +66.98% | +65.18% |

| | | | |
|---|---|---|---|
| Compound | +6.32%pa | Volatility | +15.11% |
| 3 mth T-bill return | +1.06% | % Sharpe Ratio | 0.348 |

## 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 +6.75, taking the return for the year to +30.47%. Regional indices rose between +2.8% and +4.3%.

In an otherwise excellent month the only real disappointment was the drag on performance from Melco (costing-1.2%). A marginal slowdown in the growth rate of monthly gross gambling revenue and a regulatory snarl at the VIP segment caused all the Macau plays to weaken sharply in July after a stellar first half. Hong Kong nonetheless contributed +1.74% to NAV, with realized gains of +2% coming from the disposal of OOIL, and a noteworthy +77bps from a surge in our copper stock MMG. India also contributed handsomely (+2.5% to NAV), as the market's earlier concerns on the impact of the implementation of nationwide GST faded. Kotak Bank contributed +88bps, and our steel and cement companies, Tata Steel and Shree Cement, in aggregate a further +80bps. Tata Steel has just announced excellent interim earnings, with a particularly strong showing from its domestic operations. With capacity additions lagging demand, and Chinese production being cut, the pricing outlook for Indian steel companies looks excellent as steel demand moves north of a 1x GDP multiplier for the first time in nearly a decade. At long last the company's gearing into a domestic infrastructure boom is attracting greater attention than its exposure to Europe and its travails with pension liabilities. The stock is now +82% above our purchase price and one of our top 5 positions.

Australia, where our bullishness since last December on both the currency and equity market (or parts of it) is at odds with a generally bearish consensus, contributed +.90bps, led by a further surge in the price of A2Milk, now 40% above the level we purchased the stock in May. Upgrades to earnings driven by accelerating sales (and improved margins) of the company's infant formula into China and other Asian

| YEAR | RETURN | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Inception | +132.16% | | | | | | | | | | | | |
| 2017 | +30.47% | +2.69% | +6.43% | +6.00% | -1.17% | +5.74% | +0.96% | +6.75% | | | | | |
| 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% |

markets underlay this performance, as the company evolves from a business with primary dependence on ANZ into a true global brand. We have increased our exposure to milk in July with the addition of Heritage Foods in India, a leading private sector player in the hopelessly disorganized (“unorganized” in Indian parlance) domestic milk sector. Whereas in China we played Biostime 3 years ago ahead of the ending of the one-child policy, in India we need no such artificial stimulus to support demand! Heritage was funded by the sale of OOIL, with whose proceeds we also added Sydney Airport, enlarging our exposure to the theme of Asian tourism and underpinned by a 5% dividend.

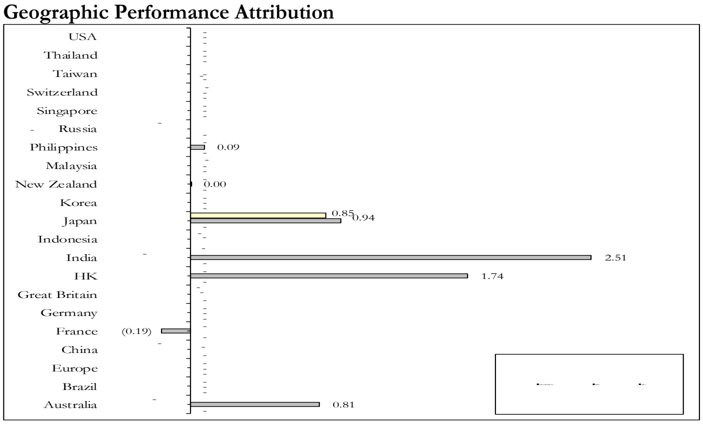
The only theme which has notably failed to attract any interest this year has been our exposure to regional logistics, which we entered on the premise that accelerating growth and a recovery in trade would underpin a re-evaluation of the sector. Still smarting from not having been exposed when Toll Holdings in Australia was expensively (and disastrously) acquired by Japan Post, our hopes of similar munificence have so far been still born, and both Gateway in India and Kerry Logistics in China have dragged performance.

We have built what proved to be flimsy edifices on the theme of increased Asian savings underpinning regional markets in the past, but research in recent weeks on the inevitability of a surge in fund flows and domestic investor appetite for equity risk in India attracted my attention. Both Prem and I have remarked on the persistence of domestic demand for stocks throughout recent bouts of market stress. What is eye-catching are the revised estimates of what this demand could become over the next 5 years as India’s demographic tailwinds and related risk appetite drive growth in mutual, pension and insurance inflows. Financial assets remain tiny in India, and at US60billion household equity holdings are barely 1% of GDP and are dwarfed by gold. Morgan Stanley for one estimates that this could number could easily exceed US500billion by the middle of the next decade, and still represent less than 1.5% of GDP. We shall see, but few firms are better equipped to exploit this shift than Kotak Bank, our largest position at 12% of NAV.

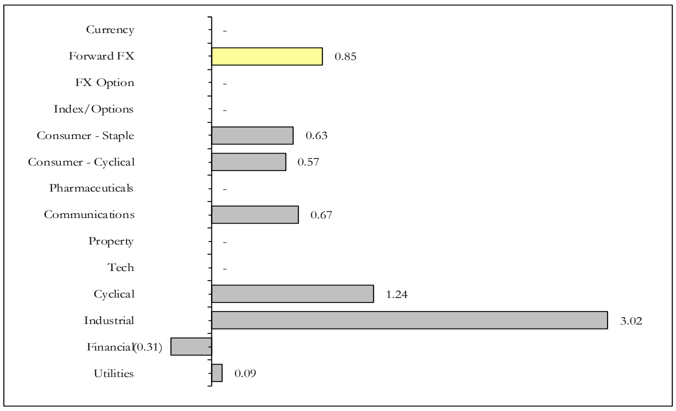
What North Korea’s missiles may lack in accuracy Mini-Me makes up for with his ability to aggravate the increasingly odious (hardly possible) occupant of the White House. With such megalomaniacs facing each other the risks of some accident are sickeningly high and my recidivist tendencies are straining at their chains! I have added substantially to our long yen position (which contributed +85bps to July’s NAV) and have in the last week jettisoned Macquarie Bank, Kerry Logistics and Sydney Airport (that was quick!) with a view to reducing exposure. We will be living with this elevated risk for as long as we live with KJU and The Donald. I’m with Johnny Depp.

| % OF ASSETS ALLOCATION | EQUITY LONG | EQUITY SHORT | INDEX LONG | INDEX SHORT | NET EXPOSURE | GROSS EXPOSURE |
|---|---|---|---|---|---|---|
| Australia | 18.72% | | | | 18.72% | 18.72% |
| China | | | | | | |
| Europe | 6.07% | | | | 6.07% | 6.07% |
| Hong Kong | 31.55% | | | | 31.55% | 31.55% |
| India | 46.07% | | | | 46.07% | 46.07% |
| Indonesia | | | | | | |
| Japan | 22.71% | | | | 22.71% | 22.71% |
| Korea (South) | | | | | | |
| New Zealand | 3.79% | | | | 3.79% | 3.79% |
| Philippines | 2.79% | | | | 2.79% | 2.79% |
| Singapore | | | | | | |
| United States | | | | | | |
| **Total** | **131.70%** | | | | **131.70%** | **131.70%** |

**Geographic Performance Attribution**




**Sector Performance Attribution**




## Equity Positions

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Long | 27 | Largest 10 Longs | 72.11% of NAV | Long Liquidity | 0.46days | Mkt Capitalization | >2Bn | 71% |
| Short | 0 | Largest 10 Shorts | 0% of NAV | Short Liquidity | 0.00days | Gross Exposure | >500m-2Bn> | 20% |
| | | | | | | (USD) | <500mn | 9% |

| Top 5 % Longs | | Top 5 Contributors | Top 5 Detractors |
|---|---|---|---|
| Kotak Mahindra Bank Ltd | 11.69% | Kotak Mahindra Bank Ltd (L) | Melco International Develop (L) |
| Pacific Basin Shipping Ltd | 9.64% | MMG Ltd (L) | Vallourec SA (L) |
| Melco International | 8.69% | A2 Milk Co Ltd (L) | Kerry Logistics Network Ltd (L) |
| Aegis Logistic Ltd | 8.64% | Nippon Ceramic Co Ltd (L) | M3 Inc (L) |
| Tata Steel Ltd | 6.49% | Tata Steel Ltd (L) | Sydney Airport (L) |

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