

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.

The fund eked out a modest gain of +33bps, under-performing significantly firmer regional indices. We are +31.32% year to date.

This was a disappointing month. We were up the better part of 4% coming into the final week before a number of our stocks sold off heavily, sharing in the route led by high-flying Chinese internet and tech names. A rebound in the dollar, ahead of Trump's "victory" on US tax reform, also detracted sharply from what had been gains of over 2% in our JPY exposure. In the final analysis the yen contributed +64bps, and our Japanese names +32bps. Our largest stock contributor was our recently added position in Sberbank, which added +57bps. In Hong Kong continued strength in the Macau gross gaming revenues underpinned gains in Melco (+43bps) and good results and renewed focus on the autonomous driving theme helped Nexteer, which contributed +33bps. Our largest geographic exposure, India, was disappointing, as the rebound in property counters which helped my colleague Prem to an excellent month is sadly not a theme we have embraced! Our largest position, Kotak Bank, continues to trade sideways, with the recapitalisation of the public sector banks leaving their substantially more expensive private competition in the lurch. India in aggregate detracted -46bps, and Hong Kong a further -36bps, as gains in Melco were more than offset by further sharp weakness in Summit Ascent, our problematic Vladivostok play, which cost -80bps. Pacific Basin Shipping also traded poorly on further signs of a slowdown in Chinese fixed asset investment and detracted -35bps.

It is galling to report that two of our positions, both jettisoned earlier in the year, became targets of takeover bids this month. Santos the Australian oil and gas company, was added in December last year, together with Caltex Australia and Macquarie Bank. Opaque prospects for gas prices and a high debt level, and sub par performance, prompted me to abandon this in March around \$3; the bid from a US private equity group at 5 would have been a nice result. More exasperating, given the substantially longer time we held it, was the announcement of the privatisation of MLC by City

Performance

Tantallon Fund Size USD 39mn (Cayman is Feeder)
(Inception Nov 03)

	Tan	MSCI Pacific Free Index	Over/(Under)perf
Nov 2017	+0.33%	+2.39%	-2.06%
2017 YTD	+31.32%	+19.69%	+11.63%
2016	-11.32%	+1.49%	-12.81%
2015	-3.01%	+0.44%	-3.45%
Inception	+133.68%	+77.30%	+56.38%
Compound	+6.21%pa	Volatility	+14.94%
3 mth T-bill return	+1.26%	Sharpe Ratio	0.33

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)

Developments, some 50% above the level we entered the stock in February 2016. The danger of chasing short term performance by being tempted to cut laggards!

I continue to believe that Japan should prove to be one of the stronger equity markets of 2018, and that the same dynamic of stealthy policy tightening and firmer short term rates should underpin a revival in consumption and prove a boon

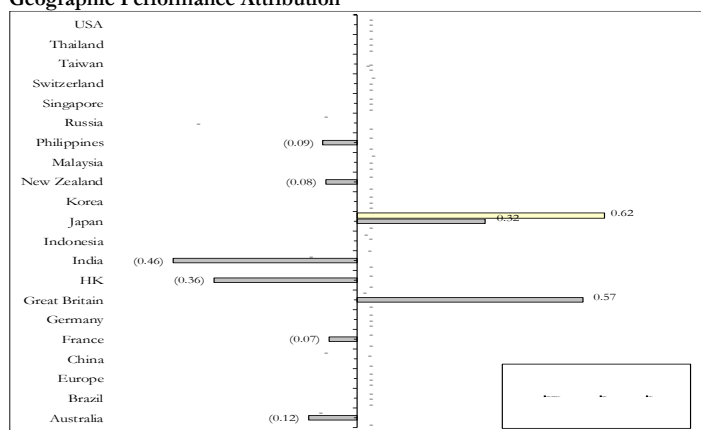
EAR	RETURN	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+133.68%												
2017	+31.32%	+2.69%	+6.43%	+6.00%	-1.17%	+5.74%	+0.96%	+6.75%	-1.59%	-0.19%	+2.14%	+0.33%	
2016	-11.32%	+13.28%	-4.88%	-14.59%	+1.39%	+0.26%	-6.79%	+0.20%	+2.70%	-0.26%	+2.11%	-4.30%	+1.39%
2015	-3.01%	+1.79%	-4.91%	+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 the financial sector. A visit to Tokyo earlier in the month did much however to remind me of just how polarised views remain on the outlook for monetary policy, the value of the JPY and the outlook for the equity market, and I departed still sure of my conviction ('twas ever thus!) and entirely clueless as to how to implement it. It seems obvious to me that inflationary pressures are building (my premium tekkadon has jumped by Y1000 to Y6000!), the labour market is extremely tight and corporate profitability strong. The property market in Tokyo has finally reached the old bubble peak (20 years later) and everyone I know is buying ski properties in the Japan Alps. The BOJ's manufacturing Tankan just hit an eleven year high and while Kuroda denies it the level of policy accommodation from the BOJ is clearly being reduced. If the anecdotal evidence of inflation in the system comes through into the CPI the delta of policy normalisation should be significantly greater in Japan than anywhere else, with a corresponding impact on the value of the Yen. The most evident beneficiary of this should be the banks and insurance sector, and while I HATE selling an individual name to play a sector re-rating after much prevarication we have built a position in Bank of Kyoto, selling at .6x book, and holding a Santa Claus sack of stakes in a large number of mid-sized industrial companies in the Kyoto area. We have funded this with the partial sale of our largest position, the long-standing stake in Kotak Bank in India, something I was loath to do, selling 4x book and moribund in performance terms for the last 8 months.

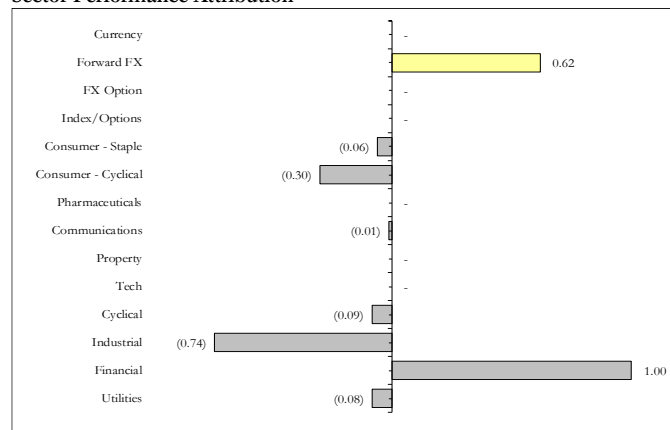
Looking forward to the New Year I remain very positive that risk assets should continue to perform. Economic strength across most geographies continues to be striking, especially in Europe, regional trade numbers are excellent, and while equities have done well, the increase in the earnings integer has kept them attractive relative to other assets classes. Geopolitics aside the main imponderable is the impact of a move to "higher quality" growth in China, with attendant financial deleveraging and a slowdown in the property sector. The extent to which the explosion of fintech initiatives, and the popularity of Bitcoin in China can offset the drag this may have on consumption will be interesting. As a final comment, after waving performance fees for the last 2 years, we will recommence charging them in 2018, as the fund runs into its 15th year. Merry Christmas one and all. Scrooge.

% OF ASSETS ALLOCATION	EQUITY LONG	EQUITY SHORT	INDEX LONG	INDEX SHORT	NET EXPOSURE	GROSS EXPOSURE
Australia	6.77%				6.77%	6.77%
China						
Europe	9.95%				9.95%	9.95%
Hong Kong	29.22%				29.22%	29.22%
India	44.72%				44.72%	44.72%
Indonesia						
Japan	22.62%				22.62%	22.62%
Korea (South)						
New Zealand						
Philippines						
Singapore						
United States						
Total	113.28%				113.28%	113.28%

Geographic Performance Attribution



Sector Performance Attribution



Equity Positions

Long	22	Largest 10 Longs	73.45% of NAV	Long Liquidity	0.52days	Mkt Capitalization	>2Bn	63%
Short	0	Largest 10 Shorts	0% of NAV	Short Liquidity	0.00days	Gross Exposure (USD)	>500m-2Bn< <500mn	29% 8%

Top 5 % Longs

Kotak Mahindra Bank Ltd	9.82%
Shimano Inc	9.43%
Aegis Logistics Ltd	9.11%
Melco International	9.10%
Pacific Basin Shipping Ltd	8.32%

Top 5 Contributors

Sberbank PJSC-Sponsored ADR (L)
Melco International (L)
Fanuc Corp (L)
Nexteer Automotive Group (L)
HDFC Standard Life Insurance (L)

Top 5 Detractors

Summit Ascent Holdings Ltd (L)
Pacific Basin Shipping Ltd (L)
Shree Cement Ltd (L)
Kotak Mahindra Bank Ltd (L)
Nippon Ceramic Co Ltd (L)

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.

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