

TANTALLON TECH & SUSTAINABILITY FUND

The Tantallon Tech & Sustainability Fund is a Cayman Island vehicle that invests in listed equities globally. The fund targets a concentrated portfolio of around 20 names seeking returns from long-term growth companies as well as cyclical opportunities.

Tantallon Capital Advisors, the advisor since inception in 2017, is a Singapore-based entity holding a Capital Markets Service License in Fund Management from the Monetary Authority of Singapore.

The fund gained 1.6% in August which outpaced the overall markets but fell well short of the tech index which gained 6.5% on the back of a 20% move by Apple, its the largest constituent. The August move also saw Apple break thru the USD1tr market cap barrier as the S&P hit new historic highs.

Our US tech holdings provided most of the positive momentum. IC design house Realtek was the only major contributor from Asia as cyclical fears are on the rise and increasing trade tension look likely to cause supply chain adjustments.

This negative trending outlook comes on the back of still strong tech sector earnings growth of 18% YoY in 2018Q2 but increases the likelihood of a more marked deceleration. As usual for a cyclical turn, the semiconductor sector is providing some of the first negative signals with NAND memory pricing weaker throughout the summer and DRAM pricing looking softer into the autumn. This has caused some semi equipment makers to warn of a decelerating order environment for the second half of 2018. While all these indicators signal a classic semiconductor downturn, there are still plenty of positive trends and comments from the industry and it is difficult (as always as this juncture) to sort out whether this is the last of the good news before a serious correction or possibly an orderly downshift to more sustainable growth.

With many of the lower quality cyclical stocks now down around 50% from 12-month highs, there is plenty of debate whether it may indeed be different this time: this would mean that end demand stays solid, the cyclicals recover and the growth continues. The outcome of this debate will become clearer as we head into the fourth quarter and will have an impact on all our tech holdings.

For now, we remain cautious on the cycle and focus our tech

Performance

Tantallon Tech & Sustainability Fund Size USD 14mn (Cayman is Feeder)
(Inception Jan 17)

	Fund	MXWD*	BW Tech**	DJ Sust***	Tech&Sust	O/U
Perf						
Aug 2018	+1.6%	+0.6%	+6.5%	+0.7%	+3.6%	-2.0%
2018 YTD	-5.2%	+1.9%	+16.5%	+0.6%	+8.6%	-13.7%
2017	+24.4%	+21.6%	+36.8%	+20.6%	+28.7%	-4.3%
Inception	+18.0%	+24.0%	+59.5%	+21.3%	+40.4%	-22.4%

* MSCI ACWI Index

** Bloomberg World Technology Index

*** Dow Jones Sustainability World Diversified

FUND DETAILS

Investment Manager:

Tantallon Capital
(Cayman Islands)

Fees:

1.5%pa Management fees

Administrator:

DBS Bank Ltd

Minimum Investment:

USD 1,000,000

Domicile:

Cayman Islands

Custodian:

DBS Bank Ltd

Feeder funds

Offshore (Cayman Is)

Auditor:

KPMG

Lawyers

Harney Westwood & Riegels Singapore
Morgan Lewis Stamford LLC

Dealing:

Monthly

Contact:

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exposure on companies that we can expect to grow 2019-2022 earnings at double-digit rates even in a more difficult economic environment.

On the sustainability front we continue to see more pain on the renewable energy front and good progress for EVs. We continue to look for opportunities to increase our battery exposure and continue to monitor the renewable sector for sustainable business models.

I would like to spend a bit more time looking at Apple and the

	2018	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Fund Monthly Gross Return		4.5%	-2.3%	-4.0%	-2.1%	0.1%	-2.0%	0.8%	1.8%				
Fund Cumulative Gross Returns		4.5%	2.1%	-2.0%	-4.0%	-3.9%	-5.8%	-5.0%	-3.3%				
Fund Monthly Net Returns		4.0%	-2.4%	-4.2%	-2.3%	-0.1%	-2.2%	0.6%	1.6%				
Fund Cumulative Net Returns		4.0%	1.4%	-2.8%	-5.0%	-5.1%	-7.2%	-6.6%	-5.2%				
Equity Monthly Returns		5.2%	-3.0%	-5.2%	-2.6%	0.1%	-2.7%	0.6%	2.6%				
Equity Cumulative Returns		5.2%	2.1%	-3.2%	-5.7%	-5.7%	-8.3%	-7.7%	-5.3%				

many reasons that it has seen a re-rating over the past 3 years despite LTM operating profits peaking in the fourth quarter of 2015. In fact the share price has almost doubled since its mid 2015 peak.

Apple worked this magic by deploying US\$110bn in buybacks over the past 10 quarters and reducing shares outstanding by 12% during this time frame. It has dramatically stepped up this process over the past 2 quarters by deploying \$20b+ per quarter versus the prior steady run-rate of around \$8bn. This level of return to shareholders has not only attracted Warren Buffet but also the likes of National Banks who have chosen to put the USD holdings into a stock that has a combined yield of dividends and buy-backs of almost 10% per annum.

While company earnings growth has plateaued since 2015, per share LTM earnings have hit new highs over the past two quarters. Given the potential of a re-acceleration in earnings growth as Apple is able to raise product prices (iPhone) and likely to benefit from memory price declines (NAND), the share price may remain on an uptrend even as other parts of the sector are affected by a cyclical downturn.

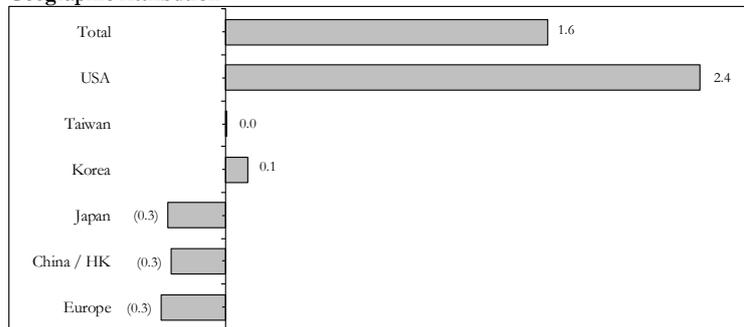
In the current market environment we will be looking for similar situations where a combination of steady or recovering earnings momentum can be supplemented by increasing cash returned to shareholders via dividends and buy-backs. The announcement by QCOM of a US\$10bn buyback coupled with a likely resolution of its dispute with Apple is a similar situation.

Samsung's upping of its dividend in combination with an increasingly aggressive buy-back program so far has not been able to off-set the potential pressure of falling memory prices but may give the stock earlier support in a down-cycle. Other commodity players may be challenged to follow this strategy but market leaders such as TSMC are able to execute a similar strategy, especially as they are expecting capital intensity to decrease over the next years.

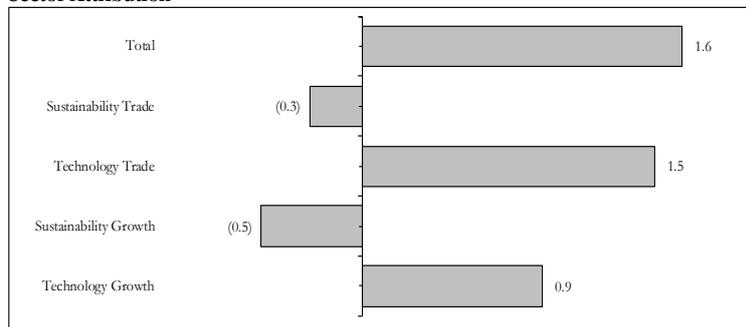
We will be paying more attention to this improvement in capital discipline among some of our holdings as the trend expands beyond the US market.

% OF ASSETS ALLOCATION	EXPOSURE
Taiwan	32.3%
Korea (South)	15.7%
United States	14.5%
Japan	13.8%
Europe	7.1%
China / Hong Kong	4.4%
Cash	12.2%
Total	100.0%

Geographic Attribution



Sector Attribution



Equity Positions

Total	15	Largest 5	45.5% of NAV	Liquidity	0.3 days	Mkt Capitalization	>7.5Bn	65.9%
						Gross Exposure (USD)	>1Bn-7.5Bn<	16.1%
							<1Bn	18.0%

Top Holdings

Ememory Technology Inc (TT)	15.9%
Samsung SDI Co Ltd (KP)	10.9%
Umicore (BB)	7.1%
Delta Electronics Inc (TT)	5.9%
Chroma ATE Inc (TT)	5.7%

Main Contributors - Aug

Advanced Micro Devices (US)
Realtek Semiconductor Corp (TT)
Universal Display Corp (US)
Nvidia Corp (US)
Samsung SDI Co Ltd (KP)

Main Detractors - Aug

Ememory Technology Inc (TT)
Murata Manufacturing Co Ltd (JT)
Umicore (BB)
BYD Co Ltd-H (HK)
Quimica Y Minera Chil-SP ADR (US)

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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