TANTALLON CAPITAL

December 2018

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.

Performance

Tantallon Tech & Sustainability Fund Size USD 12mn (Cayman is Feeder) (Inception Jan 17)

	Fund	MXWD*	MXWD0IT**	DJ Sust***	O/U Perf****
Dec 2018	**- 1.7%**	**- 7.2%**	**- 7.7%**	**- 7.4%**	**+5.9%**
2018 YTD	**-14.1%**	**-11.2%**	**- 6.8%**	**-12.1%**	**- 5.7%**
2017	**+24.4%**	**+21.6%**	**+40.3%**	**+20.6%**	**- 4.3%**
Inception	**+6.9%**	**+ 8.0%**	**+30.8%**	**+ 6.0%**	**- 11.3%**

** MSCI ACWI Index*
*** MSCI ACWI Information Technology Index*
**** Dow Jones Sustainability World Diversified Index*
***** Comparison with average of Tech & Sust*

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: Alex Hill (alex@tantalloncapital.com)

The Fund fell 1.7% in December as global markets fell 7.7%. Our cash position at over 60% helped cushion the fall and our top-2 positions were flat for the month.

While the December result improved our relative result for the year somewhat, 2018 was a poor year for the fund with a 14.1% decline in NAV on the back of negative gross returns of 11.4%, which were no better than the global stock market decline of 11.2%.

While our cyclical tech call was absolutely correct, we did not anticipate that our investments into the sustainability sector would be de-rated by almost as much. Particularly our investments into the two leading Korean battery makers generated losses. Furthermore, we doubled down on our one remaining high conviction technology growth holding and got hurt as it de-rated like a cyclical for most of the year until November.

The markets in general and tech in particular ended 2018 on a very weak note with both the overall market (MSCI World) and the global tech sector down by over 10% in the 4th quarter. This was only the 8th time this event occurred over the past 25 years (3 times in 2001-2, 2 times in 2008 and 1 time each in 2010 and 2011).

Given that 2001-2 included both the Y2K bubble bursting and the 9/11 geopolitical event and 2008-9 saw the biggest challenge to financial markets since 1929, the question at the beginning of 2019 is whether we will see another major down leg during the year or whether the cyclical slowdown has been well discounted.

As for tech, the triple whammy of Micron seeing a $1bn/$500m qoq sales/EBIT declines for the quarter ending 11/18, Samsung announcing a preliminary qoq EBIT drop from around $16b to $10b for the quarter ending 12/18 and then Apple warning about a shortfall in demand across the globe but mostly due to China certainly confirmed our view that 2018Q3 was the tech earnings peak. Given the general weakness in tech demand, not just for high-priced Apple products, but more fundamentally from data centre spend, I am not looking for a quick re-acceleration in unit shipments and as a result a more pronounced weakness in pricing across the board. We will therefore be very selective about getting involved in rallies as this downturn has not yet been fully discounted.

Back to the question of another potential & substantial drop: the main geopolitical test is happening on the trade front where China and the US are looking to avoid a deeper trade war while both

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%	1.5%	-10.6%	2.4%	-1.4%
Fund Cumulative Gross Returns	4.5%	2.1%	-2.0%	-4.0%	-3.9%	-5.8%	-5.0%	-3.3%	-1.9%	-12.3%	-10.2%	-11.4%
Fund Monthly Net Returns	4.0%	-2.4%	-4.2%	-2.3%	-0.1%	-2.2%	0.6%	1.6%	1.2%	-10.8%	2.1%	-1.7%
Fund Cumulative Net Returns	4.0%	1.4%	-2.8%	-5.0%	-5.1%	-7.2%	-6.6%	-5.2%	-4.0%	-14.4%	-12.6%	-14.1%
Equity Monthly Returns	5.2%	-3.0%	-5.2%	-2.6%	0.1%	-2.7%	0.6%	2.6%	1.5%	-19.8%	4.7%	-3.6%
Equity Cumulative Returns	5.2%	2.1%	-3.2%	-5.7%	-5.7%	-8.3%	-7.7%	-5.3%	-3.9%	-22.9%	-19.3%	-22.2%

countries are struggling to formulate effective domestic policy with the US budget/wall debate and China stimulus/control not helping to deliver clear positive signals. While the US economy is still seen to be fairly healthy, the consensus has turned negative on China. So aside from an effective solution to the trade dispute, the economies need help now. While a trade agreement is possible, it certainly will not turn the tech slide toward recovery before late 2019, if at all. We therefore may avoid another sharp drop but not all downside.

That said, we do not look to sit on our elevated cash position for the whole year and see continuing opportunities in renewable energy and electric mobility. After a slower year of solar installation in 2018, the market looks to reaccelerate in 2019 as investors and regulators are moving beyond the subsidy era and investing in straight renewable generating capacity based on market prcies. Solar and Wind have become the cheapest incremental capacity in many markets calculated on the basis of LCOE (levelized cost of energy). Given the forecast of continued declines in cost, further investments in fossil, nuclear and even hydro based generating capacity is going to look to be an ever more foolish move over the next 10 years.

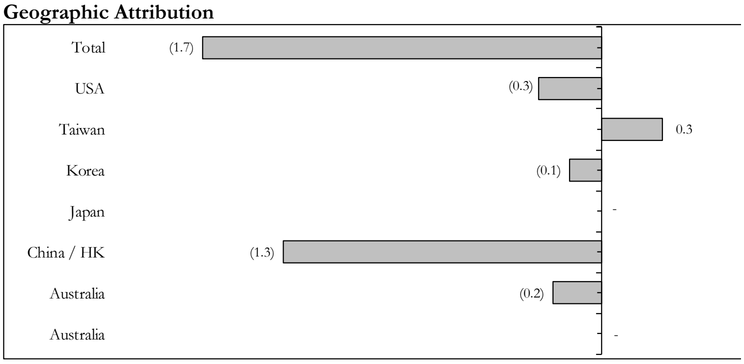
Clearly there continue to be a lot of vested economic and political interests lined up behind the traditional multibillion dollar mega projects so that they will not stop new builds immediately but the trend is very clear and leads us to be more positive on the renewable power supply chain as well as the power generators and distributors that get ahead of this change.

Meanwhile EV sales did hit 2m units in 2018 after mid-year forecast had still hovered around 1.6m as the US accelerated to 80% yoy growth on the back of a single car model – the Tesla 3. While 2019 looks to be a transition year of only 50% growth to 3mn, some of this is down to car design and battery capacity constraints and STILL means only limited competition for Tesla in the OECD high end and mid-market. 2020 is firming up to be the coming out party for the European brands as they not only aim to fix their Diesel problem in Europe but also aim to protect market share in the transition in China. The tech-led price correction in EV related companies is now allowing us to reposition here.

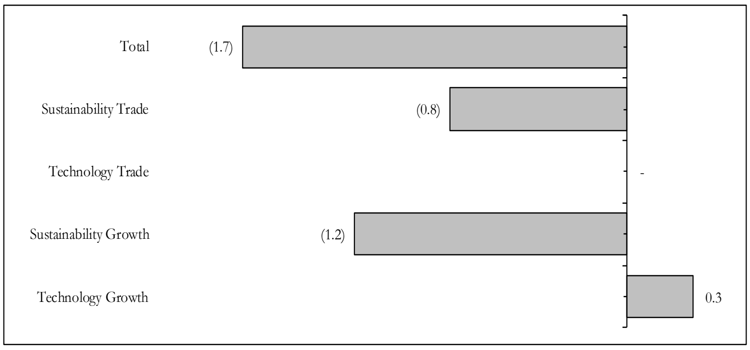
While 2019 certainly does not look like an easy macro year, we look forward to prove our mettle in choppy markets and wish you all success in your ventures.

% OF ASSETS ALLOCATION	EXPOSURE
Taiwan	30.5%
Hong Kong / China	6.5%
Australia	0.5%
United States	0.0%
Korea (South)	0.0%
Japan	0.0%
Cash	62.5%
Total	**100.0%**

Geographic Attribution



Sector Attribution



Equity Positions

Total	6	Largest 5	37.0% of NAV	Liquidity	0.3 days	Mkt Capitalization	>7.5Bn	32.1%
						Gross Exposure	>1Bn-7.5Bn>	10.6%
						(USD)	<1Bn	57.3%

Top Holdings		Main Contributors - Dec	Main Detractors - Dec
Ememory Technology Inc (TT)	21.4%	Ememory Technology Inc (TT)	BYD Co Ltd-H (HK)
Delta Electronics Inc (TT)	6.8%		Ganfeng Lithium Co-Ltd-H (HK)
BYD Co Ltd-H (HK)	5.2%		Quimica Y Minera Chil-SP ADR (US)
Chroma ATE Inc (TT)	2.2%		Orocobre Ltd (AU)
Ganfeng Lithium Co Ltd-H (HK)	1.3%		Samsung SDI Co Ltd (KP)

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