

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 slipped a further -4.4%, sharply underperforming regional indices. We are now down -10.8% for the year.

This was probably the most dispiriting month I can recall for several years. At one stage earlier in the month we were the better part of 2% up, having cut the balance sheet and flattened the book. But as regional markets, particularly Hong Kong, clutched at the straws of easier Chinese policy, the ensuing volatility of the short book compiled with further weakness in our residual long positions saw us losing money pretty much everywhere. India led losses with Aegis Logistics and Kotak Bank between them accounting for roughly half the monthly drawdown; in Hong Kong we were on the end of one of the ugliest squeezes I have yet experienced in the Chinese property companies, which forced me to cut exposure, and for good measure to downsize all our short-side positions, accounting for another quarter of the drawdown. The balance comes in dribs and drabs from Vallourec and our two positions in Australia, Pengana Capital, and OneView Healthcare in which we have a small (and now somewhat smaller!) position. About the only positives I can report were a recovery in Summit Ascent, our Russian casino, which I think is pricing Armageddon and which I haven't reduced, and some offsetting gains in the Indian rupee, which prompted by ever-fiercer US data I have belatedly hedged.

India has been THE standout emerging market this year, driven by beneficiaries of dollar weakness with heavy index weights. Having decided to exit all our mid-cap names in the second quarter, of our residual positions Reliance and Kotak have performed well, offset by weakness in Tata Steel and Aegis. Cushioned from global trade wars and dominated by robust domestic demand the Indian story continues to look attractive relative to the rest of the emerging markets, but its very outperformance, as the rupee's weakness accelerates on concerns about the current account vulnerability, is now beginning to alarm me. I have halved the position in Kotak, locked in a battle with the RBI on an acceptable methodology for Uday Kotak to reduce his personal holding, and have sharply increased our rupee short. I see little further short-term upside in the market given valuations and out-

Performance

Tantallon Fund Size USD 33mn (Cayman is Feeder)
(Inception Nov 03)

	Tan	MSCI Pacific Free Index	Over/(Under)perf
Aug 2018	-4.40%	-0.71%	-3.69%
2018 YTD	-10.80%	-3.15%	-7.65%
2017	+37.04%	+21.57%	+15.47%
2016	-11.32%	+1.49%	-12.81%
Inception	+117.52%	+74.41%	+43.11%
Compound	+5.4%opa	Volatility	+14.96%
3 mth T-bill return	+2.08%	Sharpe Ratio	0.22

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)

performance, and a rising likelihood that EM contagion could induce downside volatility that I would rather avoid.

China remains the great imponderable. My sense is that the markets continue to place undue confidence in the ability of the PBOC to avoid outcomes which look inexorably more unpleasant and unavoidable. While I scratch my head at the continuing robustness of property sales, pretty much everything

YEAR	RETURN	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+117.52%												
2018	-10.80%	+6.09%	+0.07%	-3.74%	-0.08%	+1.44%	-8.43%	-1.63%	-4.40%				
2017	+37.04%	+2.69%	+6.43%	+6.00%	-1.17%	+5.74%	+0.96%	+6.75%	-1.59%	-0.19%	+2.14%	+0.33%	+4.36%
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%

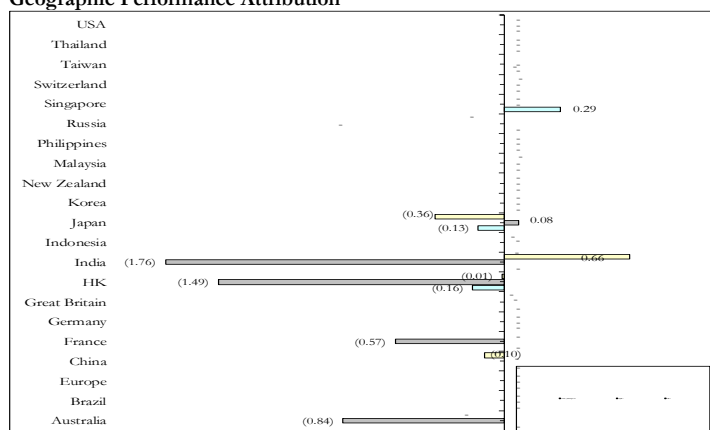
else connected to consumption is rolling over hard, led by the auto sector, extending now to the once seemingly-insatiable appetite for jewellery sales in Hong Kong and Macau VIP gambling revenue. Reforms to individual income tax and social security collection appear on balance to be a further net negative for personal consumption. On the trade front the picture is already poor, with export growth decelerating to single digits, and we haven't even begun to see the impact of Trump's tariff measures. Factory automation, excavator sales, and steel, all point to on-going weakness. And the inflation picture is deteriorating. The August optimism that policy response would be forthcoming and effective appears to be waning. I cannot envisage any scenario that stops the steady derating of the China story, cheap though much of it may already be. I am however a lot more circumspect in trading the short side than I have been, but we are short one of the mainland banks, China Merchants, the container terminal operator, SHK Properties (Hong Kong really does look terrible), and Sands China. I bitterly regret not having added Tencent! We remain short CNH and we continue to run a small short in Singapore.

The risk is that markets, who's retreat so far has been reasonably orderly, now take a precipitate dive as the reality of a trade war, combined with further dollar strength driven by inflation moving above target and a strong employment market, combine to hit confidence. We have continued to shrink the balance sheet, and I see little reason to commit cash anywhere ahead of the mid-term elections in November. Should these result in Democratic gains in

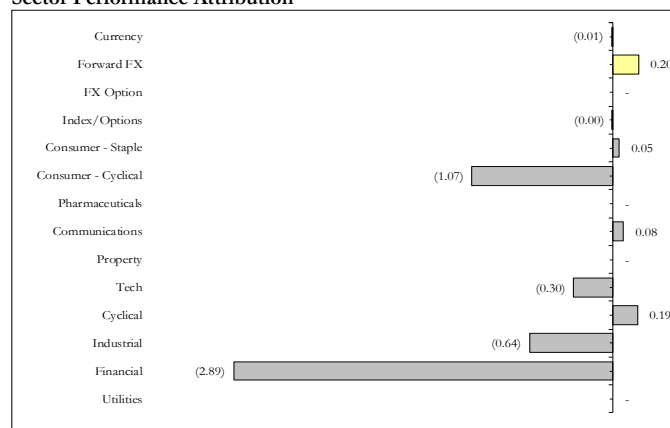
the House and a move to impeach, the wind may possibly come out of the dollar and give emerging markets some respite. But that does little to alter the challenges China faces in deleveraging into a stagflation environment. With our current positioning we are making modest positive headway against weaker markets as we enter September.

% OF ASSETS ALLOCATION	EQUITY LONG	EQUITY SHORT	INDEX LONG	INDEX SHORT	NET EXPOSURE	GROSS EXPOSURE
Australia	8.17%				8.17%	8.17%
China						
Europe	2.62%				2.62%	2.62%
Hong Kong	8.26%	(15.09%)			(6.83%)	23.35%
India	33.84%				33.84%	33.84%
Indonesia						
Japan	6.33%				6.33%	6.33%
Korea (South)						
New Zealand						
Singapore				(8.09%)	(8.09%)	8.09%
United States						
Total	59.22%	(15.09%)		(8.09%)	36.04%	82.40%

Geographic Performance Attribution



Sector Performance Attribution



Equity Positions

Long	11	Largest 10 Longs	59.09% of NAV	Long Liquidity	7.10days	Mkt Capitalization	>2Bn	62%
Short	4	Largest 10 Shorts	15.09% of NAV	Short Liquidity	0.00days	Gross Exposure (USD)	>500m-2Bn< <500mn	16% 22%

Top 5 % Longs

Kotak Mahindra Bank Ltd	11.09%
Aegis Logistics Ltd	9.45%
Reliance Industries Ltd	8.00%
Pengana Capital Group Ltd	6.90%
Summit Ascent Holdings Ltd	6.78%

Top 5 Contributors

Summit Ascent Holdings Ltd (L)
Sun Hung Kai Properties (S)
South Shore Holdings Ltd (L)
Tata Steel Ltd (L)
SBI Holdings Inc (L)

Top 5 Detractors

Aegis Logistics Ltd (L)
China Evergrande Group (S)
Kotak Mahindra Bank Ltd (L)
Vallourec SA (L)
Guangzhou R&F Properties - H (S)

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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