TANTALLON CAPITAL

December 2018

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.

Against a backdrop of extreme volatility, the fund declined -2.8%, bringing the full year drawdown to -19.4%.

An utterly frustrating month to end a dismal year. We were flat on the month going into Christmas, principally due to gains in our currency positions, long JPY and short AUD, which contributed +2.03%. However, with Trump "goosing" the market on the prospect of a China deal and an apparent (?) moderation in the Fed's communication, the surge in markets in the final days of the month helped our long book only modestly (-2.87%), but played havoc with our option positions and individual stock shorts, with unrealised gains of 2% evaporating and leaving us with losses of similar magnitude. Long book losses were led by India, with Reliance the main culprit, while premature attempts to bottom-fish in Aristocrat, and further weakness in Pengana Capital, saw Australia contribute over half of the monthly drawdown.

India accounted for two thirds of our long book losses of -15.3% for the year as a whole, with Aegis Logistics and Gateway Distriparks the main culprits. Australia was also expensive, detracting -4.6%, principally due to the second half collapse in Pengana. We made money in Japan, with MonoTaro, Nippon Sheet Glass, Ain and SBI Holdings four of our top five contributors (Pacific Basin Shipping being the fifth). Although the JPY rallied strongly into year-end, we still ended up losing -1.78% in fx, principally due to the yen, and a far cry from the +7% returns we had from that currency at the end of the first quarter. The AUD mercifully succumbed to the dire Chinese data and erased most of our Q4 pain, and we made some modest money covering belatedly our INR risk; we also, fortuitously, closed our CNH short for the cost of a few basis points. As will immediately be clear from the discrepancy between the drawdown in the long book and the net result, yet again the attempt to insure the portfolio against further market risk only exacerbated our losses, with Korean index optionality my favoured insurance policy (along with long JPY) detracting -1.8%, overwhelming generally positive index positions in Singapore, Hong Kong and Australia.

Performance

Tantallon Fund Size USD 30mn (Cayman is Feeder)
(Inception Nov 03)

	Tan	MSCI Pacific Free Index	Over/(Under)perf
Dec 2018	**-2.83%**	-5.27%	+2.44%
2018 YTD	**-19.44%**	-14.27%	-5.17%
2017	**+37.04%**	+21.57%	+15.47%
2016	**-11.32%**	+1.49%	-12.81%
Inception	**+96.45%**	+54.38%	+42.07%

Compound	+4.6%pa	Volatility	+14.88%
3 mth T-bill return	+2.45%	Sharpe Ratio	0.14

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:
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We had been positioned throughout the fourth quarter for a market crash, and although at several points in December it looked as if markets were poised to deliver exactly that, we were ultimately frustrated. Trump and Powell have conspired to snatch, at least temporarily, the prize that seemed poised to fall into our lap. Moreover, post the CEWC meeting Chinese policy response is becoming more aggressive, and the PBOC have managed a logic-defying levitation in the Renminbi, which if sustained should support plays

YEAR	RETURN	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+96.45%												
2018	-19.44%	+6.09%	+0.07%	-3.74%	-0.08%	+1.44%	-8.43%	-1.63%	-4.40%	-2.42%	-1.32%	-3.48%	-2.83%
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%

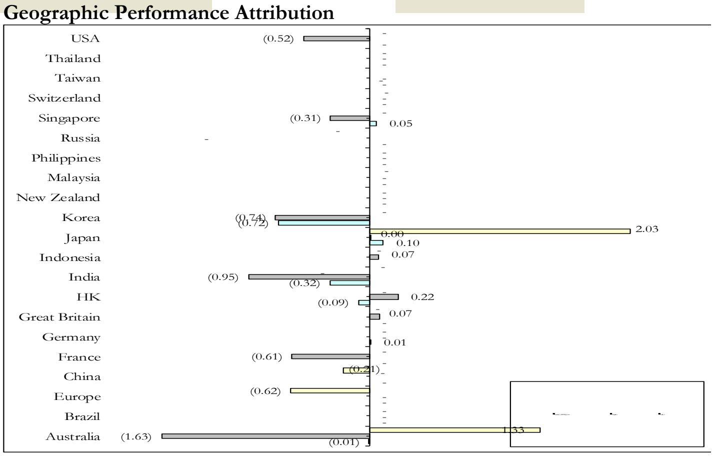
on offshore Chinese consumption, especially high-end retail, and Macau. We have taken profits in Prada, down 30% from our entry, and covered our shorts in Louis Vuitton, Burberry and Kering at more modest returns. The bigger question as to whether attempting to create P+L from the deepening downturn in China is even worth trying, is one that continues to vex me. Suggestions last week in the China Securities Journal that the PBOC should emulate the BoJ and start purchasing stocks and ETF's, coupled with reserve ratio cuts and more consumption targeted tax breaks, keep me alive to the risk of a Chinese bazooka. We have added to our Macau exposure, as GGR numbers have continued to improve, and the recovery in the RMB should be an additional positive. And we remain long Shimao, in expectation that loosening of purchase restrictions in tier one cities is inevitable. While there is little else I am interested in buying I am wary of being short, and continue to see greater potential impact from China's problems in Australia, Taiwan and Korea, with the latter having the added disadvantage of a tech headwind to contend with. Korea, which has long been propped up by the dominance of Samsung in the index, should be particularly vulnerable given its industry mix and the dominance of China in its export traffic. Add in herculean debt levels and the fact that Korean household's disposable incomes are in their 8th consecutive quarterly decline, and I find it easy to envisage Kospi at January 2016 levels!

Perhaps China should be consigned to the "too difficult" box. I continue to be drawn instead to more compelling opportunities in South East Asia, and over the last 4 weeks have, somewhat gingerly, been deploying some of the fund's cash, building a position in Thai Beverage, adding slowly to banking positions in Indonesia, and a solitary consumer name, DIY-equipment seller Ace Hardware. We have also re-entered the Philippines, returning Asean consumer name Universal Robina to the fund, and adding (again) to both Bloomberry Resorts, the casino operation of Ricky Razon, and Security Bank. In Thailand we have built a position in CPAll, the supermarket chain. In India, more controversially, we purchased Vakrangee, after a 95% share price collapse. I met this company several years ago, and was immediately suspicious of its claims to 40, 000 outlets, unimpressed by its promoter, and more pointedly, alarmed by the comment of the head trader at a domestic securities firm who raised flags on the opacity of its trading. Post a flurry of manipulation charges, auditor changes, and a re-jigging of the business model the company strikes me now as either worth nothing, or a great deal more than its current stock market value; and with Amazon, for whom the company represents last-mile fulfilment, and several other blue-chip Indian names still happy to jv with them I am betting on a reasonable valuation uplift.

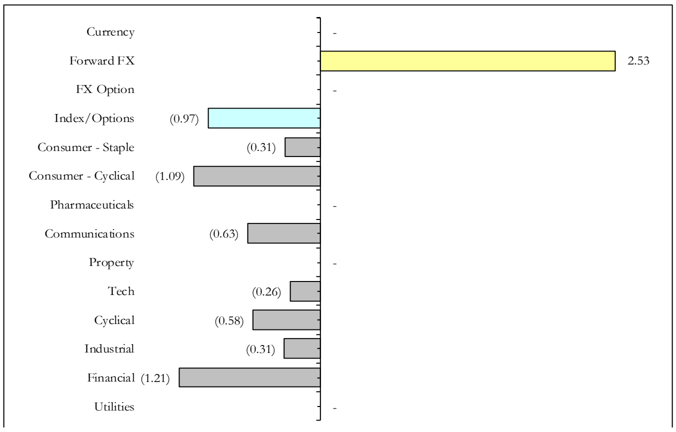
2018 brings to a close 15 years of running this fund. I don't think that even in the dark days of 2008 did I come as close to throwing in the towel as I have felt in the last few months. Nothing seemed to work, or to work for 48 hours and promptly reverse. The optimist in me likes to think that most Asian equity markets have re-priced for slower global growth, higher rates, and elevated trade tensions. As already alluded to, some parts of Asia stand to benefit from China's woes on the trade side, even if Vietnam, the most obvious beneficiary, is a market I am reluctant to embrace directly. We enter the year somewhat more constructively positioned than we were 2 months ago, but I am sceptical that this early January rally has much further to run.

% OF ASSETS ALLOCATION	EQUITY LONG	EQUITY SHORT	INDEX LONG	INDEX SHORT	NET EXPOSURE	GROSS EXPOSURE
Australia	5.97%			(6.63%)	(0.66%)	12.60%
China						
Europe		(14.40%)			(14.40%)	14.40%
Hong Kong	15.25%	(1.67%)			13.58%	16.92%
India	19.88%			(7.39%)	12.49%	27.27%
Indonesia	4.32%				4.32%	4.32%
Japan				(15.43%)	(15.43%)	15.43%
Korea (South)	3.81%	(8.40%)		(0.52%)	(5.11%)	12.73%
New Zealand						
Singapore	3.78%				3.78%	3.78%
United States						
Total	**53.01%**	**(24.47%)**		**(29.97%)**	**(1.43%)**	**107.45%**

Geographic Performance Attribution



Sector Performance Attribution



Equity Positions

Long	13	Largest 10 Longs	48.49% of NAV	Long Liquidity	9.76days	Mkt Capitalization	>2Bn	66%
Short	7	Largest 10 Shorts	24.47% of NAV	Short Liquidity	0.00days	Gross Exposure	>500m-2Bn>	20%
						(USD)	<500mn	14%

Top 5 % Longs		Top 5 Contributors	Top 5 Detractors
Aegis Logistics Ltd	9.84%	Shimao Property Holdings Ltd (L)	Reliance Industries Ltd (L)
Kotak Mahindra Bank Ltd	7.61%	Hyundai Development Co (L)	Alibaba Group Holding-SP ADR (L)
Melco International Develop	5.69%	Summit Ascent Holdings Ltd (L)	Kering (S)
Pengana Capital Group Ltd	5.18%	Melco International Develop (L)	Aristocrat Leisure Ltd (L)
Summit Ascent Holdings Ltd	5.13%	Sand China Ltd (L)	Guangzhou R&F Properties-H (L)