TANTALLON CAPITAL

February 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.

Performance

Tantallon Fund Size USD 40mn (Cayman is Feeder)
(Inception Nov 03)

	Tan	MSCI Pacific Free Index	Over/(Under)perf
Feb 2018	**+0.07%**	-2.26%	+2.33%
2018 YTD	**+6.16%**	+1.98%	+4.18%
2017	**+37.04%**	+21.57%	+15.47%
2016	**-11.32%**	+1.49%	-12.81%
Inception	**+158.89%**	+83.65%	+75.24%

Compound	+6.9%pa	Volatility	+14.92%
3 mth T-bill return	+1.61%	Sharpe Ratio	0.35

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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Despite sharply weaker regional markets the fund eked out gains of +7bps, leaving us +6.16% for the year. Regional indices declined between -2.2% and -3.7%.

Although at one stage most of our January gains had evaporated we were ultimately bailed out by our yen position, as more dovish noises from Kuroda and weakness in the USD pushed USD/JPY into 105 territory and contributed +2.4%; this largely covered renewed weakness in our Indian holdings, which detracted -1.65%. Losses here were led by Gateway Distriparks, whose performance over the last 2 years has been dire, and whose prospects continue to depend on the opening of the Delhi Freight Corridor, which despite Modi's emphasis on infrastructure development, proceeds at a snail's pace. Tata Steel also proved expensive, as it bid over twice the nearest bid for the assets of Bhushan Steel and Power, and announced a large rights issue. We had further issues in the steel sector with Vallourec, the French-listed manufacturer of steel pipes for the oil and gas industry, which delighted the bears by failing to give guidance for the 2018 financial year, costing us -1.3%. On a more positive note our long-standing position in Pacific Basin, acquired around 70c 2 years ago, surged 30% to the $2.20, brushing off concerns on Trump-induced trade wars and reflecting optimism on the sustainability of rising dry bulk rates and continued supply discipline in the handy sized dry bulk market. The stock is now the fund's largest single holding at roughly 11% of NAV.

We have a number of companies in the portfolio which, like Pac Basin, are highly geared to the sustainability of the recovery in global growth to something like the "norms" of pre-crisis levels. Vallourec, which we purchased at around 1.70 in March 2016 a few months prior to our acquisition of Pac Basin, when the world looked a very bleak place indeed, is one such, and although I am kicking myself for not taking profits a year ago at E7 I still feel comfortable that the resurgence of US shale, minimal refinancing risk, and the godsend of being a beneficiary of Trump's steel curbs (most of its plants are in the US) could well see this company, supported by Nippon Steel and the major shareholder itself in Anhui Tianda, the Chinese specialist steel pipe manufacturer, trade significantly higher (it was a $30 stock in 2013!). In the same boat sits Nippon Sheet Glass, slowly recovering from digesting the acquisition of Pilkington Glass 6 years ago, heavily indebted and with minimal sell-side coverage or interest, but

YEAR	RETURN	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+158.89%												
2018	+6.16%	+6.09%	+0.07%										
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%

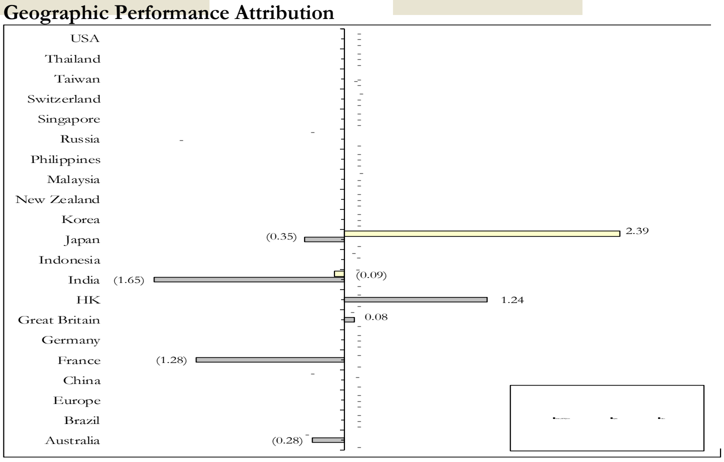
geared into the recovery in European construction and strength in auto-glass. And finally, copper stock MMG, the Hong Kong-listed mining SOE, with Peruvian assets, Australian management, and a balance sheet with levels of gearing that peaked a year ago at 1500%. This stock latterly has been on a tear as copper prices have shrugged off concerns on demand, roughly 50% of which comes from China, where growth in consumption is being driven by air-conditioning systems in second and third tier cities, and as strong cash flows have meant rapid debt retirement, with leverage falling from over 900% to 350% at the last results announcement. The stock has risen almost 60% this year and with volume now outstripping that of better known Jiangsi Copper by a 4:1 ratio the likelihood of MSCI inclusion is rising.

Occasionally I do something really dumb and unnecessary: February provided one particularly egregious example. In my restless desire to find ways to increase our weight in Japan, itself a Quixotic desire given my views on the JPY, my eye alighted with mistrust on our position in A2Milk, acquired in May last year at around $3.40 and which at $8.30 has produced a return far in excess of what I had expected as its "milk for the lactose intolerant millennial" has caught the market's attention. Portfolio turnover in the last 18 months has been masterfully inactive (at any rate by the yardstick of my first decade doing this), but A2Milk was duly sold, on the basis that it had delivered as much as it was likely to and the proceeds reinvested in Softbank. Three days later A2Milk stunned the market with exceptionally good numbers in both its ANZ business and its Chinese operations, and floated the prospect of direct involvement in the Chinese milk business; the stock promptly jumped 50%, which would have been a handy 2% lift to our February numbers. Infuriating.

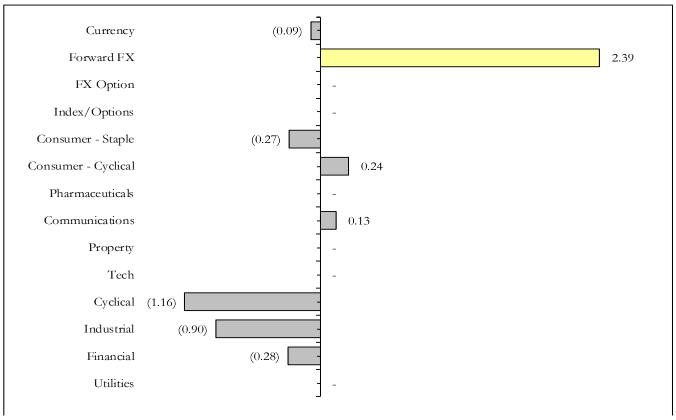
"Events dear boy, events!" in Macmillan's words. It has been by any measure an astonishing few weeks on the geopolitical front, all most all of it negative. I have been contemplating this alternating between cycling on the Costa Brava, and skiing in the Japanese Alps, from where I write this ahead of a few days in Tokyo. The proximate event in Japan is the resurgence of a land scandal which threatens to bring down Finance Minister Aso, if not Abe himself, (all very JPY positive) but this is of minor importance compared with the trashing of American institutional credibility, the surge in protectionist sentiment, the consummate craftiness of Kim Jong Un, or the assumption of dictatorial power by Xi JinPing. To date equity markets have broadly shrugged their shoulders at all this, and thus far I am in accord with them. The only clear conclusion I draw is that the dollar will be trashed along with US credibility, and that the current "administration" is perfectly happy with that. That should put another prop under Asian emerging market sentiment, and the stock specific issues I ponder revolve around the threat to dry bulk rates should protectionism become entrenched (unclear to me why this have any real impact) and on whether anti-Russian sentiment post Valdemort's latest spate of murders should further lower the rating on Sberbank. So I do nothing, and finish this by recommending all of you read the autobiography of Robert Kuok, A Memoir, written with Andrew Tanzer, a fascinating insight into the career and beliefs of one of Asia's most successful, and principled, overseas Chinese.

% OF ASSETS ALLOCATION	EQUITY LONG	EQUITY SHORT	INDEX LONG	INDEX SHORT	NET EXPOSURE	GROSS EXPOSURE
Australia	4.86%				4.86%	4.86%
China						
Europe	11.11%				11.11%	11.11%
Hong Kong	34.81%				34.81%	34.81%
India	31.57%				31.57%	31.57%
Indonesia						
Japan	40.97%				40.97%	40.97%
Korea (South)						
New Zealand						
Philippines						
United States						
Total	**123.32%**				**123.32%**	**123.32%**

Geographic Performance Attribution



Sector Performance Attribution



Equity Positions

Long	27	Largest 10 Longs	70.25% of NAV	Long Liquidity	1.72days	Mkt Capitalization	>2Bn	58%
Short	0	Largest 10 Shorts	0% of NAV	Short Liquidity	0.00days	Gross Exposure	>500m-2Bn>	30%
						(USD)	<500mn	12%

Top 5 % Longs		Top 5 Contributors	Top 5 Detractors
Pacific Basin Shipping Ltd	10.39%	Pacific Basin Shipping Ltd (L)	Vallourec SA (L)
Aegis Logistics Ltd	9.64%	Ain Holding Inc (L)	Nippon Sheet Glass Co Ltd (L)
Melco International	6.99%	HDFC Standard Life Insurance (L)	Heritage Foods Ltd (L)
MMG Ltd	6.98%	Summit Ascent Holdings Ltd (L)	Gateway Distriparks Ltd (L)
Tata Steel Ltd	6.41%	13 Holdings Ltd Rights (L)	Tata Steel Ltd (L)

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