TANTALLON CAPITAL

January 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 41mn (Cayman is Feeder)
(Inception Nov 03)

	Tan	MSCI Pacific Free Index	Over/(Under)perf
Jan 2018	**+6.09%**	+4.33%	+1.76%
2018 YTD	**+6.09%**	+4.33%	+1.76%
2017	**+37.04%**	+21.57%	+15.47%
2016	**-11.32%**	+1.49%	-12.81%
Inception	**+158.72%**	+87.89%	+70.83%

Compound	+6.9%pa	Volatility	+14.96%
3 mth T-bill return	+1.46%	Sharpe Ratio	0.36

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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(alex@tantalloncapital.com)

Despite surrendering over 300basis points in the last 2 trading days, the fund closed up +6.09% in January, outstripping vigorous rises in the regional indices by roughly 200bps. Returns were led by Japan, with our long JPY position contributing +2.8% and our equity positions a further +1.25%. India disappointed and detracted -2.4%, but strong rises in our Chinese copper company MMG, and a sharp rebound in Vallourec, both benefiting from a surge in commodity prices, helped our overall equity portfolio to gains of +3.27%. Sberbank and A2Milk also contributed handsomely.

Any smugness at such a robust start to the year has been short lived. The sharp sell-off in global equity markets which started early in February has needless to say erased the majority of these gains, and as I write, marooned in a flea pit hotel in Oromia province Ethiopia by violent labour demonstrations that have closed all roads to Addis Ababa, our gains for the year have been reduced to a few percent. This is the first time I have ridden into one of these surges in volatility with zero protection (other than the JPY) and it has been a very uncomfortable experience. Nonetheless confident that what has precipitated this pullback is largely CTA and short volatility strategies unwinding against a backdrop of bond market weakness and wage inflation concerns, I have done nothing other than add a little to some existing holdings. With global growth still surging, interest rates still highly accommodative, and wage inflation pressures likely to prove temporary in the face of increasing automation I still see equities as the asset class of choice.

We have continued to add slowly to our position in Japan, seeking names that have minimal JPY sensitivity, as corporate profits from the non-financial sector reach 15.9% of GDP, up from 6.5% in 2009. While buying value in Japan can bring you beta comparable to Indian growth, as the last week has made me wryly aware, I continue to believe that Japan should perform strongly and that yen strength is likely to prove less of a threat to earnings than paradoxically, supply side constraints driven by under-investment by the corporate sector which, as Fanuc recently pointed out, is leading to a battle to secure components. We have invested in Monotaro, an online player in the Maintenance, Repair and Operation (MRO) space, dedicated to component sourcing, domestically and internationally (hence a strong yen beneficiary) with over 2 million customers. We have in addition added a position in the pharmacy chain operator and sector consolidator Ain Holdings; and I am attracted, once again, by Softbank. The latest GDP numbers point to robust domestic

EAR	RETURN	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+158.72%												
2018	+6.09%	+6.09%											
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%

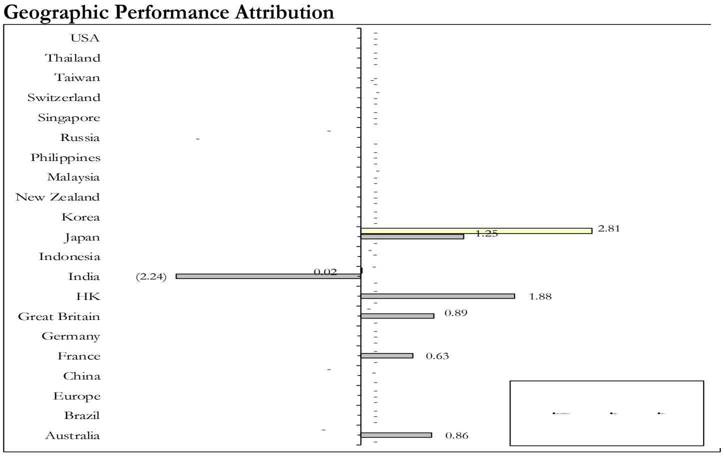
consumption (+1.9%y/y) as the tight labour market leads to higher wages, which recent budget tax cuts will underpin. Inflation remains quiescent on the face of it but the underlying pressures from labour shortages and under-investment in capacity continue to build, most noticeably in the supply chain. While it is true that growth in consumption continues to lag wage growth, I wonder how much of this caution is the lingering result of the debasement of consumer savings that was a direct result of Abenomics manipulation of the exchange rate. There were quickly denied suggestions at the end of the year that Kuroda was conceding that his 2% target was closer to being hit, and the underlying trend is clear, although JPY strength will mitigate imported inflation from higher commodity prices. The greatest delta on the ending of exceptional monetary stimulus still lies with the BOJ and the yen, and our long position in JPY remains the largest single bet in the fund.

Our increased weight in Japan has come largely at the expense of India, where I spent a few days with Prem earlier this month. Apart from rising oil prices and some disappointment at the imposition of a 10% capital gains tax in the last budget, India remains compelling, if fairly fully priced. Modi’s grip on the economic narrative appears increasingly assured, and I was struck by the number of companies now lauding the controversial demonetization move as masterful, as the larger, more efficient players in everything from milk, to jewellery and financial services, consolidate market and pricing power at the expense of the unorganized sector. The torrent of capital now being forced into the equity markets is immediately evident in the sheer numbers of players from Indian asset management companies that dominate sell-side conferences in Bombay and Delhi. With equities still a minimal percentage of household assets, and the free float of quality privately owned and run corporates who dominate the growth areas of the economy limited, and minimal new equity capital being raised, the valuation on Indian equities, once driven as so much else in emerging Asia by foreign capital flows, appears well under-pinned. Prem has written elsewhere on Mahindra and Mahindra Financial Services, a sector which having taken profits in Kotak Bank I feel under-exposed to, and I was also much taken by the watch, jewellery and eyewear chain Titan, who seem poised to develop a significant additional growth avenue in the diamond market. How to fund these ideas is now the question, and our 2 year commitment to Vallourec may need to end.

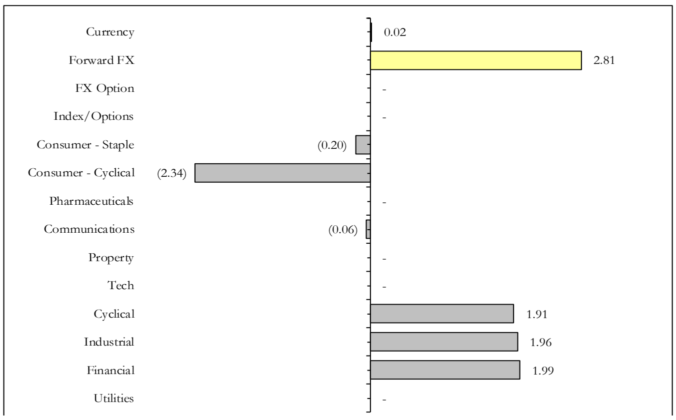
Writing this in Addis Ababa, after running a 300km gauntlet of makeshift road blocks, abuse and rock throwing under an army escort through Oromia Province from Bale National Park to Awassa, I am reminded of just how benign the Asian emerging market experience remains. Here was first hand evidence of the unpopularity of the outreach of Chinese “soft power”, for in truth any infrastructure the Ethiopians have is built and managed by the Chinese, and despite new ring roads, industrial parks and a gleaming new rail line to Djibouti which shows scant respect for camels, the seemingly limitless numbers of listless youth one sees lining the streets have participated not at all in this “progress” and the hatred they have for this benefaction was striking to see at first hand. Maybe Malaysia isn’t so uninvestable after all!

% OF ASSETS ALLOCATION	EQUITY LONG	EQUITY SHORT	INDEX LONG	INDEX SHORT	NET EXPOSURE	GROSS EXPOSURE
Australia	8.71%				8.71%	8.71%
China						
Europe	11.89%				11.89%	11.89%
Hong Kong	30.18%				30.18%	30.18%
India	32.24%				32.24%	32.24%
Indonesia						
Japan	29.66%				29.66%	29.66%
Korea (South)						
New Zealand						
Philippines						
Singapore						
United States						
Total	**112.68%**				**112.68%**	**112.68%**

Geographic Performance Attribution



Sector Performance Attribution



Equity Positions

Long	24	Largest 10 Longs	66.50% of NAV	Long Liquidity	2.49days	Mkt Capitalization	>2Bn	60%
Short	0	Largest 10 Shorts	0% of NAV	Short Liquidity	0.00days	Gross Exposure	>500m-2Bn>	30%
						(USD)	<500mn	10%

Top 5 % Longs		Top 5 Contributors	Top 5 Detractors
Aegis Logistics Ltd	9.44%	MMG Ltd (L)	Aegis Logistics Ltd (L)
Pacific Basin Shipping Ltd	8.40%	Sberbank PJSC-sponsored ADR (L)	Nexteer Automotive Group Ltd (L)
Melco International	7.28%	Vallourec SA (L)	Heritage Foods Ltd (L)
Tata Steel Ltd	6.72%	Fanuc Corp (L)	Cox And Kings Ltd (L)
Fanuc Corp	6.20%	A2 Milk Co Ltd (L)	Tata Steel Ltd (L)