

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 -1.63%, against a backdrop of slightly firmer regional indices. We are now down -6.7%, and lagging these indices for the year to date.

Despite a strong performance by India (+2% in aggregate, led by Reliance Industries and Aegis) and Japan (+1%, led by Nippon Sheet Glass ahead of another strong earnings quarter), we were hammered both long (and short, inevitably) in Hong Kong, and in JPY. We have cut the yen position, with exquisite timing 24 hours ahead of Trump weighing in on USD strength and Fed rate hikes, ahead of the latest BoJ meeting. In Hong Kong, despite halving our few long positions, residual holdings in Melco, Pac Basin and MMG proved painfully costly, notwithstanding a reprieve in the latest run of weakness in Macau GGR numbers, and some excellent results (and a return to dividend payments) by Pac Basin. The slump in the copper price however, was a lot faster than my reduction of our position in MMG. We have sold out of all three names entirely.

It is frustrating to have partly foreseen this latest slump, albeit later than perhaps I should have done, and to have failed to protect the P+L. My bearishness has deepened over the last few weeks, and we have continued to raise cash, and will shortly own very little of substance outside of our 4 Indian positions (Tata Steel, Kotak, Aegis and Reliance). Whatever we have touched on the short side has, so far at least, only compounded our problems, as China reacts at the margin to reserve ratio cuts, the repeal or delay of WMP rules, rumours of massive new stimulus packages (RMB 16trillion!??) and discounts on mortgage rates. My dystopian view of China is as solid as it was 2 years ago, the only difference now being that I am beginning to question the one supposedly infallible belief: the strength of the Chinese consumer and the health of the household balance sheet. China is beginning to look a lot like the Korea of 15 years ago: excessive credit card debt, Ponzi finance schemes, egregious consumption. Peer to peer lending is an US400billion problem, and P2P lenders are collapsing in droves as "guaranteed" returns of 8%, predicated entirely on the continuation

Performance

Tantallon Fund Size USD 35mn (Cayman is Feeder)
(Inception Nov 03)

	Tan	MSCI Pacific Free Index	Over/(Under)perf
Jul 2018	-1.63%	+0.89%	-2.52%
2018 YTD	-6.70%	-2.46%	-4.24%
2017	+37.04%	+21.57%	+15.47%
2016	-11.32%	+1.49%	-12.81%
Inception	+127.52%	+75.66%	+51.86%
Compound	+5.7%opa	Volatility	+14.95%
3 mth T-bill return	+2.02%	Sharpe Ratio	0.25

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)

of a bull market in domestic equities, unravel. Attempts last week to mount a demonstration to highlight this in Beijing's Financial District were met with massive police presence. With the currency weakening, the property market stagnant, and growth slowing even before the impact of trade hostilities, lower SHIBOR and increased bank liquidity from RR cuts are unlikely to turn sentiment for long. Nor is there any sign that Xi's determination to

YEAR	RETURN	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+127.52%												
2018	-6.70%	+6.09%	+0.07%	-3.74%	-0.08%	+1.44%	-8.43%	-1.63%					
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%

continue his agenda of de-leverage and reform will be substantively altered to reflect this weaker environment.

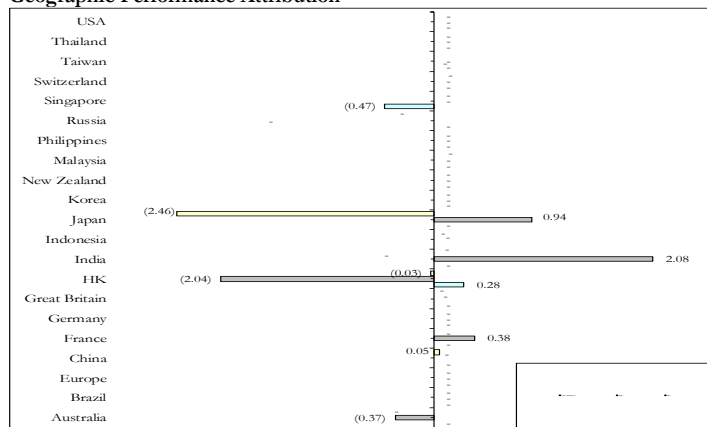
For as long as there is no impact on US equity markets, Trump's chosen barometer of approval, a steady escalation of the trade dispute with China appears inevitable. If Trump can beat up on the EU and a NATO ally like Turkey so aggressively, confrontation with China looks politically popular ahead of the mid-term elections. Where the RMB is with US200billion of imports at a 25% tariff I don't know, but I doubt it will be the current side of 7 and the re-imposition of the 20% onshore FX funding requirement last week smacks of desperate measures. One long-standing, and exceptionally well-informed China watcher with whom I chanced to have lunch with this week, sees the RMB at 15 in the next 3 years; and he had only had one Aperol Spritz! The direction of travel is clear, and if Macau Gross Gambling Revenues prove as sensitive to FX depreciation as they have shown themselves over May-July, then I am unlikely to be buying Melco back any time soon; and will run my small short in Sands China.

I am aware that China A shares are already down substantially this year, and that the listed market, representing barely 1% of the corporate sector, is both optically cheap, and not where the greatest stresses lie. However, the recent 20% correction pales against the level of historical volatility in the index over the last 15 years, with 3

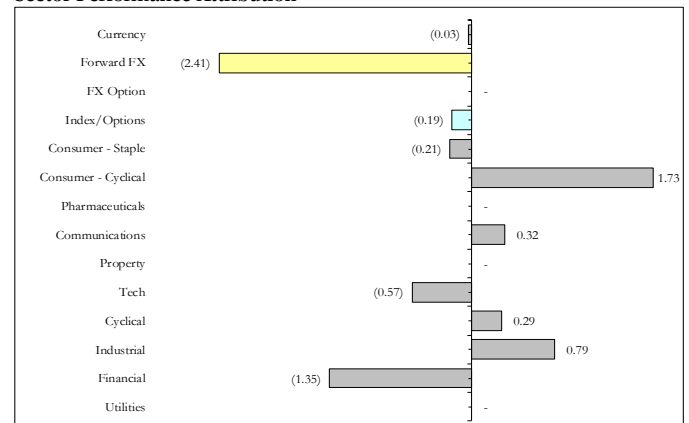
corrections in excess of 40%, against the backdrop of significantly more supportive macro. This is merely the first innings. Moreover, for the rest of Asia, where China's importance as a trading partner has soared over the last two decades, to 24% of total trade, from 11% in 2000, with the US mirroring that decline, and where dollar funding nonetheless remains paramount, the negative jaws of collapsing Chinese demand and higher credit costs look to be an ominous combination. Singapore, and Hong Kong in particular, where credit/GDP ratios have nearly tripled in the last decade to 450% of GDP, should be especially vulnerable. 2019 will be interesting.

% OF ASSETS ALLOCATION	EQUITY LONG	EQUITY SHORT	INDEX LONG	INDEX SHORT	NET EXPOSURE	GROSS EXPOSURE
Australia	13.14%				13.14%	13.14%
China						
Europe	4.66%				4.66%	4.66%
Hong Kong	11.64%	(21.06%)			(9.42%)	32.70%
India	36.24%				36.24%	36.24%
Indonesia						
Japan	14.92%				14.92%	14.92%
Korea (South)						
New Zealand						
Singapore				(17.59%)	(17.59%)	17.59%
United States						
Total	80.60%	(21.06%)		(17.59%)	41.95%	119.25%

Geographic Performance Attribution



Sector Performance Attribution



Equity Positions

Long	15	Largest 10 Longs	70.06% of NAV	Long Liquidity	5.41days	Mkt Capitalization	>2Bn	64%
Short	9	Largest 10 Shorts	21.06% of NAV	Short Liquidity	0.00days	Gross Exposure	>500m-2Bn<	23%
						(USD)	<500mn	13%

Top 5 % Longs

Kotak Mahindra Bank Ltd	12.40%
Aegis Logistics Ltd	10.03%
Nippon Sheet Glass Co Ltd	9.03%
Aristocrat Leisure Ltd	6.90%
SBI Holdings Inc	5.89%

Top 5 Contributors

Reliance Industries Ltd (L)
Aegis Logistics Ltd (L)
Nippon Sheet Glass Co Ltd (L)
Vallourec SA (L)
Summit Ascent Holdings Ltd (L)

Top 5 Detractors

MMG Ltd (L)
Melco International Develop (L)
Oneview Healthcare PLC-CDI (L)
Kotak Mahindra Bank Ltd (L)
Pacific Basin Shipping Ltd (L)

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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