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 declined sharply, losing -8.4%, underperforming weaker regional markets by a wide margin. We are now -5.16% for the year.

Given that I had anticipated a shift in market sentiment this result was extremely disappointing. I was insufficiently aggressive in increasing our short side exposure, somewhat rusty and sluggish after a long hibernation. And I was particularly slow to recognize that I had a great deal more China risk in the portfolio than I had thought. Finally, our JPY position, which acted well as a risk-off balance to the portfolio in the 1st half, is now instead magnifying the weakness. We lost -2.59% in the JPY forward, -2.67% in Hong Kong (principally a 20% fall in Melco), and -3.1% in India, where a 30% fall in Aegis accounted for 80% of the drawdown.

For the second quarter the fund declined -7.18%, with by far the greatest weakness coming from our yen position as the dollar strengthened inexorably and the inflationary forces we see at work in Japan's supply chain fail to manifest themselves in the CPI. The JPY position cost -5.9%, and our equity positions a further -1.5%. For the first half as whole, we still retain some residual gains (+80bps) from the yen position, but the losses are dominated by India, which detracted -7.4% in the Jan-June period, by far our worst market, and our largest weighting despite having substantially trimmed our exposure last December. Aegis, Tata Steel, Gateway and Heritage Foods make up four of our five largest losers (with Nexteer in Hong Kong the fifth). India's performance, about which I continue to scratch my head as results by and large in what we own have been good, and growth is re-accelerating, stands in contrast to modest gains in Japan (+1.96% in the first half), Australia and Hong Kong. Our largest winners have been Pacific Basin and MMG in Hong Kong, Kotak Bank in India, and MonoTaro and Ain Holdings in Japan.

The reasons for my somewhat abrupt bearishness are straight-forward. The first is a re-run of all my old concerns on China, pushed to one side out of sheer exhaustion 2 years ago, but now returning with a vengeance as it suddenly becomes clear that the carefully managed balancing act of cleaning up the shadow banking sector, without risking an implosion in asset markets or a hit to consumption is not going to plan. Rumbles from the bond market, especially in regard to a scarily leveraged property sector, have been around for a few months, but I have been seduced by the generally positively parsed explanation that with prices well supported, and strength in tier 3 and 4 cities, that this did not undermine the bull case for Chinese equities. As Southbound flows into Hong Kong turn sharply negative, the CNY weakens and bond issuance dries up it is

Performance

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

	Tan	MSCI Pacific Free Index	Over/(Under)perf
Jun 2018	**-8.43%**	-2.36%	-6.07%
2018 YTD	**-5.16%**	-3.32%	-1.84%
2017	**+37.04%**	+21.57%	+15.47%
2016	**-11.32%**	+1.49%	-12.81%
Inception	**+131.29%**	+74.11%	+57.18%

Compound	+5.9%pa	Volatility	+14.98%
3 mth T-bill return	+1.91%	Sharpe Ratio	0.27

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)

YEAR	RETURN	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+131.29%												
2018	-5.16%	+6.09%	+0.07%	-3.74%	-0.08%	+1.44%	-8.43%						
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%

obvious that there is significantly greater nervousness about the unfolding situation amongst domestic institutions. Against this backdrop the collapse of land sales in June is particularly striking, with sales -28% from the monthly average of the first 5 months, and the rampant growth in tier 3+4 (+89% in the first 5 months) slowing to just 1%. Credit is already tight and offshore bond financing (with US775billion of offshore loans) is getting more difficult as rates rise and the authorities ban the issuance of new debt.

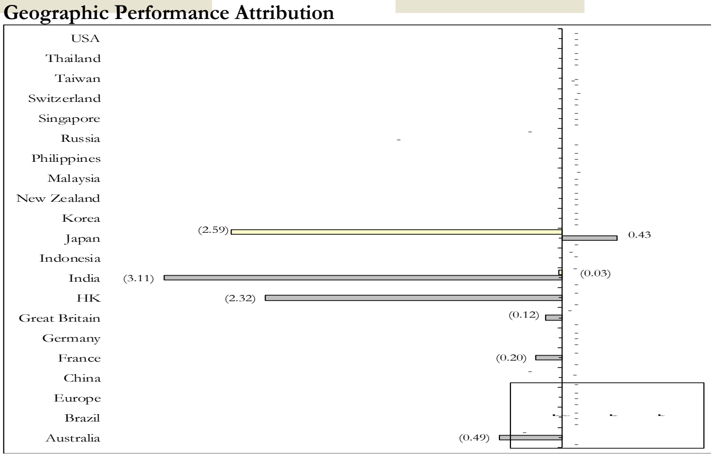
Into this imbroglio step Trump and his trade disputes. For as long as the US equity market remains immune to his disruption of global supply chains and alliances, we can expect a further deterioration in relations; the likelihood of any speedy accommodation and a return to previous norms is fading. Taken together this looks like a perfect storm for Chinese equities, and doesn't bode terribly well for anyone else either. In the very short term concern at the weakness in domestic equities and the distress in the credit markets has prompted reserve ratio cuts, some soothing rhetoric and a roll-back of some of the recent restrictions on bond finance, but while this may produce a bounce I strongly feel it is one to be faded.

We have sharply reduced our exposure, selling out of Melco entirely, as the impact of a weaker RMB is already showing up in slower GGR growth, and the implications of further asset weakness on consumption are clear. I would rather have retained Melco and shorted one of the American-owned casinos, as here surely are ripe targets for Chinese retaliation, but taking our remaining profits was a first priority. We have also sold out of MMG, as a slower Chinese property market will do nothing for the copper bulls for a while, although housing is but one of many sectors driving demand for the metal. And we have sharply reduced our holding in Pac Basin, as well as reducing our position in Ain and selling out of MonoTaro and Nippon Ceramic in Japan. We have trimmed a little further in India, but I feel, perhaps unwisely, very comfortable with what we retain in that market, and with minimal exposure to external demand and oil prices backing off I would like to think India has seen the worst of its weakness.

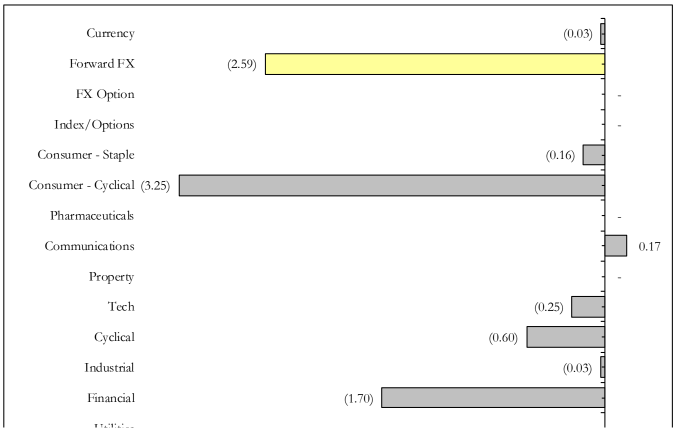
To quote Rambo: "Do we get to win this time?" We are short a liquorice all-sorts selection of the Chinese banks, insurers and mainland property companies. I am debating throwing in the towel on the yen, only my feeling that the increasing uncertainty in the economic outlook may lead to renewed dovishness at the FED holding me back. But we would clearly have been better off hedging our Indian Rupee exposure (dumb) and renewing our old bet that the RMB has a lot further to slide. We have about 20% cash and a small short position in Singapore, where the powers-that-be, congenitally incapable of keeping their hands off the train set, have chosen this moment to re-impose further restrictions on the property market. I would like to short Sheldon Adelson, and I wonder whether market darlings like TenCent and Alibaba will in this new environment be allowed to continue to make the vast profits from the quasi monopolies they enjoy, or whether the risk of some more socialisation is rising. About the only stocks I feel strongly I should be BUYING are Russian blue chips, Sberbank and GazProm, and my only hesitation is that Trump may be offering tacit encouragement to Putin to grab Latvia and the rest of Ukraine. In the meantime hats off to some of the more pungent of the placard wavers whom the so-called President avoided in London this week!

% OF ASSETS ALLOCATION	EQUITY LONG	EQUITY SHORT	INDEX LONG	INDEX SHORT	NET EXPOSURE	GROSS EXPOSURE
Australia	12.83%				12.83%	12.83%
China						
Europe	4.19%				4.19%	4.19%
Hong Kong	26.83%	(19.26%)			7.57%	46.09%
India	33.90%				33.90%	33.90%
Indonesia						
Japan	17.81%				17.81%	17.81%
Korea (South)						
New Zealand						
Philippines						
United States						
Total	**95.56%**	**(19.26%)**			**76.30%**	**114.82%**

Geographic Performance Attribution



Sector Performance Attribution



Equity Positions

Long	19	Largest 10 Longs	71.74% of NAV	Long Liquidity	4.26days	Mkt Capitalization	>2Bn	63%
Short	5	Largest 10 Shorts	19.26% of NAV	Short Liquidity	0.00days	Gross Exposure (USD)	>500m-2Bn>	25%
							<500mn	12%

Top 5 % Longs		Top 5 Contributors	Top 5 Detractors
Kotak Mahindra Bank Ltd	12.49%	Pacific Basin Shipping Ltd (L)	Aegis Logistics Ltd (L)
Aegis Logistics Ltd	8.83%	Ain Holdings Inc (L)	Melco International Develop (L)
Nippon Sheet Glass Co Ltd	8.17%	Ping An Insurance Group Co-H (S)	Summit Ascent Holdings Ltd (L)
Pacific Basin Shipping Ltd	7.75%	China Merchants Bank-H (S)	Heritage Foods Ltd (L)
Melco International Develop	6.53%	Bank Of Communications Co-H (S)	MMG Ltd (L)

TANTALLON CAPITAL, 137 TELOK AYER ST #03-05, SINGAPORE 068602. T: +65 6327 3920 F: +65 6327 3924
www.tantalloncapital.com