TANTALLON CAPITAL

November 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.

The fund declined -3.48%, extending our drawdown to -17%.

Any optimism I had last month that we were positioned correctly to pull things back was shattered by the Trump-inspired surge in everything and anything on the first two trading days of November. To endure our worst consecutive daily drawdowns on the 15th anniversary of the fund was not pleasant; the majority of the pain coming in our positions in fx, in particular the AUD. Why the market thinks there is a snowballs chance in hell of the RBA hiking rates given the weakness in asset prices and the downturn in China beats me. We were net short on a delta-adjusted basis entering the month, and the erosion in our put positions, principally in Korea, was costly (futures and options p+l -1.05%). We had minimal traction from our long book (+1.4%) contributed principally by Kotak Bank and Melco, offset by significant weakness in Pengana in Australia.

Although my overarching view remains negative, it has modulated on China. Chinese data is now inflecting downwards unambiguously, despite the muted policy response to date. It should get inexorably worse, as despite Trump's bluster, there is zero chance in my view of any "deal" on the trade front, and there will be many more Huawei-like revelations as a unified western response to Chinese theft of intellectual property kicks into gear. Is there a Chinese "bazooka" that could counter this, and could we see it at the CEWC meeting before Christmas? I am beginning to think there might be, with inter alia massive cuts in the reserve ratio (still at 14%), a repeal of the demand-stifling restrictions on property in tier one cities, and significant currency depreciation. On the latter I see no reason why Xi should be any more wedded to the level of the RMB than his best friend Putin was to the level of the RUB. The property sector is already seeing policy support, despite its pariah status, with the NDRC announcing last week that "high quality" companies can now raise funds in the domestic bond market, reducing the need to fund externally (total USD offshore corporate borrowing is already US750billion).

Performance

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

	Tan	MSCI Pacific Free Index	Over/(Under)perf
Nov 2018	**-3.48%**	+1.02%	-4.50%
2018 YTD	**-17.09%**	- 9.50%	-7.59%
2017	**+37.04%**	+21.57%	+15.47%
2016	**-11.32%**	+1.49%	-12.81%
Inception	**+102.17%**	+62.97%	+39.20%

Compound	+4.8%pa	Volatility	+14.90%
3 mth T-bill return	+2.34%	Sharpe Ratio	0.16

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)

We have accordingly taken some very modest profits in our Chinese property shorts, and somewhat more substantial ones in the Macau names. We retain our positions in the European luxury names, and I am kicking myself for not having extended the list to have included Tods, Richemond, Swatch and Tiffany, all of whom have surprised the market with their downbeat guidance. We have reversed ourselves in Macau, buying back Melco, which

YEAR	RETURN	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+102.17%												
2018	-17.09%	+6.09%	+0.07%	-3.74%	-0.08%	+1.44%	-8.43%	-1.63%	-4.40%	-2.42%	-1.32%	-3.48%	
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%

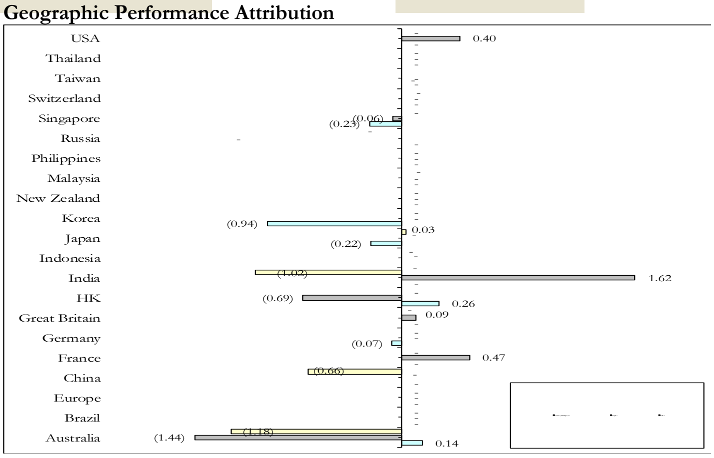
has collapsed from $30 to $12 in the last 7 months (we were fortunate to exit in the high 20's), encouraged by the size and persistence of the insider buying by Laurence Ho. I was tempted by the 7% yield on Sands China, but my worries that Adelson may yet be made to pay a price for his support of the Trump agenda keep me away from making it a long-term holding. Ho is rumoured to be moving to Tokyo full time as the glacial discussions on integrated resorts in Japan quicken ahead of the opening of the World Expo in Osaka in 2025. I attended a Goldman presentation in Roppongi last week on the gaming issue, and the market is now primed for 3 licences, one of which is slated for a rural area…and of the licence contenders Laurence is the only one guaranteed to be alive in 2025. Interestingly the price action in all the Asian casino plays, from Genting Singapore to Bloomberry in Manila has been strong, and Macau GGR numbers have recovered strongly driven by mass.

If I am groping towards the view that the pain in Chinese assets as the economy slows further is more likely to be taken in the currency than the equity or property markets, I am floundering in my views on India, which has been by far the largest contributor to our woeful results this year. My colleague Prem and his directors have come back from their most recent trip with almost predictable levels of enthusiasm for what they find on their company visits. The mystery as to why this fails to be reflected in stock market performance remains. We are a year on from demonetization which swamped the financial sector with liquidity, much if which was supposedly destined for the domestic equity market and away from property and gold. Instead we have had an NBFC panic bought on by the ILFS default which continues to reverberate, a steady erosion of Modi's electoral mandate and a furious row with the Reserve Bank on the conduct of monetary policy, while over-zealous regulation by SEBI has crimped flows into anything other than the blue chips. Maybe this is the darkest before the dawn, and the turn in the INR and the weaker oil price are nice to have, but this market continues to cause far more damage than it should and I continue to fret that the key driver of performance, liquidity, will as elsewhere, make the returns here sparse and hard won. We retain our positions in Aegis, where our internal earnings projections are so far ahead of the street as to be ludicrous, Kotak, where Uday is locked in a battle with the regulator on a mandated reduction in his personal holding, and Reliance; I have exited Tata Steel (after 3 years) on excellent results in November; and watched it plummet thereafter.

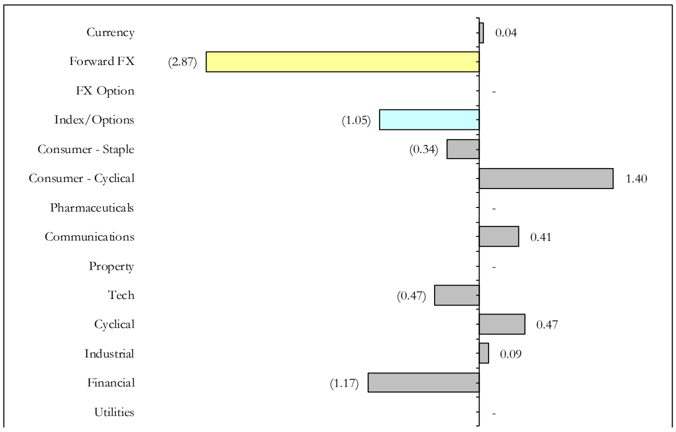
Asian currencies had already turned against the dollar well before Powell's apparent dovishness. After a multiple year de-rating I am wondering whether the big Asean consumer franchises, Universal Robina, Thai Beverage, the CP Group, are building a base. The fact that the clear winner of the rapid dismantling of the supply chains built up since China's WTO accession is Vietnam and to a lesser extent its Asean neighbours, is another potential plus. I am off to Jakarta to talk to an old hand at Bank Central Asia when I finish this overdue report. Maybe there is some light in Asia in 2019 after all.

% OF ASSETS ALLOCATION	EQUITY LONG	EQUITY SHORT	INDEX LONG	INDEX SHORT	NET EXPOSURE	GROSS EXPOSURE
Australia	9.68%	(3.43%)		(0.21%)	6.04%	13.32%
China						
Europe		(13.56%)		(0.34%)	(13.90%)	13.90%
Hong Kong	26.81%	(4.49%)			22.32%	31.30%
India	29.08%				29.08%	29.08%
Indonesia						
Japan						
Korea (South)				(0.17%)	(0.17%)	0.17%
New Zealand						
Singapore	3.78%				3.78%	3.78%
United States	5.33%				5.33%	5.33%
Total	**74.68%**	**(21.48%)**		**(0.72%)**	**52.48%**	**96.88%**

Geographic Performance Attribution



Sector Performance Attribution



Equity Positions

Long	16	Largest 10 Longs	64.24% of NAV	Long Liquidity	6.58days	Mkt Capitalization	>2Bn	73%
Short	6	Largest 10 Shorts	21.48% of NAV	Short Liquidity	0.00days	Gross Exposure	>500m-2Bn>	13%
						(USD)	<500mn	14%

Top 5 % Longs		Top 5 Contributors	Top 5 Detractors
Kotak Mahindra Bank	10.21%	Kotak Mahindra Bank (L)	Pengana Capital Group Ltd (L)
Aegis Logistics Ltd	9.79%	Melco International Develop (L)	Sun Hung Kai Properties (S)
Reliance Industries Ltd	8.27%	Tata Steel Ltd (L)	Oneview Healthcare PLC-CDI (L)
Summit Ascent Holdings Ltd	5.95%	Alibaba Group Holding-SP ADR (L)	Shimao Property Holdings Ltd (L)
Pengana Capital Group Ltd	5.90%	Sand China Ltd (L)	Agile Property Holdings Ltd (S)

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