TANTALLON CAPITAL

April 2019

TANTALLON INDIA FUND

The Tantallon India Fund is a fundamental, long-biased, India-focused, total return opportunity fund, registered in the Cayman Islands and Mauritius. The Fund invests with a 3-5 year horizon, in a concentrated portfolio (25-30 unlevered positions), market cap/sector/capital structure agnostic, but with strong conviction on the structural opportunity, scalable business models, and in management's ability to execute.

Tantallon Capital Advisors, the advisory company, is a Singapore-based entity, set up in 2003, holding a Capital Markets Service License in Fund Management from the Monetary Authority of Singapore.

Performance, in USD

(Inception on September 1, 2015)

	Tantallon India Fund	MSCI India($)	Over/Under Full Performance
April 2019:	-1.89%	+0.37%	-2.26%
2019 YTD:	+1.49%	+7.36%	-5.87%
2018:	-22.79%	-8.63%	-14.16%
2017:	+59.14%	+36.84%	+22.30%
2016:	-5.79%	-2.90%	-2.89%
2015:	+0.24%	-7.53%	+7.77%
Inception:	+17.75%	+29.38%	-11.63%

Compound Returns	+4.56%	Volatility	+20.29%
3 month US T-bill	+2.41%	Sharpe Ratio	+0.106

FUND DETAILS
The Tantallon India Fund

AUM USD 32,000,000

Investment Advisor: Tantallon Capital

Minimum Investment: USD 1,000,000

Administrator: Trident Trust Company (Mauritius) Ltd

Fees: 1.5%pa Management fees; 12.5% on annual returns in excess of 7.5% US$ hurdle rate compounding annually

Domicile: Mauritius

Dealing: Monthly

Feeder funds US Feeder and Non-US Feeder (Cayman Islands)

Lawyers: Maples & Calder; Shearman & Sterling LLP; Rajah & Tann Singapore LLP

Auditor: KPMG

Contact: Alex Hill (alex@tantalloncapital.com)

The Tantallon India Fund closed down -1.89% in April weighed down by the rupee and another bout of risk-off as crude prices spiked on Trump's decision to further limit Iranian oil exports and the Druzhba pipeline debacle. On the ground, corporate earnings for the small and mid-cap universe continue to surprise positively on the upside, well ahead of the more muted performance out of the large cap index heavy-weights. However, market participants are cautiously in 'wait-and-watch' mode as the Indian General Elections (the largest democratic electoral exercise in history with 900 million registered voters potentially casting a vote) draws to a close; *a Modi victory would be a clear positive for sentiment and the market.*

A quick comment on the markets: Despite positive flows (+US$3.5bn from foreign institutional investors and +US$3bn into domestic equity funds), the Federal Reserve's and the Reserve Bank of India's messaging on being "comfortably patient," and a visible pick-up in domestic corporate activity (M&A, and both equity and debt issuance), equity market participants have been largely apathetic through April. *Risk assets have rebounded off the October 2018 lows; at this point, it would seem that the markets are 'cashed-up,' in rotation/consolidation mode, 'waiting' for certainty in three weeks vis-à-vis the outcome of the General Elections.*

On the General Elections:

- *We are well aware of how poorly the 'markets' have done projecting election and referendum outcomes in the last five years.*
- A Modi "loss" would be a short-term market dampener.
- ***Our view remains that irrespective of the election outcome, Modi's structural reforms have been institutionalized, and will sustain a decisive new investment cycle.***

"Thinking aloud" on oil:

- *Crude price volatility is the ultimate arbiter of risk appetite and flows in(to) Indian equities given the implications for the fiscal and current account, and ultimately, the rupee…and, we have absolutely no idea what the price of oil will be at the end of next week – let alone at the end of the year!*
- Yes, geo-political uncertainty and POTUS posturing on the grand stage, and potential supply disruptions from sanctions and civil war, will likely weigh on crude price volatility in the short-term.
- However, longer-term, we have conviction that:
  i. the spikes we have seen in energy prices over the last couple of years have had no fundamental growth-demand under-pinnings;
  ii. there is abundant new supply coming on-stream, conventional fossil fuel resources, as well as shale and grid-parity renewables – *and yes, absolutely, the Occidental/Buffet bid for Anadarko is as clear a signal as we should expect on the deep commitment to further upstream development capex, and to significant new supply being commissioned over the next decade;*
  iii. disruptive new electric vehicle/battery storage technologies, and increasingly targeted policy measures to reduce carbon emissions, will

YEAR	RETURNS	JAN	FEB	MAR	APR	MAY	JUN	JULY	AUG	SEP	OCT	NOV	DEC
Inception	+17.75%												
2019	+1.49%	-6.16%	+1.05%	+9.08%	-1.89%								
2018	-22.79%	-1.87%	-7.58%	-1.07%	+3.20%	-4.66%	-5.58%	+1.29%	-2.30%	-12.87%	-2.31%	+9.47%	+0.46%
2017	+59.14%	+8.34%	+8.73%	+6.73%	+6.54%	-1.20%	+0.23%	+4.30%	-1.47%	-0.69%	+5.64%	+6.79%	+4.21%
2016	-5.79%	-8.33%	-9.98%	+11.86%	+2.10%	+1.89%	+5.44%	+6.40%	+1.66%	-0.74%	-1.69%	-9.26%	-2.83%
2015	+0.24%									-0.14%	+1.36%	-2.09%	+1.14%

potentially set crude and other fossil fuels down a path of longer-term, structural, demand-declines.

- ***Bottom-line, in the medium-to-long-term, we do have a benign outlook on energy prices – and that is ultimately, very, very good news for India, and investors in Indian risk assets.***

Key risks to continue to assess:

- Domestically, (i) continuity to the reform process, and to Modi's anti-corruption platform if Modi is not re-elected, or is hamstrung with an unwieldy coalition government; (ii) fiscal constraints limiting government spending; (iii) impaired transmission of the RBI's monetary easing; and (iv) un(der) employment given that India's demographic opportunity demands ~20 million new jobs being created annually.
- Externally, (i) potential supply-side constraints driving crude prices higher in the short-term *(which remain our major concern);* (ii) completely unpredictable geo-politics, protracted trade conflicts, and custom-union break-downs negatively impacting global growth and risk appetite; (iii) the sustainability of Chinese stimulus measures, and sundry Central Banks endeavoring to maintain an 'easing' bias in order to enable the global economy to navigate the current growth air-pocket.

The stock we would like to highlight this month is ***Future Lifestyle Fashions Limited,*** the flagship fashion business of the Future Group. FLFL is India's largest fashion retailer with over 300 stores in 90 cities spread over ~6 million square feet of retail space. Their target audience spans the mass market to premium segments, looking to explicitly fulfill the Indian consumers' varied brand aspirations in clearly defined distribution channels (Central, Brand Factory). Interesting in the context of the group's checkered history and comfort with leverage, FLFL is the only dividend paying company in the group, testimony to excellent working capital management, and the ability to secure attractive long-term rental leases.

We expect FLFL to deliver on consolidated revenues compounding at 25%+ annually over the next 3 years, well ahead of consensus expectations.

- We have good visibility on new store openings with long-term rental leases having been signed: we expect FLFL to add at least 30 discount channel 'Brand Factory' outlets and 4-5 very large, higher-end department store 'Central' formats annually for the next five years.
- We are conservatively building in +10% same-stores-sales growth for the discount channel and +7% same-store-sales growth for the higher-end department store format; we might well be surprised on the upside by the strength of the aspirational brands, and importantly, the ability to engage customers through digital and social media outreach, and the ability to convert store footfalls into sustained spending patterns.
- We have limited expectations of expansion into Tier 3 and Tier 4 cities at this point; however, as Indian consumers continue to gravitate to aspirational brands, these smaller cities could potentially represent meaningful upside to our estimates over the next 3-5 years.

We expect FLFL's earnings to compound at a 50%+ CAGR over the next 3 years, versus much more muted consensus expectations.

- Scale economics in both Central and Brand Factory formats will drive strong operating leverage.
- Structurally improving mix on the back of significantly higher revenue contribution from private label and licensed brands.
- Thoughtful category expansion into accessories, luggage, and footwear will further improve the margin profile.
- Sustained revenue growth, strong working capital management and sustained free cash flows will translate to significant de-leveraging and interest cost savings over the next 3-5 years.

To conclude:

- ***Will he, or won't he?!!*** The markets are fixated on the outcome of the General Elections. On May 23, we will know whether or not Prime Minister Modi will be re-elected to another 5 year term. *Expect the markets to be 'anxious' in the interim.*
- On the ground, we have ***renewed conviction in strong rural consumption trends, in a nascent capex cycle, and in policy reform continuity/momentum;*** *we believe that India's idiosyncratic growth opportunity is intact.*
- We would urge investors to take the long view, and to continue to increase their allocation to Indian equities.
  - *Irrespective of the election outcome, India's structural reforms and domestic economy stand poised to deliver on sustained real GDP growth compounding at 7%+ annually over the next 3-5 years.*
  - *We expect our portfolio companies to deliver on earnings and cash flows compounding at 15%+ annually over the next three years.*
  - *We find valuations and the risk/reward compelling* (especially in the small and mid-cap space) given the prospects of sustained revenue and earnings growth, and the likelihood of further easing by the Reserve Bank of India.

Please do let us know if you would like a follow-up conversation, or a catch-up in the next few days.

Portfolio Overview

Top 5 Positions	Sectoral Break-down:	As % NAV	Sector Performance	MTD Performance
Bajaj Finance Ltd	Financials:	37%	Financials:	-0.20%
HDFC Bank Ltd	Consumer Discretionary:	23%	Consumer Discretionary:	-0.40%
Titan Co Ltd	Materials:	10%	Materials:	+0.01%
Kotak Mahindra Bank Ltd	Consumer Staples:	7%	Consumer Staples:	-0.49%
Zee Entertainment Enterprise	Real Estate:	7%	Real Estate:	-0.90%
	Technology:	6%	Technology:	+0.03%
	Industrials:	5%	Industrials:	-0.13%
	Energy:	3%	Energy:	-0.13%
	Retail:	2%	Retail:	+0.32%
	Health Care:	0%	Health Care:	+0.00%
	Utilities:	0%	Utilities:	+0.00%