TANTALLON CAPITAL

July 2019

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 40bps, leaving us -7.1% year to date.

I was modestly upbeat at the performance of our stock selection most of the month, with gains approaching +2% driven largely by an opportunistic purchase of an old favourite in Jakarta (Media Nusantara) which contributed +1.5%, and strength in Gazprom and our US holdings SEA and Alibaba. However poor results from Kering, and more pertinently a profit warning from IRC in Hong Kong, principally due to a non-cash item to do with a refinanced loan facility and higher depreciation charges, led to us losing all of our gains on the final day of the month, a source of massive frustration. Our fx positions cushioned results modestly, although strength in AUD largely offset gains in our long yen position, and we made a few basis points in our futures cover as we lowered net exposure.

As we enter August the escalation of protests in Hong Kong, Trump's abrupt decision to add further tariffs over the objections of his negotiating team, the Chinese RMB riposte and the inevitable US counter, have dramatically changed the calculus. Taking the RMB first, I had concluded that holding the sub-7 level was a relatively easy condition for China to meet as negotiations continued, and that hence the robustness of consumption, evident again in LVMH's most recent earnings, could be taken for granted. Wrong. And although I bored many of you several years ago with predictions of inevitable disaster in Hong Kong, I had not envisaged the situation there spreading across the territory and becoming so violent, without the PLA or mainland police forces, now so ominously massing in Shenzhen, becoming involved. The RKHP in my time in Hong Kong was a respected institution, as any Cantonese police thriller will attest; what has happened in the last 15 years? We have held nothing in Hong Kong (other than the unfortunate IRC) and were fortuitously short the market going into August. But you are never short enough. Should the PLA intervene, the regional and global repercussions are too grim to contemplate; a geopolitical equivalent of the Lehman crash. So much is obvious, but the obduracy of Carrie Lam in refusing the simple solutions that could defuse this crisis continues to make this an active possibility.

I have in the past attempted to moderate my bearishness on China by looking at the potential for significant policy stimulus, but it is becoming clear that no amount of RR cuts or fiscal jiggery-pokery can deflect a day of reckoning. We have had two sizeable bank failures, even though the property sector

Performance

Tantallon Fund Size USD 26mn (Cayman is Feeder)
(Inception Nov 03)

	Tan	MSCI Pacific Free Index	Over/(Under)perf
Jul 2019	**- 0.40%**	- 0.18%	- 0.22%
2019 YTD	**- 7.16%**	+ 9.26%	-16.42%
2018	**-19.44%**	-14.27%	- 5.17%
2017	**+37.04%**	+21.57%	+15.47%
Inception	**+82.38%**	+68.68%	+13.70%

Compound	+3.9%pa	Volatility	+14.80%
3 mth T-bill return	+2.04%	Sharpe Ratio	0.13

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	+82.38%												
2019	- 7.16%	+ 1.80%	-1.50%	+0.99%	+2.98%	-7.76%	-3.10%	-0.40%					
2018	-19.44%	+6.09%	+0.07%	-3.74%	-0.08%	+1.44%	-8.43%	-1.63%	-4.40%	-2.42%	-1.32%	-3.48%	-2.83%
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%

remains robust, and there are a clutch of significantly larger ones in dire straits; what happens if asset collateral starts weakening can be imagined. In that regard the explicit statement from the Politburo meeting last month that property would NOT be used for short term stimulus (apparently at Xi's insistence) speaks to a prurience in policy making that is startling. The bigger issue though is the extent of the external liabilities of the banking sector, which independent analysis suggests could be in excess of US1trillion. With moves afoot to restrict the Chinese banking sector's access to US$ funding this is a nuclear weapon in Trump's hands; and Hong Kong's crucial role in intermediating this borrowing underlines the risks China face as she snarls furiously at the border fence at the impudence of those who defy her. Nor is the pressure from China hawks to challenge the automatic re-weighting of US pension assets into Chinese equity and debt under MSCI classifications lessening.

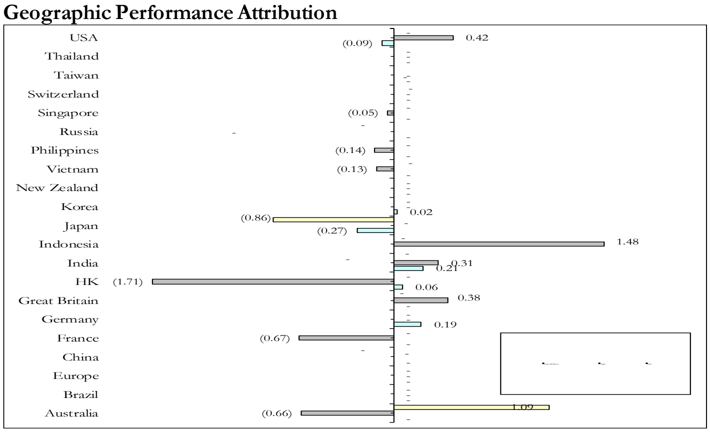
The corporate world is being forced to choose between dealing with China, or staying on terms with Trump. China has started compiling an "unreliable foreign entity" list, and HSBC is right at the top. Douglas Flint's departure is all about Huawei, with the bank seen as having provided documents to the US and Canadian authorities which laid the basis for the arrest of Meng Wanzhou. Cathay Pacific now finds itself in the cross hairs as a result of the action of its union in support of the Hong Kong demonstrations. For many companies this is an impossible choice. Pointedly so for many American tech firms. Far from opening up China's markets, Trump's actions have resulted in the collapse of Chinese demand in everything from soy beans, to chips and I-Phones. MAGA indeed.

For the first time in my life gold strikes me as attractive. Trump is intent on debasing the dollar, central banks are racing each other to the zero bound, and gold is beginning to reflect that. We have added Newcrest in Australia, and smaller positions in Regis and Ramelius Resources. We retain our exposure to iron ore, but have opted to switch into Fortescue together with our beaten-up Russian miner IRC. I continue to like the valuations underpinning Tinkoff, Gazprom and Sberbank, earnings from all of whom remain strong, and the bullishness of German and French companies on their Russian operations despite sanctions, and the ugly scenes in Moscow I find encouraging. In all of these companies (except the gold stocks) dividend yields are eye-watering: Fortescue is probably trading on a current dividend yield of 15%, eminently sustainable should iron ore drop a further 30%. Given China's abandonment of the deleveraging campaign I think it far more likely iron ore will recover much of it recent weakness and confound the bears.

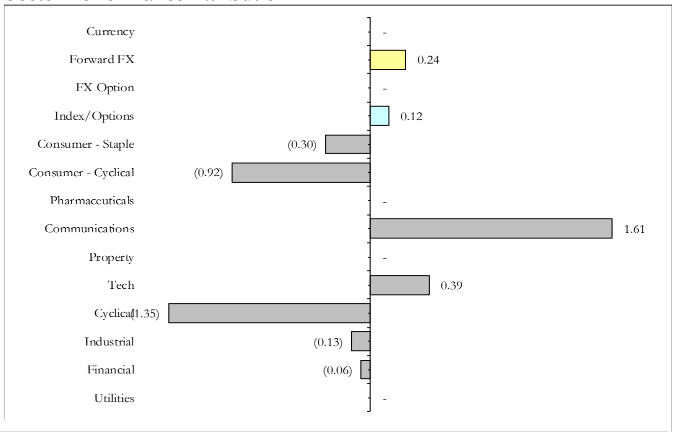
We were short going into August, and have navigated the early turmoil relatively well. With markets moving on a tweet or a headline, this is particularly testing. Markets now look oversold and I suspect a relief bounce is due. We are long gold, SEAsian consumption (our biggest position ThaiBeverage has just announced excellent interim numbers), Russia and iron ore. Yet there is an awfully large part of the equity universe I have no conviction on at all.

% OF ASSETS ALLOCATION	EQUITY LONG	EQUITY SHORT	INDEX LONG	INDEX SHORT	NET EXPOSURE	GROSS EXPOSURE
Australia	10.48%				10.48%	10.48%
Europe	28.14%			(11.62%)	16.52%	39.76%
Hong Kong	5.83%				5.83%	5.83%
India	14.41%				14.41%	14.41%
Indonesia	5.91%				5.91%	5.91%
Japan				(18.97%)	(18.97%)	18.97%
Korea (South)				(0.30%)	(0.30%)	0.30%
Philippines	12.59%				12.59%	12.59%
Singapore	6.98%				6.98%	6.98%
Vietnam	4.78%				4.78%	4.78%
United States	12.01%			(2.28%)	9.73%	14.29%
Total	**101.13%**			**(33.17%)**	**67.96%**	**134.30%**

Geographic Performance Attribution



Sector Performance Attribution



Equity Positions

Long	19	Largest 10 Longs	67.48% of NAV	Long Liquidity	4.80days	Mkt Capitalization	>2Bn	77%
Short	0	Largest 10 Shorts	0% of NAV	Short Liquidity	0.00days	Gross Exposure	>500m-2Bn>	12%
						(USD)	<500mn	11%

Top 5 % Longs		Top 5 Contributors	Top 5 Detractors
Kotak Mahindra Bank Ltd	8.43%	Media Nusantara Citra TBK PT (L)	IRC Ltd (L)
Gazprom PJSC-Spon ADR	8.43%	Gazprom PJSC-Spon ADR (L)	Kering (L)
Sberbank PJSC – Sponsored ADR	7.15%	Sea Ltd - ADR (L)	Rio Tinto Ltd (L)
Universal Robina Corp	7.03%	Kotak Mahindra Bank Ltd (L)	Summit Ascent Holdings Ltd (L)
Thai Beverage PCL	6.98%	Alibaba Group Holding – SP ADR (L)	Universal Robina Corp (L)