

TANTALLON ASIA IMPACT FUND SF

The Tantallon Asia Impact Fund SF is a fundamental, long-only, Asia focused, total return opportunity fund. The fund invests with a 3-5 year horizon in a concentrated portfolio (30-35 unlevered positions), market cap/sector/capital structure agnostic, but with strong conviction on the structural opportunity, scalable business models, and data-driven analysis of sustainability, innovation, societal trends, and material environmental and governance initiatives to drive profitability.

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

The Tantallon Asia Impact Fund closed up +8.24% in May with markets looking through the tariff overhang (under the 'assumption' that President Trump is likely to moderate his more extreme positions and is likely to re-engage with the Chinese on less-adversarial terms), while starting to model a weaker US\$ 'encouraging' flows back into Asian risk assets. We have stayed focused on first principles, and have taken advantage of the market volatility to build on our high convictions in attractively valued pockets of tariff resilience, the picks and shovels along the AI value chain, the deep value/structural beneficiaries of policy/corporate reforms and of improving capital allocation discipline in Japan and Korea, energy security, the imperative in NATO and peripheral Europe and in Asia to increase defense spending, and in India's commitment to further policy and regulatory reforms to build a viable, scalable, alternative manufacturing hub as global supply chains look to re-set in a tariffed world.

A view at 30,000 feet:

- *Markets seem to want to look through the tariff uncertainty and rhetoric*, focusing instead on more moderate tariff outcomes than Trump had initially signaled. That said, we should expect lingering uncertainty and headline tariff rhetoric to drive continued market volatility.
- *We do expect that the reversion of the US 'exceptionalism' trade will be supportive of flows into Asia*, of appreciating regional currencies relative to a weaker US\$, and of regional equity markets continuing to out-perform.
- *We believe that most Asian economies are fundamentally stable/resilient* but, are caught between the risks of demand destruction in the US (as a result of tariffs and slower growth) and a deflationary spiral from surplus Chinese industrial capacity (denied access to the US) being 'dumped' globally.
- *We do expect policy rates to continue to fall across the region* as inflation and inflationary expectations continue to recede across most of Asia, with the exception of Japan,

With Lee Jae-Myung having been sworn in as the new President of South Korea, the liberal Democratic Party now controls both the legislative and the executive branches, and can execute on campaign pledges, and on a strong, economically focused policy agenda.

- *Having tracked his career closely over the years, our view is that President Lee is likely to be populist, practical, and far less ideological than the last DP President, Moon Jae-In.*
 - We would note that each of the three prior Democratic Party (DP) Presidential terms have been "good" for stock market returns.

Performance, in USD

(Inception on March 1, 2021)

	TAIF SF	MXAP (\$)	Over/Under Full Performance
May 2025:	+8.24%	+4.54%	+3.70%
2025 YTD	+10.10%	+7.52%	+2.58%
2024	+17.72%	+7.23%	+10.49%
2023	-7.39%	+8.76%	-16.15%
2022	-27.38%	-19.36%	-8.02%
2021	+5.15%	-3.40%	+8.55%
Inception:	-8.34%	-5.47%	-2.87%
Compound Returns	-1.99%	Volatility	+12.08%
3 month US T-bill	+4.32%	Sharpe Ratio	+0.94

FUND DETAILS

Tantallon Asia Impact Fund SF

AUM USD 3,000,000

Investment Manager: Tantallon Capital Advisors Pte Ltd
Minimum Investment: USD 250,000

Administrator: Portcullis Trust (Singapore) Ltd

Fees: 1% pa Management fees

Domicile: Singapore

Dealing: Monthly

Auditor: PwC LLP

Lawyers: Eng and Co. LLC

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- In prioritizing economic growth and job creation, as opposed to a social agenda, President Lee is marking a clear departure from the DP's traditional platforms.
- Over the next three months, President Lee has proposed codifying a series of capital-market friendly policies: 1) a law to enforce a fiduciary code for board directors, 2) improving corporate accounting and reporting transparency, 3) specific measures to protect minority shareholders against arbitrary/non-economic decisions by controlling shareholders, and 4) the mandatory cancellation of treasury stock.
- The icing on the cake would be lower dividend and inheritance taxes – which would be a real boost for capital markets. We shall see.*
- To be clear, President Lee's medium-term challenges are significant: 1) trade and tariff negotiations with a mercurial, transactional Trump, woven into a potentially high stakes 're-set' on the US military shield in South Korea; 2) managing Korea Inc's response to the threat of a renminbi

YEAR	RETURNS	JAN	FEB	MAR	APR	MAY	JUN	JULY	AUG	SEP	OCT	NOV	DEC
Inception	-8.34%												
2025	+10.10%	+1.89%	+1.68%	-1.60%	-0.22%	+8.24%							
2024	+17.72%	-0.98%	+6.29%	+2.99%	-3.56%	+1.42%	+5.67%	-1.95%	+4.37%	+3.95%	-2.10%	+3.47%	-2.49%
2023	-7.39%	+6.68%	-6.95%	+2.53%	-2.90%	-2.45%	+3.34%	+2.51%	-7.19%	-3.82%	-5.21%	+4.16%	+2.88%
2022	-27.38%	-9.11%	-1.54%	+4.85%	-5.89%	-1.70%	-10.28%	-0.04%	-1.12%	-8.09%	+1.04%	+5.93%	-4.11%
2021	+5.15%			-7.25%	+3.02%	+0.83%	+2.71%	+0.18%	+6.20%	-3.07%	+3.33%	-0.91%	+0.64%

‘adjustment’ and/or Chinese surplus industrial capacity being ‘dumped’ in key export markets; and 3) a moribund domestic economy in urgent need of a comprehensive stimulus package, even as he tries to heal the scars from the ill-conceived imposition of martial law by his predecessor, Yoon Suk Yeol, in a deeply polarized country.

- *On balance, we are well invested in and have very high conviction in our Korean holdings.*
 1. President Lee’s (‘Abenomics’-like) ambitious capital market reform goals, and the likelihood of much more aggressive fiscal expansion (to address the risks inherent in a global slowdown and a stagnant domestic economy),
 2. Deeply discounted equity valuations: the market currently trades at 0.9x P/BV (compared with the 15-year range of 0.6x-1.7x), and,
 3. Extremely ‘under-positioned’ foreign institutional investors still struggling to come to terms with the likelihood of a structurally weaker US\$ over the next few years, and the reflex ‘default’ justification of decades of a Korean equity market ‘discount,’ and Korean policymakers’ poor track-record on executing on ambitious targets.

We find compelling risk/reward in the picks and the shovels along the AI value chain.

- *First, we are not bullish on everything-AI*, and in fact, are deeply skeptical over the much-hyped arms-race to simultaneously develop, test, market and monetize multiple large language models.
 - Proprietary, ‘closed’ American large language generative AI models (Chat GPT, Gemini, Anthropic, DeepMind, etc.) are at this point, the ‘best’ multimodal models.
 - The market, however, is pivoting to affordability, transparency, and global innovation, with potentially negative implications for the expectations/valuations that have been ‘vested’ in the funding and development of closed LLMs.
 - Our sense is that Silicon Valley has under-estimated the scale of China’s ambitions in cloud and quantum computing, and is now confronted with the possibility that “free” Chinese training and inference models and applications could well become the preferred, low-cost, efficient engines powering global innovation in generative AI, and will almost certainly create another source of meaningful tension over data security and privacy in the western world.
- We have our strongest conviction in the rapidly accelerating adoption of low-cost training and inference models sustaining demand for high performance chips and computational infrastructure, the accelerating buildout of cloud computing and datacenter backbones, and surging demand for reliable power supply and cooling solutions.
- Incrementally, we are closely studying/evaluating the integration of AI tools into the application layer to drive revenue and cost synergies across multiple sectors, and are actively looking for opportunities to invest in agentic interface, enterprise copilots, real-time voice translation, and complex workflow management solutions.

Some specific data points to pass on:

- The pace of mass AI adoption is even faster than that of the internet in its early days.
 - ChatGPT reached 800 million weekly users in just 17 months, far outpacing previous foundational technologies.
 - ChatGPT reached 90% of users outside North America in just 3 years (compared to 23 years for the internet).

- NVIDIA’s ecosystem grew from 1 million to 6 million developers in 7 years; Google’s Gemini developers grew 5x in one year.
- The Big Six U.S. tech firms invested \$212bn in AI-related capex in 2024 (+63% over 2023), and are well on track to exceed \$325bn in capex in 2025 (50%+ v. 2024).
- Training large language AI models is extremely expensive (and LLM revenues come nowhere close to covering costs), but per-token inference costs are falling rapidly, stimulating even faster adoption by enterprise and individual customers.
 - For context, for flagship models (e.g., GPT-4), prices have fallen from \$60–\$180 per million tokens at launch (in March 2023) to \$0.06-\$4 per million tokens for GPT-4o, a drop of over 95% in less than two years (reflecting both the intensifying competition from open-sources LLMs, as well as the scale/operational/energy efficiencies from hardware and software optimization).
- AI in the physical world:
 - Autonomous taxis are competing with traditional ride-hailing in multiple cities.
 - AI now surpasses human-level performance on MMLU (Massive Multitask Language Understanding) benchmarks and can generate highly realistic images and voices.
 - The FDA approved 223 AI-enabled medical devices in 2023, and as we spend time with the generics and original drug discovery programs in China and in India, there is credible data to suggest that AI can potentially reduce pre-clinical R&D timelines by 70% or so over the next 5 years.

Whither the HK peg?

Having invested in HK over the past 30+ years, the collapse in the Hong Kong interbank offered rate (Hibor) over the last month, and the unprecedented 300bp spread versus the US secured overnight financing rate (SOFR) is a startling anomaly.

- It’s not in isolation: the collapse in Hibor and easing liquidity in HK brings into sharp relief the recent appreciation in the Taiwan dollar, the yen, the won, and the ringgit.
- Over the last few years, the peg’s ‘strait jacket’ linkage with the Fed rate cycle has kept financial conditions in HK much tighter than would have been warranted by HK’s post-pandemic moribund economic ground reality. *Watch this space.*

Conclusion:

- We expect markets to remain volatile and to continue to trade on tariff and geo-political headlines and rhetoric.
- We do expect that ‘flows’ will be supportive of appreciating Asian currencies relative to a weaker US\$, and of regional equity markets continuing to out-perform.
- We have invested into the volatility, into attractively valued pockets of tariff resilience, the picks and shovels along the AI value chain, the beneficiaries of corporate reforms, improving capital allocation discipline, and higher defense spending in Japan and Korea, energy security, and India’s commitment to policy/regulatory reform and easing monetary policy.

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

Portfolio Overview

<u>Top 5 Positions</u>	<u>Sector Weights & Performance</u>	<u>% NAV</u>	<u>MTD</u>	<u>Country Weights</u>	<u>% NAV</u>
NEC Corp	Technology	33.9%	+4.02%	Japan	32.3%
Kawasaki Heavy Industries	Industrials	33.4%	+4.27%	Taiwan	20.8%
Asia Vital	Communications	12.0%	+0.39%	Korea (South)	13.7%
MNC Solution Co	Financials	6.4%	-0.23%	Hong Kong/China	9.4%
Hyundai Rotem	Materials	3.5%	+0.11%	Singapore	5.2%
	Real Estate	2.4%	-0.22%	India (/GDRs)	4.0%
	Consumer Discretionary	0.0%	+0.12%	Others	6.2%
	Utilities	0.0%	-0.22%	Cash	8.4%
	Consumer Staples	0.0%	+0.00%		
	Energy	0.0%	+0.00%		
	Health Care	0.0%	+0.00%		
	Cash	8.4%			

The Fund has appointed REYL & Cie Ltd, 62 rue du Rhône, 1204 Geneva, Switzerland, as its Swiss Representative and 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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