



May 14, 2018

Dear Clients, Partners, and Friends,

The results for South Ocean Management's Delaware LP, Hong Kong Partners' L.P., before incentive fees, were as follows:

	<u>Apr 2018</u>	<u>Year-to-date</u>
Hong Kong Partners LP	-0.1%	-4.7%
Hang Seng Index	2.6%	3.0%
Hang Seng Small Cap Index	0.3%	7.1%
MSCI HK Small Cap Index	1.3%	-3.0%

Partners' NAV \$3.0789 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

Our oversold holdings of small/mid capitalized Hong Kong-listed companies were little changed in April. Our portfolios' weighted average Price-to-Earnings ratio on this year's expected earnings remains depressed at only 7.0 times (vs 11.7x for the Hang Seng Index). The overall market has been marking time since January's high point. We have made very few adjustments in our portfolios during this range-bound trading environment.

China continues to open its markets which is of massive interest to global investors. Recent rulings are accelerating the opening of China's financial industry to outside investors. The regulator is to issue draft rules concerning the issuance of CDR's (China Depository Receipts) which will encourage off-shore listings. New rules that will allow overseas listed companies to list domestically is a strong signal that China is open for business. It should be noted China's stock markets have grown from a total market cap of just US\$418 billion in 2003 to US\$8.7 trillion today, second only to US stock markets.

There are various macro themes relating to China/US issues of today.

First, China last month issued new rules easing restrictions on foreign ownership of local JV firms. Foreign banks will be allowed to take full ownership of China banking entities;
International politics are looming large over the race among global investment banks to secure coveted permits for taking majority stakes in Chinese securities joint ventures.

... Amid escalating tensions with President Donald Trump's administration over trade and investments, Beijing wanted to signal that getting majority control over local JVs -- something Wall Street has desired for years -- could take longer for U.S. firms, according to these people.

The securities regulator's stance illustrates how U.S. companies could be left at a disadvantage, at least in the short term, as President Xi Jinping opens big parts of

China's \$12.7 trillion economy further to foreign firms. China has warned in negotiations with Trump's team that its opening measures won't be applicable to American investors if the U.S. doesn't meet Beijing's request for equal treatment of Chinese investment.

... JPMorgan Chief Executive Officer Jamie Dimon on Tuesday said in an interview he hopes there won't be a trade war and -- if there is one -- "hopefully it doesn't affect JPMorgan."

Dimon reiterated that JPMorgan..., one day wants a wholly-owned onshore securities business. Morgan Stanley and Goldman Sachs are also pursuing majority control of their China JVs.

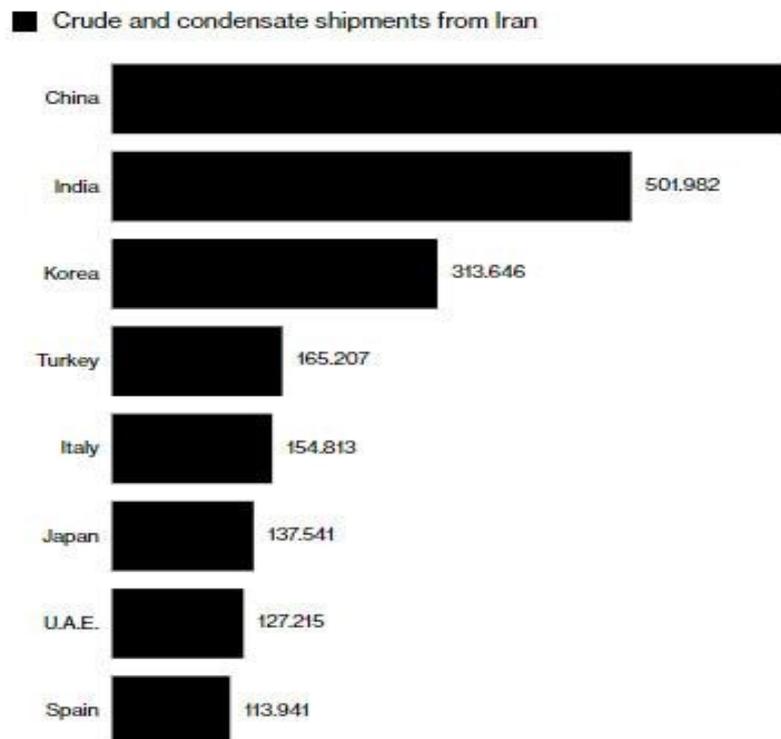
Wall Street's Quest for China Supremacy Takes a Political Turn

Second, President Trump announced on May 8, 2018 that the United States would withdraw from the Joint Comprehensive Plan of Action ("JCPOA"), the Iran nuclear deal implemented in January 2016. Following relevant wind-down periods, the United States would begin re-imposing all nuclear-related sanctions that were lifted pursuant to the JCPOA.

From my viewpoint, Iran sanctions by the US (acting unilaterally) will be hard to impose as major economies are customers of Iran's oil production and have elected not to go along:

Biggest Customers

Iran ships most of its oil exports to Asia, Turkey and



As of now, the European Union, Russia and China are reported to remain definitely committed to preserving the JCPOA.

Third, comments relayed on CNBC by Warren Buffett's investing partner, Charlie Munger, May 7th

- "The best companies in China are cheaper than the best companies in the United States," Berkshire Hathaway's Charlie Munger tells CNBC.
- "I don't think it would be all that hard for any smart person to find four or five great companies in China to invest in," he says.
- Munger says his family is "substantially" invested in China, where they began investing 14 years ago.

<https://www.cnbc.com/video/2018/05/07/charlie-munger-best-companies-in-china-are-cheaper-than-best-us-companies.html?play=1>

Munger explicitly said "[American investors are missing China,](#)" and they don't understand China (we couldn't agree more).

Charlie Munger plays Berkshire's hand in China bet and seeks more opportunities

Tuesday, 8 May 2018 | 2:23 PM ET

Warren Buffett's longtime investing partner Charlie Munger thinks Americans should look for opportunities in China, where Berkshire Hathaway has invested on electric automaker BYD.

<https://search.cnbc.com/rs/search/view.html?source=CNBC.com&categories=exclude&partnerId=2000&keywords=CHARLIE%20MUNGER%20CHINA>

This link is an interview regarding China and other trends by the Vice Chairman of Berkshire Hathaway:

<https://finance.yahoo.com/news/cant-invest-china-like-charlie-munger-182024691.html>

"I think a shrewd person can find more bargain stocks in China than he can find in the United States," Munger said. "That's all. That's all I meant. It was a happier hunting ground for the value investor."

"I didn't say it was easy," Munger added. "But if you work at it, you can find more [attractive investment opportunities]. And better."

Charlie Munger

Lastly, **'The world will not do something stupid'** Warren Buffett said after his annual shareholder meeting when asked about a trade war. He is optimistic the U.S. and China will avoid a serious trade conflict; "It's counter to the interests of every country in the world."

Warren Buffett on trade war: 'The world will not do something stupid'

<https://www.cnbc.com/.../warren-buffett-on-trade-war-the-world-will-not-do-something-...>

We can openly hope Buffett's optimism proves prophetic.

Sincerely,

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