



December 13, 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:

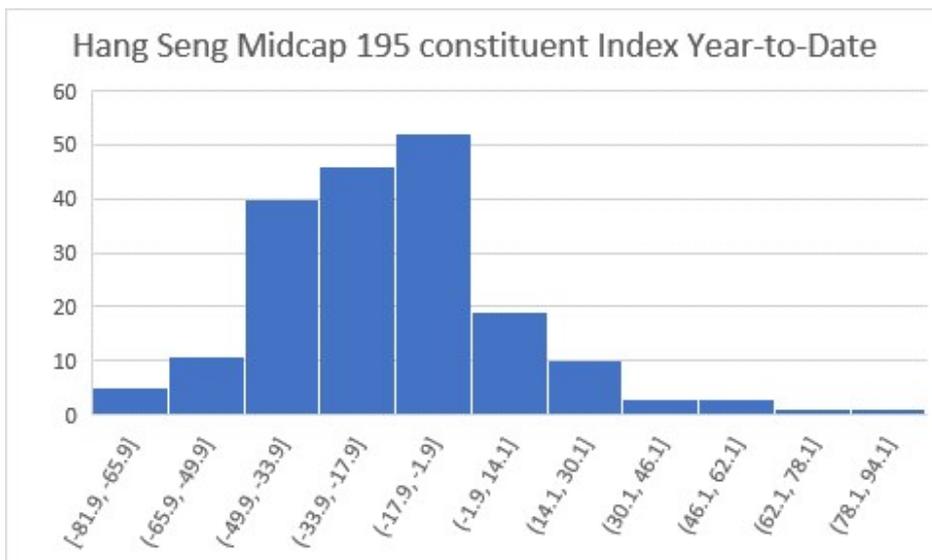
| | <u>Nov 2018</u> | <u>Year-to-date</u> |
|---------------------------|-----------------|---------------------|
| Hong Kong Partners LP | 2.1 % | -21.1% |
| Hang Seng Index | 6.1% | -11.4% |
| Hang Seng Small Cap Index | 5.4% | -13.3% |
| MSCI HK Small Cap Index | 5.4% | -25.6 % |
| HS Mid Cap Index | 6.6% | -20.2% |

Partners' NAV \$2.549 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

In November, Hong Kong's stock market consolidated after the October global downturn. Early December trading, though, has given rise to increased volatility after the much-anticipated Trump/Xi meeting in Argentina. Initial relief of a temporary truce in the US/China trade war gave way to concerns on slowing US economic growth, slumping fixed income treasury yields and conflicting 'tweets' on trade talk progress. Trading fears were heightened with the [arrest of China's Huawei CFO](#) in Canada.

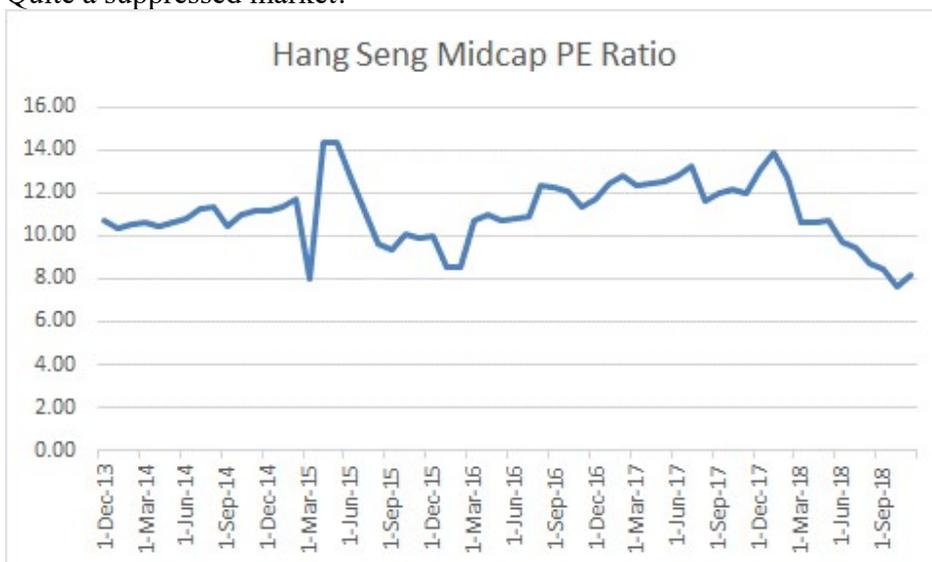
Our holdings of small/mid capitalized Hong Kong-listed stocks of fundamentally strong companies, with operations in mainland China, have similar characteristics to those found in the Hang Seng Midcap Index. The HS Midcap Index, consisting of 195 names, have US\$ market caps ranging from \$1 billion up to \$35 billion (total market cap of US\$1.1 trillion). Our portfolio median market cap is US\$ 2.5 billion and we own 5 stocks listed in the Index.

The following chart denotes price performance this year:



A little more than 50 stocks (roughly 25% of the Index) have witnessed declines of between 2 – 18% year-to-date. About 45 stocks have declined 18% to 34%, another 40 have seen 34% to 50% declines. Therefore, a total of ~135 names out of 195, or ~70% of all stocks in the Index, have declined in price this year.

Quite a suppressed market!



A great number of the declines this year were in the high tech/software (IT), Auto-related and Real Estate Development sectors (which were predominately 2017's winners). Reuters' estimated 2018 Price Earnings ratio for the Midcap Index is 9.7x.

The Auto-related and Information Technology sectors are becoming attractive in our intrinsic value screens now. We have 24% cash (as a percentage of total portfolio value) and our weighted average price-earnings ratio on 2018's estimated earnings is 5.7 times.



We send wishes to all for a happy, joyous holiday season.

Sincerely,

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