



November 12, 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>Oct 2018</u>	<u>Year-to-date</u>
Hong Kong Partners LP	-5.9 %	-22.7%
Hang Seng Index	-10.1%	-16.5%
Hang Seng Small Cap Index	-10.0%	-17.8%
MSCI HK Small Cap Index	-10.4%	-29.4 %
HS Mid Cap Index	-11.1%	-25.1%

Partners' NAV \$2.4960 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

October was a bungee jumping stock market in Hong Kong. Though China announced pledges to support its markets, pessimism pervaded as rising interest rates and debt levels on the mainland dampened investor enthusiasm. Our value-oriented portfolios of small/mid cap holdings of Hong Kong-listed, China-g geared companies, with strong fundamentals, sells at a weighted average PE on this year's expected earnings of only 6.3x.

Hong Kong's stock market today is massively undervalued, by almost any measure. Trade wars and protectionism are unequivocally bad for world economic growth. President Trump and President Xi of China plan to meet in late November at the G20 meeting, hopefully to talk about trade. One analyst suggested this scenario:

The good news is that trade negotiations often seem intractable until the 11th hour. *The US and China could reach an agreement before Trump's punitive tariffs go into effect on 1 January. Such an agreement, one hopes, would reflect a maturing of China's attitude toward intellectual property rights – akin to what occurred in the US during the late 19th century. (In America's high growth years, US entrepreneurs often thought little of pilfering patented inventions from the United Kingdom.)*

<https://www.zerohedge.com/news/2018-11-09/chinese-recession-inevitable-ken-roff-destroys-decoupled-america-narrative>

A negotiated peace on the trade front would be (hugely) welcomed by Hong Kong investors.

Sincerely,

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President

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