



August 8, 2019

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>July 2019</u>	<u>Year-to-date</u>
Hong Kong Partners LP	0.1 %	0.1%
Hang Seng Index	-2.7%	7.5%
Hang Seng Small Cap Index	-1.1%	2.5%
MSCI HK Small Cap Index	-2.4%	-0.3 %
HS Mid Cap Index	-1.8%	6.4%

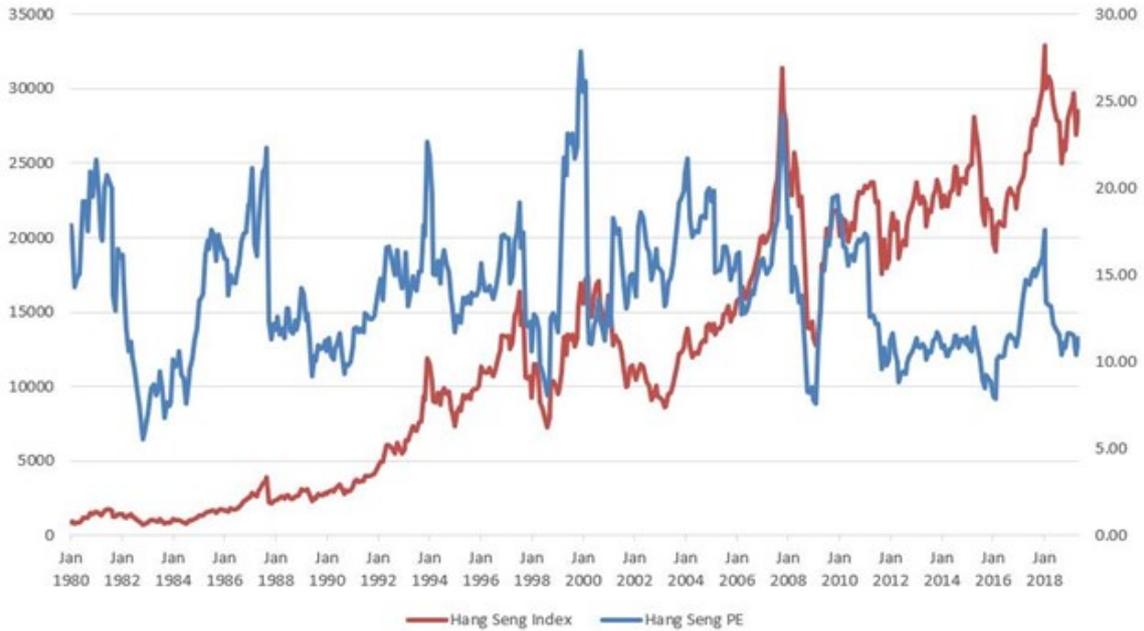
Partners' NAV \$2.4447 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

We became a bit cautious the last week of July with our portfolios of small/mid cap, Hong Kong-listed companies that are leaders in China. We raised cash levels to 25% (from below 10%) after the Hang Seng Index had rallied sharply on optimism the Chinese would soon buy US agricultural products. Concerning to us was the U.S. President's statement on July 16th, "...that the United States still has a long way to go to conclude a trade deal with China, but could impose tariffs on an additional \$325 billion worth of Chinese goods if it needed to do so."

After the meeting with US/Chinese officials on July 30th in Shanghai, the president announced a 10% tariff on an additional \$325 billion of goods starting on September 1, 2019. This announcement of increased protectionist tariffs sent global markets reeling in early August.

Since our sales in late July, the Hang Seng Index has dropped sharply, erasing gains made since the bottom of the May sell-off. Adding to the pressure on Hong Kong stocks has been the violent protests in the SAR which has hardened in its intensity since the first week in June.

Hong Kong has been the hardest hit of all Asian markets this quarter. The Hang Seng Index sells at 11 times trailing earnings. The long-term price to earnings ratio hovers near its historic lows, as shown in the following chart:



The opposite picture to this Hang Seng Index valuation is the long-term S&P 500 US valuation indicator, which is way above its mean average:



Average of the Four Valuation Indicators

With Standard Deviations Highlighted

dshort.com
July 2019
Data through June



It can't be unwise allocating funds to the cheap and undervalued market in Hong Kong. It is the doorway to the world's second largest economy, China, which is the fastest growing, large economy on earth.

Sincerely,

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President

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