



March 9, 2020

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>Feb. 2020</u>	<u>Year-to-date</u>
Hong Kong Partners LP	-1.1%	-8.5%
Hang Seng Index	-0.7%	-10.1%
Hang Seng Small Cap Index	2.7%	-12.9%
MSCI HK Small Cap Index	-0.9%	-18.8%
HS Mid Cap Index	2.8%	-8.7%

Partners' NAV \$2.3859 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

Selling overtook the Hong Kong stock market in late February due to the Corona virus (COVID-19) global outbreak. The epidemic was first identified in Hubei province, China, where over 90% of the deaths have been reported. South Ocean's holdings of small/mid cap, Hong Kong-listed companies with operations in China didn't escape the panicky sell down. Hardest selling was in the IT supply chain and retail store industries as investors questioned the extent of the economic damage caused by the virtual shut-down of China's economy. Our holdings in cloud/mobile gaming stocks advanced as the stay-at-home work rules, pervasive throughout the greater China area, were deemed to benefit these companies.

Alarm at the virus's spread grew rapidly outside of China as illustrated in this news report:

*In Japan, a lone infected employee at Dentsu Group's headquarters in Tokyo's Shiodome has prompted the advertising giant to send 5,000 workers home, and led Shiseido, which occupies a neighboring building, to recommend 8,000 of its workers stay out of the office.*

Hoarding of face masks, rice and toilet paper emptied the grocery shelves in Hong Kong:

A Hong Kong friend's wife took this photo the first week of February:



As the Chinese saying goes, [不怕一万，就怕万一](#) or, better to be safe than sorry.

By early March, as the economic numbers began coming out, the selloff appeared overdone. The Monday March 3 headline read; *It was announced China's economy took a big hit. Feb's PMI plunged to a record low of 35.7, well below estimates and dashing hopes for a V-shaped rebound.*

Yet, on that day, the Shanghai and Shenzhen markets, both of which had witnessed dramatic selloffs in early February, rose 3.15% and 3.29%, respectively after the report. Hong Kong's stock market was less volatile and has continued operating without any glitches (though we, like many others in Hong Kong, work remotely as much as possible).

China instituted warlike controls (and was given [high marks](#) for doing so) in its efforts to contain the spread of the virus. After restricting travel over the week-long Lunar New Year period in January (where hundreds of millions of Chinese were to [travel home](#) during the public holiday), President Xi made calls a month later for businesses and people to return to work. Though the epidemic's impact is "generally manageable," Xi admitted "This is both a crisis and a big test for us," in the short term. China cut taxes and lending rates, injecting liquidity into the markets, to help struggling companies. The country is getting back to work as speedily as possible.

Somewhat counter-intuitively, on March 2, Morgan Stanley upgraded stocks of three nations stating the coronavirus which affected the equity markets of China, Singapore and Australia, can now provide shelter from the outbreak

(citing expectations of further policy stimulus amid the widening public health emergency and cheaper relative valuations).

75+% of listed Hong Kong companies report year-end results in the month of March. Recent cautious market sentiment will stabilize once the rate of increase in the number of new infections slows.

We trust everyone is taking precautions; avoiding crowds when possible and continually washing hands thoroughly, to wait out until the virus dies away...which it eventually will. Of note, K1 tax reports are due to be completed mid-March and will be emailed to all Limited Partners immediately thereafter.

Sincerely,

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