October 14, 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:

	Sep. 2020	Year-to-date
Hong Kong Partners LP*	-3.8%	-19.9%
Hang Seng Index	-7.3%	-16.8%
Hang Seng Small Cap Index	-5.2%	3.1%
MSCI HK Small Cap Index	0.0%	-4.2%
HS Mid Cap Index	-1.3%	2.1%

Partners' NAV $2.0725 after management fee and provisions, but before annual incentive fees of 15% on appreciation. The four benchmark indexes cited above are not total return results whereby Hong Kong Partners LP's return is inclusive and net of income and fees. These benchmark indexes are provided by HSI Services in Hong Kong and more information can be found at its website: https://www.hsi.com.hk/eng

Sentiment was subdued in Hong Kong stock trading in September. In fact, Hong Kong's blue chip 50-stock Hang Seng Index had only 4 constituent stocks gaining for the month. Our fully invested portfolios of small/mid capitalization Hong Kong-listed, China-oriented companies performed relatively well versus the major blue-chip Hang Seng Index.

South Ocean seeks to own fundamentally strong companies that have cheap share prices. Our top ten holdings, representing 35.3% of total portfolio value, have an average 17.6% return on equity, 13.4% return on capital employed and have witnessed a 5-year average compound annual growth of EBIT (earnings before interest and tax) per share of 8.9%. Together, these 10 holdings have a weighted average price to cashflow ratio of 6.8 and 5.7 times 2020 and 2021 estimates, respectively. (Comparatively, the price to cashflow ratios for the S&P 500 Index are 18.1x and 15.0x for 2020 and 2021 and for the Hang Seng Index, 11.0x and 9.5x, respectively).

The macro data continues to improve in China's rebounding economy. Chinese retail sales (+0.5%), power consumption growth (+7.7%) and industrial production (+5.6%) in August beat expectations, helped by limited fiscal stimulus and strong exports.

Much concern, though, has been aired about China's increasing debt loads. We gathered a few points on this subject.

China's national debt is the total amount of money owed by the government and all state organizations and government branches of China. As of May 2020, it stands at approximately CN¥ 39 trillion (US$ 5.48 trillion), equivalent to about 48.4% of GDP.
https://en.wikipedia.org/wiki/National_debt_of_China

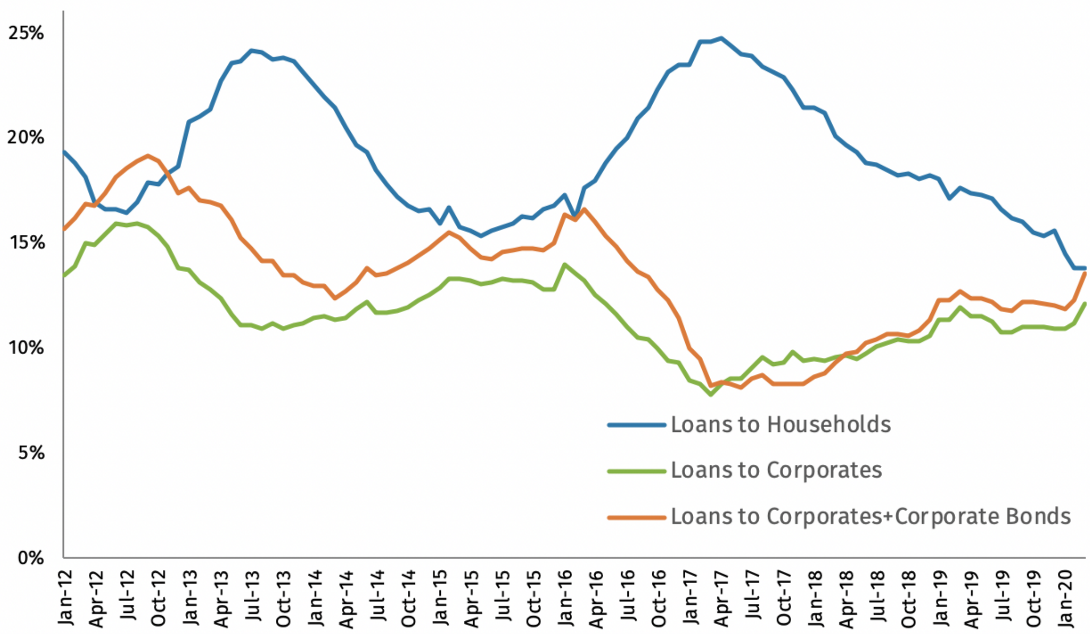
US debt held by the public—the measure of how much the government owes to outside investors—was $16.9 trillion in 2019 and is still increasing. It has nearly doubled since 2007, rising from about 40 percent of GDP to nearly 80 percent (as reported Sep 9, 2020) https://www.cfr.org/backgrounder/national-debt-dilemma#:~:text=Meanwhile%2C%20debt%20held%20by%20the,GDP%20to%20nearly%2080%20percent.

US mortgage debt today totals $16 trillion. China mortgage debt is $4.3 trillion. Mortgages are the majority of Chinese household debt.

Since the deleveraging policies started in late 2016, loans to households rose until peaking in 2017 and have since been declining.

Household and Corporate Lending Growth, Jan 2012 – Mar 2020

Percent yoy



Source: People's Bank of China.

Total China household deposit savings reached US$30 trillion in August, representing a personal savings rate of 34%. At 23% of GDP, today China's household savings are 15 percentage points higher than the global average.

China is managing its debt and, together with high savings, has much room to continue growing.

Negative sentiment in Hong Kong has been rife - the former British colony was hit by a third wave of Covid-19 infections, economic recession and worsening ties between Beijing and Washington. This has all been priced into the markets today. With our fully invested stance in a fundamentally strong, cheaply valued, concentrated portfolio of stocks, we believe the risk/reward measures are attractive and in our favor.

Sincerely,

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*Hong Kong Partners LP risk disclaimer:

- Hong Kong Partners LP (The "Fund") primarily invests in the Hong Kong equity market with a Greater China focus.
- The Fund invests in China-related companies which involve certain risks not typically associated with investment in more developed markets, such as greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The Fund is also subject to concentration risk due to its concentration in Hong Kong, particularly China-related companies. The value of the Fund can be extremely volatile and could go down substantially within a short period of time. It is possible that a substantial value of your investment could be lost.
- You should not make investment decision on the basis of this material alone. Please read the explanatory private placement memorandum for details and risk factors.