



December 11, 2015

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 2015</u>	<u>Year-to-date</u>
Hong Kong Partners LP *	-1.6%	8.5%
Hang Seng Index **	-3.0%	-6.9%
Hang Seng Small Cap Index	-1.8%	-6.2%
MSCI HK Small Cap Index	2.2%	-15.0%

Partners' NAV \$3.0739 after management fees, but before annual incentive fees of 15% on appreciation.

Our portfolios of small/mid capitalized holdings of Hong Kong-listed companies doing business in China have out-performed year-to-date through November. Our disciplined investment approach seeks to generate low risk returns by capitalizing on Hong Kong's *Western* adapted advantages with China's fast growing, *Eastern* economy.

Overall, 2015 has been a difficult year worldwide for stock markets. Through the end of November, only the US markets have shown positive 1-year returns:

<b>World Regions</b>			
	<b>1WK</b>	<b>YTD ↓</b>	<b>1YR</b>
<b>Emerging Europe</b>	-3.8%	4.8%	-16.1%
<b>US</b>	0.2%	3.5%	2.9%
<b>Asia</b>	-1.0%	0.9%	-0.7%
<b>Developed Europe</b>	-0.2%	0.1%	-4.3%
<b>Middle East</b>	0.8%	-11.2%	-18.4%
<b>Africa</b>	-1.7%	-18.7%	-22.9%
<b>Latin America</b>	-3.9%	-25.0%	-33.5%

In China, the Shanghai Composite ended 1.9% higher in November (+ 6.5% YTD, outperforming most Asian markets) as, perversely, a weaker economy stoked pressure for more government stimulus (both imports and exports were reported -18.8% and -6.9%, respectively, missing expectations). The forward price-earnings ratio for the Shanghai Composite today stands at 14.9x.

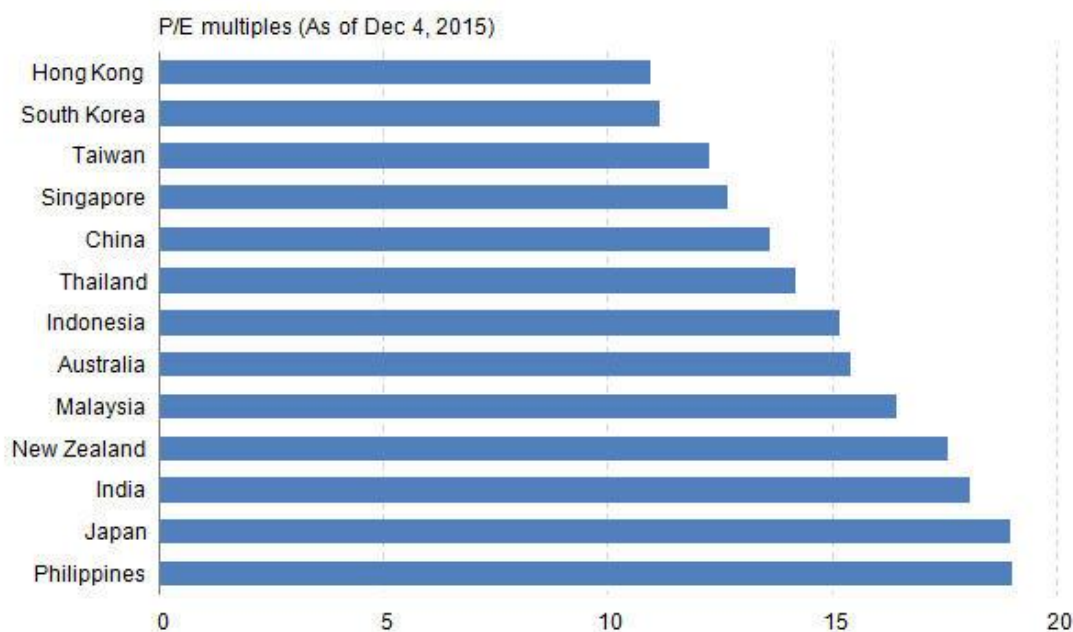
China's technology and consumer-discretionary stocks have beaten estimates, whereas industrial and financial shares have missed earnings estimates. For example, the tech-

heavy Shenzhen market (ChiNext) rose 12.5% in November (+ 99.2% YTD). Yet, the China H-share index in Hong Kong, which is heavily skewed towards financial and cyclical stocks (two areas we have avoided), fell 6% in November and is down 18% year-to-date. Concerns of over-capacity and non-performing loans continue to weigh on China's Old Economy stocks. The H-share index sells at a PE of 7.2 times forward earnings.

Though there is a strong, growing, mutual development between Hong Kong and China that is a direct result of China's continued economic and financial reforms, we do not own any A-share, domestically-listed companies in our portfolios. We find the risk/reward of participating in the mainland's growth is best found in Hong Kong stocks.

## Valuations of Asian equities

Estimated price to earnings multiples



Note: P/E is for current year for each country

Source: Thomson Reuters data. Reuters graphic/Tripti Kalro/ Patturaja Murugaboopathy 4/12/15



Of note, contrarian investor, Howard Marks, said China is beginning to appeal to him as an investment proposition after the recent market falls. He likens the world's second-largest economy to a "teenager" with the possibility of its best years ahead. The co-founder and chairman of Oaktree Capital made the [following comments](#) in late October: "All I know is that this is a better time because prices are way down and sentiment is very weak. You know China is kind of friendless at the present time as an investment proposition. Those are the circumstances under which I like to invest."

Our projected weighted average portfolio price-earnings ratio is 7.5 times, with a 4.5% dividend yield. The potential for further China interest rate reductions (there have been 6 cuts in last twelve months), extra stimulus from cheaper energy costs (China is a net-importing country), a stable to lower currency, and compelling valuations afford a good backdrop for our approach in the coming years.

Our next letter will provide more insight into our holdings and outlook. We want to thank all our clients for their continued support and wish all a happy, healthy and joyous holiday season.

Sincerely,

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President

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Hong Kong

**\*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.

**\*\*Index Descriptions:** The Hang Seng Indexes are a widely recognized capitalization-weighted indexes that measures the performance of the three largest-capitalization sectors of the Hong Kong stock market in descending order. The Hang Seng Index measures the largest 52 market capitalized listed companies in Hong Kong's stock market. The Hang Seng Mid Cap Index represents the next 193 largest capitalized listed companies, the Hang Seng Small Cap Index represents the next 187 largest capitalized listed companies in Hong Kong.

The MSCI HK Small Cap Index is a free float-adjusted market cap weighted index designed to measure the performance of small cap equity securities in the bottom 15% of equity market capitalization in Hong Kong. With 69 constituents, the index represents approximately 14% of the free float-adjusted market capitalization of the Hong Kong equity universe.

The Hong Kong Partners LP (HKP) is benchmark agnostic and its corresponding portfolio may have significant noncorrelation to any index. The portfolios may invest in all sectors (within and/or on other stock markets) and the composition of securities in the portfolio may change periodically depending on market conditions at the time. Securities in the portfolio will not match those in any index.

Index returns are generally provided as an overall market indicator. You cannot invest directly in an index. Although reinvestment of dividend and interest payments is assumed, no expenses are netted against an index's returns. Index performance information was furnished by sources deemed reliable and is believed to be accurate, however, no warranty or representation is made as to the accuracy thereof and the information is subject to correction.

Before investing you should carefully consider the Partnership's investment objectives, risks, charges and expenses. This and other information are in the prospectus, a copy for Accredited Investors may be obtained by inquiring to [info@south-ocean.com](mailto:info@south-ocean.com). Please read the prospectus carefully before you invest.

The principal risks of investing in HKP: Equity Securities Risk. The value of the equity securities the Fund holds may fall due to general market and economic conditions. Foreign Securities Risk. Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. Industrials Sector Risk. Companies in the industrials sector may be adversely affected by changes in government regulation, world events, economic conditions, environmental damages, product liability claims and exchange rates. Consumer Discretionary Risk. Companies in this sector may be adversely impacted by changes in domestic/international economies, exchange/interest rates, social trends and consumer preferences. Information Technology Sector Risk. Information technology companies face intense competition, both domestically and internationally, which may have an adverse effect on profit margins. Detailed information regarding the specific risks of Hong Kong Partners LP can be found in the prospectus. Additional risks of investing in HKP include equity, market, management and non-diversification risks, as well as fluctuations in market value and NAV. An investment in a private limited partnership is subject to risks and you can lose money on your investment in the limited partnership.

There can be no assurance that HKP will achieve its investment objective. The LP's portfolio is more volatile than broad market averages. Shares of HKP cannot be bought or sold publicly, there is no active market in the Units and there are restrictions imposed on Limited Partnership unit transfers. Partnership redemptions are handled by Authorized Administrators of the Partnership.