



March 9, 2017

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:

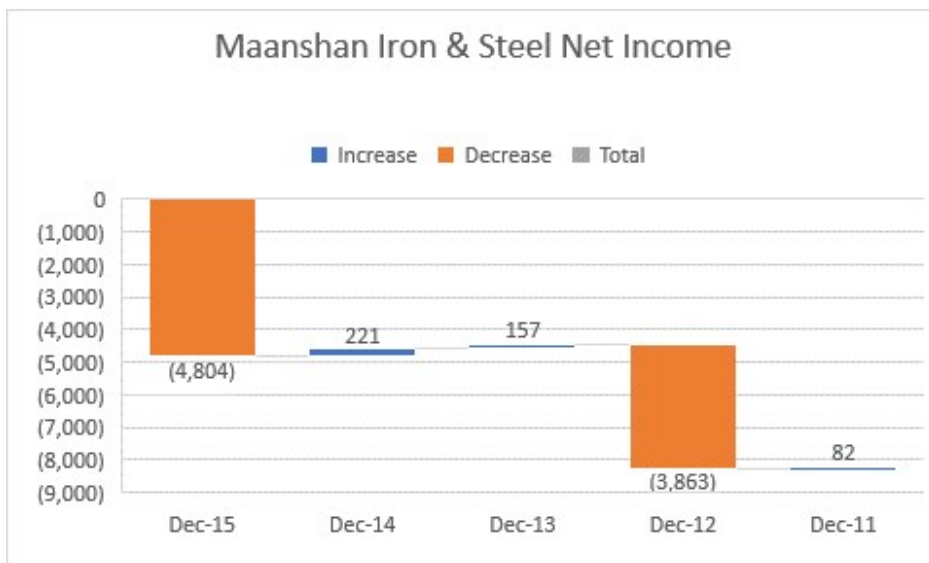
| | <u>Feb 2017</u> | <u>Year-to-date</u> |
|---------------------------|-----------------|---------------------|
| Hong Kong Partners LP * | 2.0% | 3.8% |
| Hang Seng Index ** | 1.6% | 7.9% |
| Hang Seng Small Cap Index | 3.5% | 5.7% |
| MSCI HK Small Cap Index | 3.0% | 5.4% |

Partners' NAV \$3.0994 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

In February, South Ocean's portfolios of small/mid cap, Hong Kong-listed, China-gearred companies gained in a generally no-news month (companies that are reporting fiscal year-end earnings are required to be in a quiet, 'blackout' period two months prior to reporting, with no director dealings in company shares). Most listed companies, with December fiscal year-ends, report results in March.

Cyclical stocks, such as natural resource, mining and basic materials, were in favor during the February commodity rally. The sector gained with [industrial metals](#) increasing 10.3% year-to-date through February.

Our investment style seeks to own companies with profitable operations. For instance, cyclical industries have posted erratic results since crashing in 2011. Take, for example, steel company Maanshan Iron and Steel...

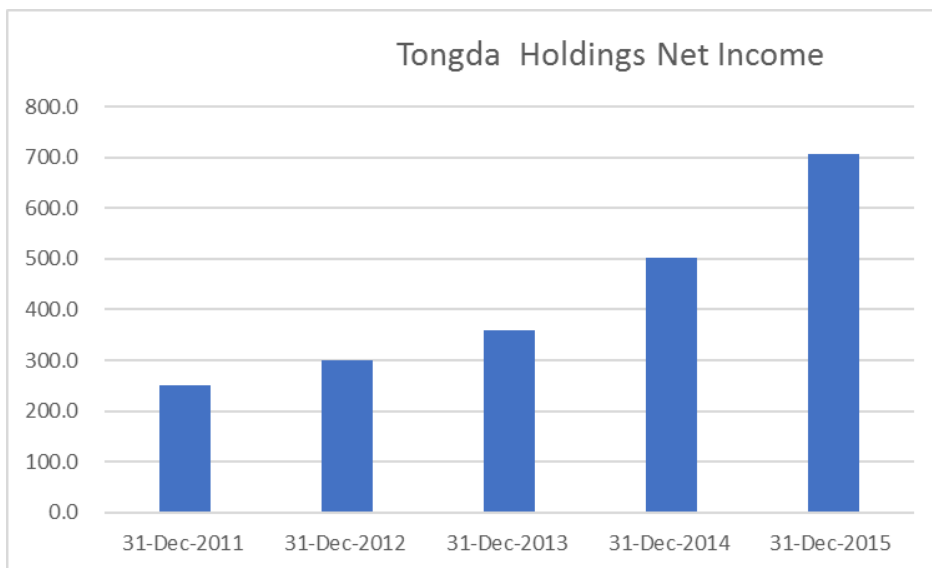


The share prices of most cyclical stocks, like Maanshan, have traded sideways since the China commodity bust;



This year, the sector has witnessed speculative buying on reflation commodity prices. Due to the unpredictable and cyclical nature of these sectors' profitability, we have preferred not to participate, as the timing of these sudden price moves is difficult to foresee.

Conversely, steadily growing companies, such as our holding in leading PC/smartphone casing manufacturer, Tongda...



... have markedly out-performed over the past five years:



Rather than jumping from one investment flavor of the month to another, chasing the latest performance group, we believe sticking with profitable, quality small/mid cap companies delivers superior returns, with less risks, over time.

In fact, a recent white paper by S&P Dow Jones Indices entitled, *Quality: A Driving Factor of Small-Cap Returns*, further substantiates our strategy. The study found the returns of profitable small cap stocks were greater and concluded; ...small-cap companies with profitability characteristics were able to generate higher excess returns over the benchmark (the small-cap universe in this case the S&P SmallCap 600, which has outperformed the Russell 2000 since inception and with lower volatility) on a consistent basis. It is also worth noting that these companies had lower beta to the market as well...

[This study](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2553889), along with the previous study mentioned in these letters last year (*Size Matters, If You Control Your Junk* by Clifford S. Asness, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2553889) attest to the validity of our investment process; owning quality small/mid cap stocks at reasonable prices.

To all our Limited Partners in Hong Kong Partners LP, year-end K1s have been finalized and are being mailed by our administrator, Apex Fund Services.

Sincerely,

Brook McConnell
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. 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.