SOUTH OCEAN MANAGEMENT, LTD. 南海管理有限公司
HONG KONG

September 19, 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:

	Aug 2017	Year-to-date
Hong Kong Partners LP*	-1.1%	2.6%
Hang Seng Index **	2.4%	27.1%
Hang Seng Small Cap Index	0.7%	8.9%
MSCI HK Small Cap Index	0.1%	7.7%

Partners' NAV $3.0618 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

Last month, our holdings of small/mid cap, Hong Kong-listed companies reported interim results mostly in line with expectations. Yet, as we cited in our July monthly letter, there has been a striking divergence in the performance of small caps versus (a select few) large capitalized stocks in Hong Kong.

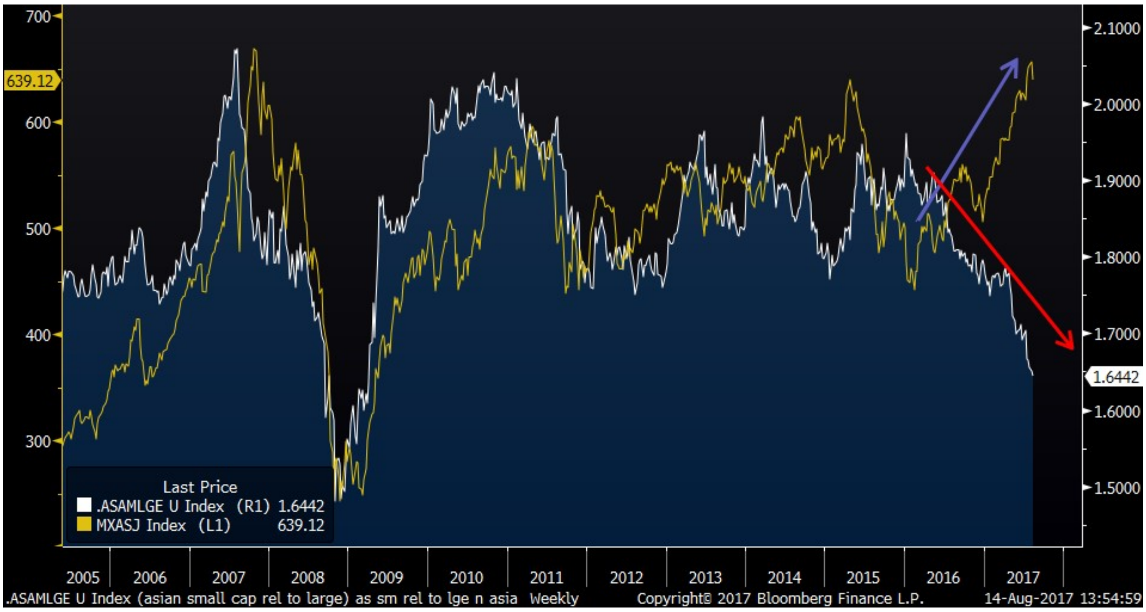
There are several observations we can make for this dichotomy.

To start, the US markets have witnessed a similar situation where a select few stock sectors garner most of the investor interest. The digital technology boom, for instance, has propelled shares of companies with advanced digital capabilities. This group, with higher profit margins and faster growth, is also eating into the returns of other sectors (e.g. Amazon disrupting the retail sector).

One research house reported that, according to FactSet, just three sectors – information technology, energy and financial services – accounted for 70% of all earnings growth for S&P 500 companies in 2Q 2017. Further, overall second quarter earnings for the small cap S&P 600 came in somewhere between flat and negative 2.5% (according to Jefferies).

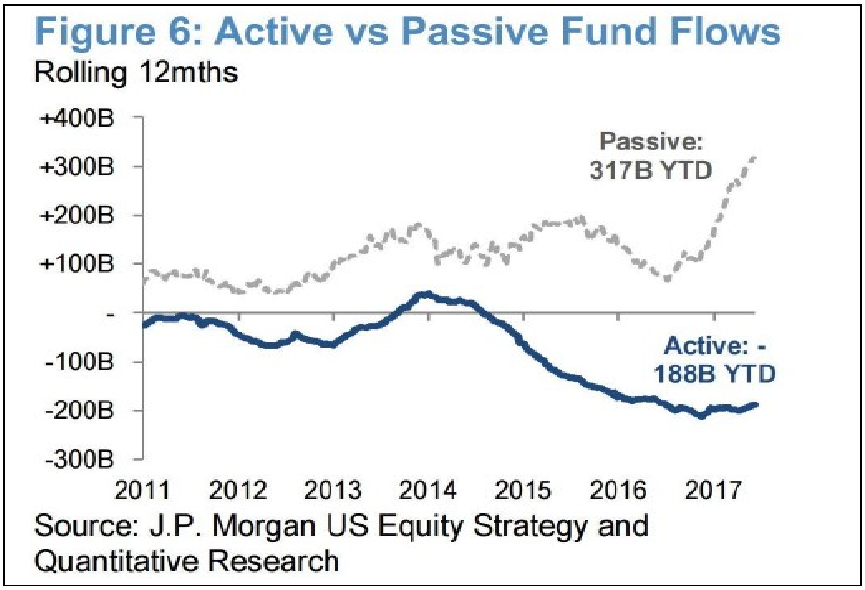
Consequently, the Russell 2000 Small Cap Index has lagged the larger S&P 500 Index year-to-date:

The divergence between small caps and large cap shares can also be seen in Emerging Markets as well. The Asia ex Japan Index has witnessed a marked deviation in returns of the two sectors for the last nine months;



Another observation for these divergences, and one we suspect is a powerful driving force, is the massive inflows into passive investing (a strategy widely advocated by Jack Bogle, Warren Buffett and Tony Robbins). As one hedge fund manager put it, there has been a '…tectonic shift in capital from active to passive' investing.

We suspect passive, ETF fund flows account for much of this market distortion.



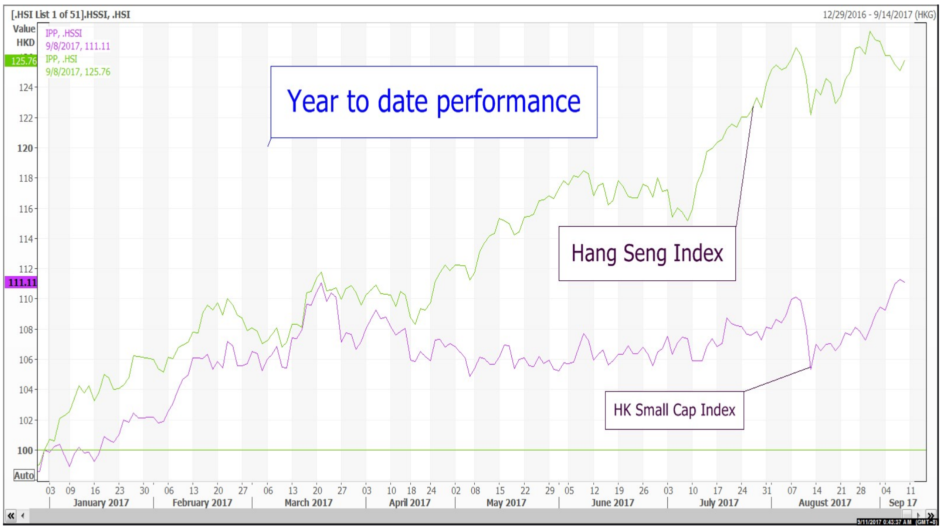
This dynamic growth raises several questions and concerns:

> *… Critics say that by owning every company in an index, passive investors don't care if company A does better than company B, or whether sector C does better than sector D. This lack of discrimination could lead to inefficient capital allocation, with money flowing into companies that don't deserve it.*
>
> *Another factor fueling the behavior change of passive fund managers is the tremendous growth of the assets they manage. Assets in traditional index funds and exchange-traded funds, or ETFs, have grown four-fold since the financial crisis, and nowadays represent nearly a quarter of total fund assets globally, according to Morningstar data.*

http://hk.morningstar.com/ap/news/ETF-Education/160810/Passive-Fund-Providers-Taking-an-Active-Interest-in-ESG.aspx

Financial powerhouse, BlackRock, leader in Exchange Traded Funds (ETFs), daily reports greater than 5% ownership in many Hong Kong large caps, according to the HSI Services website.

As can be seen in Hong Kong, small caps have generally way underperformed the passive investing that is governing large caps;



The Hang Seng Index is dominated by financial/interest rate sensitive companies, such as banks, insurance and real estate, sectors that we have no exposure in our portfolios. Tencent, the PRC Internet giant, is the exception in the blue-chip index: it has risen 70% year-to-date and accounts for roughly ¼ of the index's gains this year. Actually, the gains to date for the large cap index have been concentrated in just a handful of stocks.

We shall advance these observations further next month and explain how our system is working in today's markets. On a fundamental basis, our small/mid cap stock portfolio of 23 holdings sells at a weighted average P/E of 9.9x '17 estimated earnings vs the Hang Seng at 12.4x.

Sincerely,

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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.