



February 14, 2018

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>Jan 2018</u>
Hong Kong Partners LP *	1.8%
Hang Seng Index **	10.2%
Hang Seng Small Cap Index	9.6%
MSCI HK Small Cap Index	4.7%

Partners' NAV \$3.2892 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

Our small/mid cap holdings of Hong Kong-listed companies continued to rise with the exuberant Hang Seng Index in January. The larger capitalized, Hang Seng stocks rose on continued inflows from foreign passive investment strategies.

Top 15 performing constituents in Hang Seng Index Year-To-Date, through Jan 30, 2018

Top 15	a/o Jan 30 2018	YTD %	
.HSI	HANG SENG INDEX	9.0	
2318.HK	PING AN	10.9	Real Estate/Finance
2007.HK	COUNTRY GARDEN	11.7	Real Estate/Finance
0700.HK	TENCENT	13.7	Internet
1928.HK	SANDS CHINA LTD	14.6	Gaming
0857.HK	PETROCHINA	14.7	Energy
3328.HK	BANKCOMM	15.5	Real Estate/Finance
1398.HK	ICBC	15.6	Real Estate/Finance
0004.HK	WHARF HOLDINGS	17.4	Real Estate/Finance
1088.HK	CHINA SHENHUA	19.0	Energy
0386.HK	SINOPEC CORP	19.5	Energy
0388.HK	HKEX	20.1	Real Estate/Finance
3988.HK	BANK OF CHINA	20.6	Real Estate/Finance
0688.HK	CHINA OVERSEAS	22.7	Real Estate/Finance
0939.HK	CCB	23.1	Real Estate/Finance
1109.HK	CHINA RES LAND	37.4	Real Estate/Finance

An early January deferral of implementing a capital gains tax in China on real estate transactions probably contributed to much of that sector's gains for the month.

We have resisted chasing the rising price trend in large caps and are not invested in this narrow sector. For one reason, fundamentals are not cheap for these stocks. Internet giant Tencent, for example, doubled in price in 2017. Last month, the shares gained another 13.7%. Tencent sell at 57x trailing earnings, with a current market capitalization of HK\$4.3 trillion /US\$550 billion today. The high stock valuation is a function of heightened future growth expectations, an increasingly difficult objective given its much larger base today. Tencent is a terrific company, but the stratospheric valuation is too risky for us to consider investing.

Today, small and mid-cap stocks have more value compared to large cap stocks which have rallied to levels far above their fundamental value. Flows from US investors have typically bought into Hong Kong large cap stocks through passive flows and exchange traded funds over the past year or so.

Out-of-favor small/mid cap stocks that we own benefit from faster growth of earnings and smaller bases. Further, as their capitalizations rise due to above average growth, a much wider universe of large investors become interested stakeholders, an important performance factor. Our concentrated portfolio of holdings receives a significant boost and rerating.

The companies we own have stable cashflows, low valuations relative to expected earnings growth and proven track records. These characteristics, along with market leading positions/brands and focused managements, promise substantial returns for patient shareholders.

Earnings season will begin in March for December year-end financial reports. We will be investigating and analyzing results, which we expect to be positive catalysts for our holdings.

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.