

concerns which are very much at the forefront of investors' concerns today. We do not use leverage and have conservative earnings assumptions about our companies' growth prospects. That puts our portfolios at very cheap levels today. Our weighted average price-earnings ratio for 2018 expected earnings is 6.8 times (most companies will start reporting their 2018 year-end results in March) and 6.2 times this year's expected earnings.

To counter its economic slowdown, China has embarked on massive infrastructure projects (see 10 new rail and bridge projects and videos [here](#)). Worries of a 'hard landing' are muted for now. We are confident in the prospects of our undervalued, fundamentally strong holdings.

Sincerely,

Brook McConnell
President

Email: brook@south-ocean.com Website: www.south-ocean.com Hong Kong

PS: we view China's infrastructure commitments as necessary budget expenditures. For instance, newly built trains traverse between important cities and provinces of China and they are super-fast. Journey times are cut from 6 hours to 2 hours.

Over 4,000 bullet trains run in China, carrying 4 million passengers every day, according to the China Railway Corporation. Chinese high-speed rail (HSR) service began operation in 2008, running at speeds from 250 km/h to 350 km/h (217 mph). China's HSR network is expected to exceed 38,000 kilometers by 2025, and 45,000 km (or 27,961 miles) in the longer term, far more rail lines than in the rest of the world **combined**. As of the end of 2018, the total length of China's high-speed railways rose to 29,000 kilometers, more than two-thirds of the world's total.

If you have ever been disposed to travel during Chinese New Year's on the mainland, you would certainly believe the spending as direly necessary.

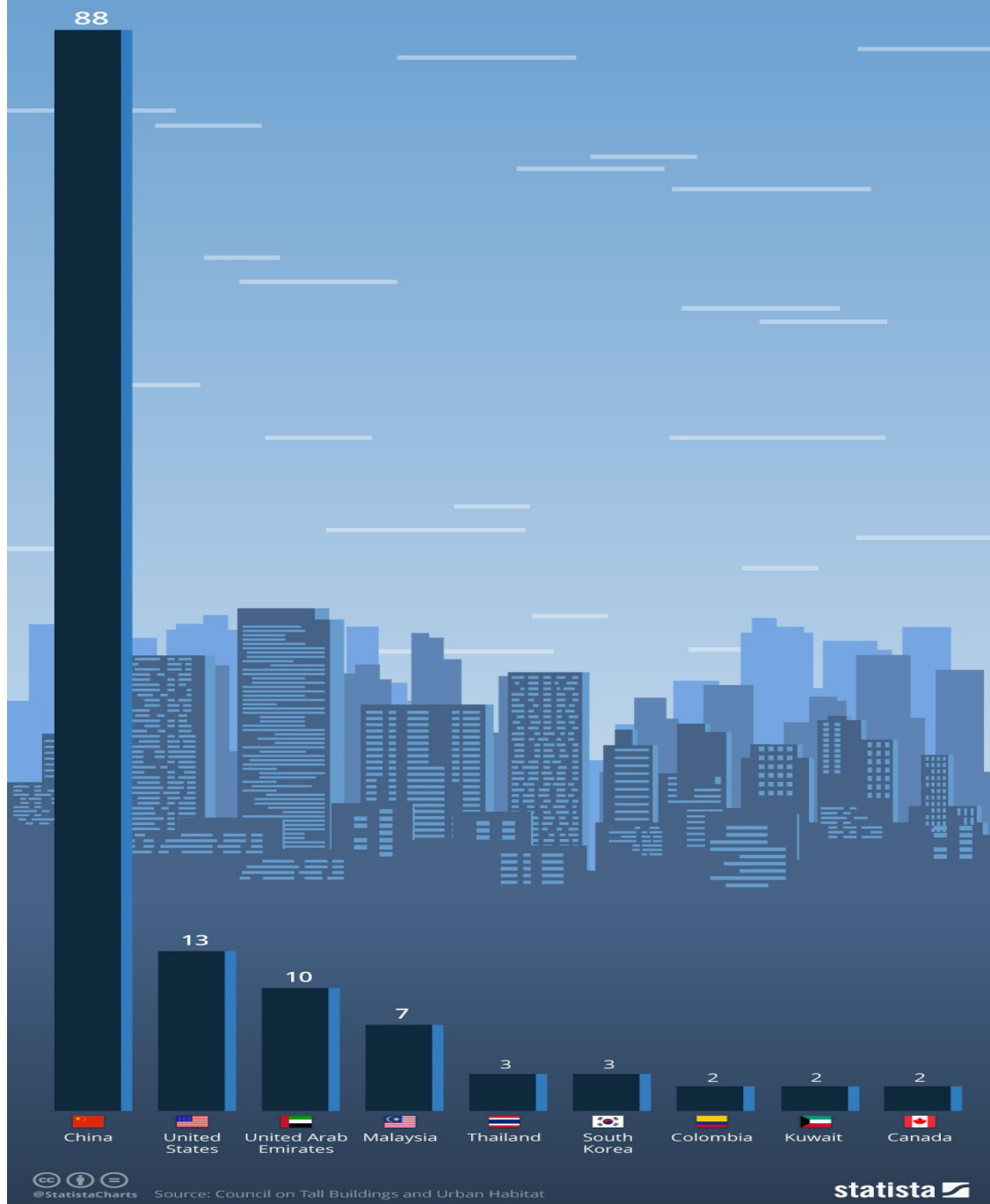
As an illustration of the continued, massive build-out of China's transportation, energy, housing, education and high-tech undertakings are its new skyscrapers.

*China is at the forefront of the boom in skyscraper construction, building 88 in total this year. After China, the U.S. comes a distant second in the 2018 skyscraper league with 13 completions while the UAE comes third with 10. Due to China's skyward ambitions, Asia is the global hub of skyscraper construction, accounting for 76.2 percent of all completions this year (see **chart below**).*

<https://www.statista.com/chart/12382/china-dominates-skyscraper-construction/>

Skyscraper Construction: Nobody Comes Close To China

Number of buildings completed that are 200 meters in height or greater in 2018



That's quite a remarkable build-out and it benefits under-developed China in the long run! As former Prime Minister of China, Zhu Rongji, once commented, "I don't mind spending \$1 today for long term projects that will return \$3 to me tomorrow."

