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

July 15, 2019

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:

	June 2019	Year-to-date
Hong Kong Partners LP *	0.2%	0.0%
Hang Seng Index**	6.1%	10.4%
Hang Seng Small Cap	2.3%	3.6%
Index MSCI HK Small Cap	2.0%	2.1%
Index HS Mid Cap Index	3.9%	8.4%

Partners' NAV $2.442 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

South Ocean's portfolios of small/mid cap, Hong Kong-listed companies, benefitting from operations in China, were quiet in the month of June. Expectations by Hong Kong investors of lower US interest rates lifted the heavily weighted property and finance sectors of the Hong Kong stock market (we own no property developers nor banks in our portfolios). For the month, our worst performing holdings were two online gaming stocks, Kingsoft (code 3888hk, US$ 2.9 billion market cap, 4.2% holding) and Netdragon (code 777hk, US$ 1.3 billion market cap, 3.2% holding), both of which had gained over 50% year-to-date.

Our top performing positions were long-time holding Beijing Enterprise Water Group (code 371hk, US$ 6.1 billion market cap, 8.4% holding) and a newly purchased equity, sports clothing retailer Xtep Int'l (code 1368hk, US$ 1.5 billion market cap, 7.9% holding). Both companies derive a majority of earnings from domestic sales and business in China, and are not trade war-affected exporters.

Though most stock markets globally rebounded in June after the trade war sell-off that pressured all bourses in May (in fact, the Dow Jones Industrial Average rallied 7.2% in June, its best June performance since 1938), Hong Kong stocks were tempered from ongoing concerns of the US/China trade war and the Extradition Bill protests.

Throngs of citizens marched into major foreign consulates in Hong Kong in late June, demanding leaders to fully scrap a proposal that was unacceptable to Hong Kong residents. Chief Executive Carrie Lam set off mass protests with a plan to allow those accused of a crime on the mainland to be sent there for trial. After the protests, she put the bill on ice, but her popularity plummeted. The Chief Executive said she would suspend the extradition bill indefinitely following protests that included two million people (out of a total Hong Kong population of 7.5 million), but stopped short of withdrawing it (just yesterday, the CE announced the bill was ‘dead’).

The unresponsive reaction by the Hong Kong government and its snubbing of public opinion was badly judged and backfired. Those issues were detailed in this article.

In a meeting at the G-20 summit in Osaka, Japan on June 29, President Donald Trump and Chinese President Xi Jinping agreed to resume trade talks that had broken down in May.

The US will lift some restrictions on telecom equipment supplier Huawei Technologies Co. Ltd.’s ability to do business with U.S. companies and will postpone tariffs threatened on an additional $300 billion annually in Chinese imports. In exchange, Xi agreed China will buy more U.S. agricultural products. Details will be spelled out later.

This agreement amidst the ongoing trade war concerns came as a surprise. In the lead-up to the meeting, many commentators wholly misjudged the outcome (Jim Cramer of CNBC’s Squawk on the Street, was ‘shocked’). In actuality, though, there’s little choice for a wide range of US companies other than China for producing many consumer items (Reuters). Former Australian Prime Minister Kevin Rudd said “To be blunt about it, I think the Chinese will see the United States as having blinked a bit.” The China expert and fluent Mandarin speaker concluded, “I think the takeout message from Osaka will be…President Trump really wants a deal,” (his CNBC’s “Squawk Box” interview of 9 minutes here).

Pessimism and confusion towards China related stocks were at their greatest prior to the G-20 meeting. Research firm, BTIG, noted the China A-share ETF’s (Xtrackers Harvest CSI 300 China A-Shares ETF code ASHR) short interest was at an historic high. Even positive developments and fresh gestures by China have largely been ignored by investors:

> *Premier Li Keqiang said at the World Economic Forum in Dalian on Tuesday that China is still a competitive location for investment, even as some companies look to move production out of the country to avoid tariffs and damage from the trade war with the U.S… China will bring forward plans to remove foreign ownership limits on financial companies, as it speeds up efforts to open the $44trn industry to overseas competitors. Full foreign ownership of securities firms, futures businesses and life insurance companies will be allowed by 2020… China would allow foreign financial services companies into its market a year earlier than previously promised, and that it would rewrite many rules on foreign investment. “This shows China’s commitment to opening up,” the Premier said.* https://www.nytimes.com/2019/07/02/business/china-li-keqiang-economy-trade.html

BTIG further observed:

> *Yet with the upward reweighting of China A shares in MSCI's Indexes set to continue phasing in in August and again in November, incremental demand for Chinese equities in general would appear to be forthcoming. And with the potential for further slowing in the Chinese economy, the People's Bank of China (PBOC) has shown its willingness to do "whatever it takes" to provide liquidity to financial institutions specifically, and the economy broadly.*

We own companies benefiting from growth in China. Their share prices have been under pressure since the trade wars began over a year ago. Our small/mid capitalized holdings have discounted the worst-case economic scenarios. There's plenty of catalysts amongst all the misperceptions and 'geopolitical machinations' for an upcoming rally in China-related shares.

Sincerely,

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*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.