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

September 10, 2019

Dear Clients, Partners, and Friends,

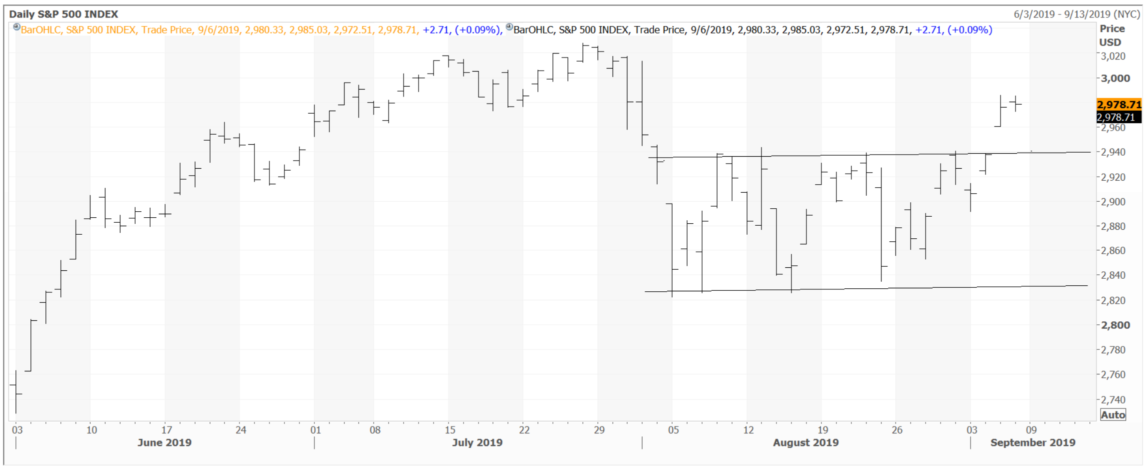
The results for South Ocean Management's Delaware LP, Hong Kong Partners' L.P., before incentive fees, were as follows:

	Aug 2019	Year-to-date
Hong Kong Partners LP *	-5.2%	-5.1%
Hang Seng Index**	-7.4%	-0.5%
Hang Seng Small Cap Index	-5.9%	-3.6%
MSCI HK Small Cap Index	-9.0%	-9.3%
HS Mid Cap Index	-6.4%	-0.3%

Partners' NAV $2.3173 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

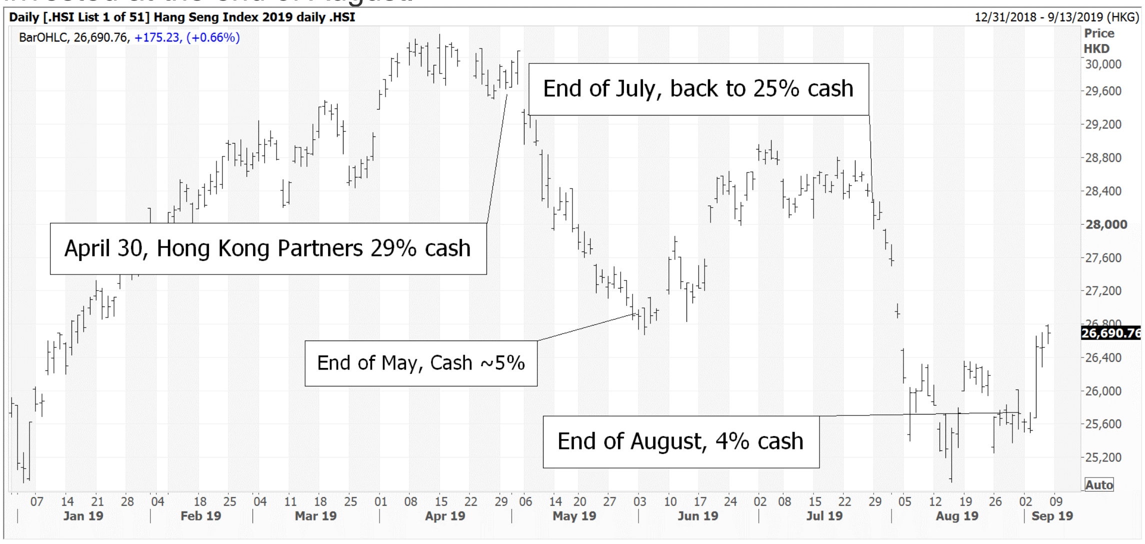
Sentiment remained subdued in Hong Kong's stock market in August. Our portfolios of Hong Kong-listed small/mid cap stocks of quality companies with businesses geared towards China would have been more constrained if we hadn't been vigilant.

Remarkably, poor sentiment wasn't only in the Hong Kong market. The US markets contracted in August as the US S&P 500 Index was quite volatile, with wide, daily swings. The index moved up and down 6 times in 3.5% ranges for the month.



Investment Banks have soured on Hong Kong, having grown weary of the extended trade war issues. They have given up any optimism for a near-term settlement and the analysts haven't been this negative on projected growth in years.

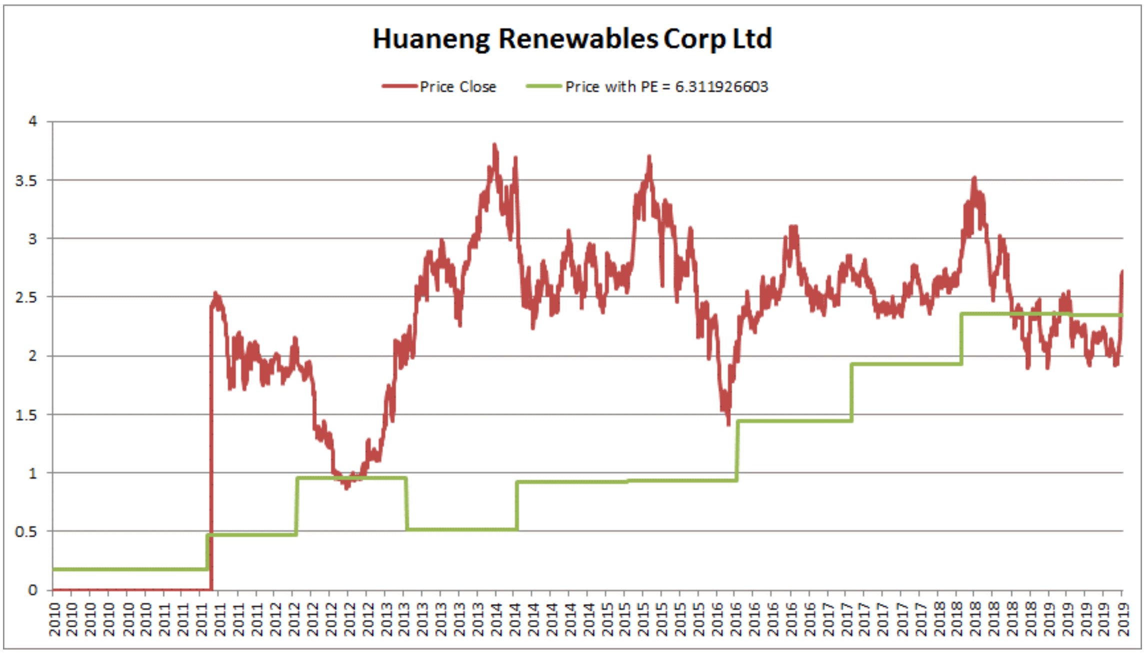
Yet, at 10 times those reduced estimates, the blue-chip index has already priced in the worst-case scenarios. Hong Kong stocks are at oversold levels today and we have taken advantage and invested our sidelined cash back to almost fully invested at the end of August.



The instability of the market this year has been extreme due to the ongoing trade war and Hong Kong protests. We had almost 30% of portfolio value in sidelined cash holdings at the end of April this year, a conservative posture. When stocks declined sharply over the next month of May, we found the lower prices attractive and, using our intrinsic value screens, invested the cash into the equity markets. We raised cash at the end of July and then re-invested it right at the end of August. This is very heightened, unusual volatility. It kept us on our toes.

The Hang Seng Index Price-to-Earnings ratio, on next year's, 2020 estimates, stands at 9.9 times, which is near historic lows (see last month's P/E chart here). The price earnings ratio of many small and mid cap stocks have also contracted with the Small Cap Index at <8x and the Mid Cap Index at 8.5x next year's projected earnings. Our weighted average P/E on 2020 projected earnings is 6.7 times.

We have at times waited through extended periods in Hong Kong when investors lacked interest and our holdings slumped. When our systems, though, have indicated the particular holding is cheap, we would not deviate from our discipline by selling a misunderstood stock just because it wasn't performing well. On numerous occasions, when we have held a dull performing, yet undervalued stock, we would frequently be rewarded. This has happened recently with our long term holding in the world's largest wind farm operator, Huaneng Renewables (code 0958hk):



Huaneng Renewable's parent company announced at the end of August its intentions to take the company private (see the red price line upward surge in the chart after the announcement). The shares were temporarily suspended before the announcement and re-opened the first week of September. The stock was selling below 6.3 times trailing earnings (green line), which was the lowest annual multiple investors had paid for the shares.

Insiders and company management who know the true value of the company will act on the low valuation in the market and announce they intend to take the company private, at a much higher price premium. Of course, these announcements come out of the blue and generally can't be anticipated, but this does substantiate our systems' quantitative soundness. Just because a stock is out of favor and not the current market 'flavor of the month' does not necessarily invalidate its attractiveness.

We have many positions in our portfolios today with similar compelling low valuations due to the underperformance of the overall market in Hong Kong this summer.

We await further catalysts with our very cheap holdings.

Lastly, I found three reports of interest presented below.

Sincerely,

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President
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On the macro front, in early August, there was a very influential money manager who gave an intriguing interview. The world's largest hedge fund, Bridgewater, has about $160 billion in assets under management and was founded by Ray Dalio, who is Co-Chief Investment Officer. The firm trades across 150 markets and Dalio's expert risk assessment/management acumen has generated an average 12% annual return for the last three decades.

Dalio explained in the interview why he backs China despite the trade war escalation. The hedge fund manager maintained that investors still have an historic opportunity to buy into China as it opens up its markets to foreign investments.

Dalio concludes, there is, "more risk not investing in China!" Please watch the AUG 7 2019, 31 minute interview.

The next is a Bloomberg report on YouTube which is quite interesting. It is about the city of Shenzhen, which borders just north of Hong Kong in China. When I first visited in 1993, my late father and I lunched on the top floor of the city's first high-rise building, built by a first mover company named Tian An. The view was spectacular, overlooking rice fields and the very beginning of China's first Special Economic Zone's development.

Shenzhen is entirely different today: Click https://youtu.be/taZJblMAuko for the video, entitled: **The People's Republic Of The Future.**

The third report contains two recent commentaries (with video links) by a long-term China investor:

1. *Yale's Stephen Roach says Trump 'has almost become unhinged' when it comes to China*

PUBLISHED MON, AUG 26 2019 2:31 PM EDTUPDATED TUE, AUG 27 2019 12:29 PM EDT

KEY POINTS

President Donald Trump is raising alarms when it comes to his dealings with the Chinese government, says Stephen Roach, a senior fellow at Yale University.

"The president and his advisors have really lost their credibility in assessing the state of play in this trade conflict," Roach says.

WATCH NOW
VIDEO 05:00 https://www.cnbc.com/video/2019/08/26/stephen-roach-the-president-has-lost-his-credibility-in-trade-war.html
Stephen Roach: The president has lost his credibility in trade war

President Donald Trump is raising alarms when it comes to his dealings with the Chinese government, Stephen Roach, a senior fellow at Yale University, told CNBC on Monday.

"The president has almost become unhinged in dealing with China on a day-to-day basis," the former Morgan Stanley Asia chairman told "Squawk Alley."

Roach referenced Trump's whiplash rhetoric on China over the past week. On Friday, Trump referred to Chinese President Xi Jinping as an "enemy," shortly after China announced it will impose tariffs on $75 billion worth of U.S. goods and reinstate duties on American autos.

Trump then declared that American companies could not longer do business in China and "threw out all sorts of anger-driven responses to China's retaliation to his latest tariff initiative," said Roach, one of Wall Street's leading authorities on Asia.

But Monday, Trump said at the G-7 summit in France that Beijing is ready to reenter negotiations and begin serious talks. At a later press event, Trump said he didn't want to get into details, saying that talks between U.S. and Chinese trade officials have been taking place at the highest levels.

2. *US-China trade war is a big factor in the yield curve inversion:* Stephen Roach

Roach, one of Wall Street's leading authorities on Asia, has been critical of Trump in the past and his negotiating tactics with Beijing.
WATCH NOW
VIDEO04:45 https://www.cnbc.com/video/2019/08/14/the-trade-war-is-a-big-factor-in-the-yield-curve-inversion-roach.html

"Having gone through this back and forth on the on again-off again trade deal, the president and his advisors have really lost their credibility in assessing the state of play in this trade conflict," Roach said.

A White House spokesman was not immediately available to respond to Roach’s comments.

https://www.cnbc.com/2019/08/26/yales-stephen-roach-says-trump-is-becoming-unhinged-on-china.html?__twitter_impression=true&recirc=taboolainternal

*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.