



October 14, 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:

	<u>Sep. 2019</u>	<u>Year-to-date</u>
Hong Kong Partners LP *	2.9%	- 2.4%
Hang Seng Index **	1.4%	1.0%
Hang Seng Small Cap Index	- 0.5%	- 4.1%
MSCI HK Small Cap Index	2.6%	-7.0 %
HS Mid Cap Index	1.5%	1.2%

Partners' NAV \$2.3841 after management fee and provisions, but before annual incentive fees of 15% on appreciation. Our fully invested portfolios of Hong Kong-listed, small/mid cap stocks rose in the last month of the third quarter. Top performing holdings were recliner chair/sofa manufacturer Man Wah (code 1999hk, +36.2%), wind farm operator HN Renewable (code 958hk, +30.4%) and smartphone casing manufacturer BYD Electronics (code 285hk, +24.5%), all contributing to last month's returns. Investing in quality small/mid cap stocks tends to generate greater returns than larger stocks. Our proprietary intrinsic value screening process helps not only identify strong businesses to own but better facilitates our investment process and risk management disciplines.

During a tumultuous 3-month period ending September, our Hong Kong Partners LP account outperformed and was down just 2.4% versus -8.6% for the blue-chip Hang Seng Index. The Hang Seng Composite Index representing 500 of the top capitalized stocks in Hong Kong (accounting for >90% of total market capitalization) was down 7.5%, with the Property sector down a sharp 12.9% (we have avoided the real estate and finance sectors in Hong Kong).

While we are based in Hong Kong, our investment program is aimed at capitalizing on companies generating earnings from businesses in China...not Hong Kong. Hong Kong has been under extraordinary pressure this past summer. Tourism to the Special Administrative Region (SAR) has collapsed as a result of the ongoing violence. Hotels and retail operations haven't suffered these declines since the 2003 SARS epidemic.

The angst of Hong Kong citizens has been brewing since the 2014 Occupy Central protests. Every weekend has witnessed peaceful, but angry marches on the island by thousands of participants. The [Extradition Bill](#) episode in June, along with the suffocating heat, set off tempers and resulted in today's unprecedented

violent protests. The international community has now joined in scrutinizing the strife.

In deliberating the relative values in the markets, we have remained invested in extremely cheap stocks listed in Hong Kong which have been under huge duress this year. One underpinning to our confidence is the Hong Kong dollar currency board, which 'pegs' the Hong Kong dollar to the US dollar. Though this has been a major cause of Hong Kong's troubles (as escalating property prices due to the peg have excluded all new buyers from owning a home), the Hong Kong Monetary Authority can defend the currency against most any devaluation scenario. China would also likely not want the instability of an improbable devaluation to hit Hong Kong. When China's capital account controls are opened and its currency becomes fully convertible, I suspect Hong Kong will link its currency to the motherland's RMB, but not before.

No one knows what the outcome of today's chaos will be. Again, though our investments are not directly affected by the ongoing protests affecting the island state, it is extremely distressing and sad for all of us who have lived in Hong Kong to witness the degenerating state of affairs.

Sincerely,

Brook McConnell
President

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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.