



March 9, 2020

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>Feb. 2020</u>	<u>Year-to-date</u>
Hong Kong Partners LP*	-1.1%	-8.5%
Hang Seng Index **	-0.7%	-10.1%
Hang Seng Small Cap Index	2.7%	-12.9%
MSCI HK Small Cap Index	-0.9%	-18.8%
HS Mid Cap Index	2.8%	-8.7%

Partners' NAV \$2.3859 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

Selling overtook the Hong Kong stock market in late February due to the Corona virus (COVID-19) global outbreak. The epidemic was first identified in Hubei province, China, where over 90% of the deaths have been reported. South Ocean's holdings of small/mid cap, Hong Kong-listed companies with operations in China didn't escape the panicky sell down. Hardest selling was in the IT supply chain and retail store industries as investors questioned the extent of the economic damage caused by the virtual shut-down of China's economy. Our holdings in cloud/mobile gaming stocks advanced as the stay-at-home work rules, pervasive throughout the greater China area, were deemed to benefit these companies.

Alarm at the virus's spread grew rapidly outside of China as illustrated in this news report:

In Japan, a lone infected employee at Dentsu Group's headquarters in Tokyo's Shiodome has prompted the advertising giant to send 5,000 workers home, and led Shiseido, which occupies a neighboring building, to recommend 8,000 of its workers stay out of the office.

Hoarding of face masks, rice and toilet paper emptied the grocery shelves in Hong Kong:

A Hong Kong friend's wife took this photo the first week of February:



As the Chinese saying goes, [不怕一万，就怕万一](#) or, better to be safe than sorry.

By early March, as the economic numbers began coming out, the selloff appeared overdone. The Monday March 3 headline read; *It was announced China's economy took a big hit. Feb's PMI plunged to a record low of 35.7, well below estimates and dashing hopes for a V-shaped rebound.*

Yet, on that day, the Shanghai and Shenzhen markets, both of which had witnessed dramatic selloffs in early February, rose 3.15% and 3.29%, respectively after the report. Hong Kong's stock market was less volatile and has continued operating without any glitches (though we, like many others in Hong Kong, work remotely as much as possible).

China instituted warlike controls (and was given [high marks](#) for doing so) in its efforts to contain the spread of the virus. After restricting travel over the week-long Lunar New Year period in January (where hundreds of millions of Chinese were to [travel home](#) during the public holiday), President Xi made calls a month later for businesses and people to return to work. Though the epidemic's impact is "generally manageable," Xi admitted "This is both a crisis and a big test for us," in the short term. China cut taxes and lending rates, injecting liquidity into the markets, to help struggling companies. The country is getting back to work as speedily as possible.

Somewhat counter-intuitively, on March 2, Morgan Stanley upgraded stocks of three nations stating the coronavirus which affected the equity markets of China, Singapore and Australia, can now provide shelter from the outbreak

(citing expectations of further policy stimulus amid the widening public health emergency and cheaper relative valuations).

75+% of listed Hong Kong companies report year-end results in the month of March. Recent cautious market sentiment will stabilize once the rate of increase in the number of new infections slows.

We trust everyone is taking precautions; avoiding crowds when possible and continually washing hands thoroughly, to wait out until the virus dies away...which it eventually will. Of note, K1 tax reports are due to be completed mid-March and will be emailed to all Limited Partners immediately thereafter.

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.