May 13, 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:

	Apr. 2020	Year-to-date
Hong Kong Partners LP*	1.8%	-22.1%
Hang Seng Index**	4.2%	-12.7%
Hang Seng Small Cap Index	7.7%	-6.5%
MSCI HK Small Cap Index	6.5%	-16.3%
HS Mid Cap Index	7.8%	-11.0%

Partners' NAV $2.0174 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

After this year's collapse in global equity markets and subsequent rebound, our portfolios of small/mid cap, Hong Kong-listed stocks with operations geared towards China for growth are, today, extremely cheap at 6 times historic weighted earnings (and just 1.1 times book value).

> *"In China… they love to gamble in stocks. This is really stupid… It's hard to imagine anything dumber than the way the Chinese hold stocks."*

— - Charlie Munger, vice chairman of Berkshire Hathaway

Since the Covid-19 outbreak, a preponderance (75%) of stocks trading in Hong Kong are down (on average) 19.6%. In the last three months, a narrow group of smaller "online" and medical/pharmaceutical stocks have raced ahead. These names have been targets of strong inflows of buying from China (Shenzhen Southbound channel into Hong Kong). One name, for instance, an orthopedic knee and hip replacement manufacturer, gained 74.4% in price. The shares sell at 75 times past earnings and 20 times book value (this isn't a new vaccine discovery for the coronavirus either). Quite a valuation for an elective surgery, medical parts supplier!

Despite the COVID-19 related volatility, southbound inflows from Chinese investors into Hong Kong have hit all-time highs in 2020. The southbound investment boom has led some to believe that as capital market liberalization progresses in China, it may position Chinese investment as the next driver of global asset prices besides just Hong Kong's equities.

At South Ocean Management, we are not in the business of calling market turns nor in making economic forecasts.

Once more, as Charlie Munger recently explained regarding the market:

"I would say basically we're like the captain of a ship when the worst typhoon that's ever happened comes. We just want to get through the typhoon, and we'd rather come out of it with a whole lot of liquidity. We're not playing 'oh goody, goody, everything's going to hell, let's plunge 100% of the reserves [into buying businesses]"

There's been a *whirlwind* of future recovery projections for this dramatic economic downturn: "V-shaped" "U-shaped," "L-shaped," "I-shaped." At this stage, we don't know what outcome is most likely. On the positive side, there's evidence of a significant rebound for China's economy in April, faster than most believed. it was reported. for instance, exports rose 3.5% in April versus expectations of a decline of 1-5.7%.

The median market cap of our stock positions is US$1.3billion. Selling today at just 6 times trailing 12-month earnings, we firmly believe our holdings are well positioned for most probable outcomes. Our sidelined cash position (30% of total portfolio value) is also available to buffer any potential downside air-pockets in the market and can be used as a source of funds for potential bargain purchases.

Sincerely,

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

PS, there are so many ludicrous, headline articles in the media today bashing China. Blaming China is the predominant political dialog gaining nationalistic support, especially in the US. I can't list all articles that I have recently earmarked about this subject and include just two below:

> *Trump is facing an approval-ratings downturn and economic crisis just months before the election, and his comments suggest the likeliest culprit he will choose to blame for U.S. financial woes might not be congressional Democrats or Obama-era policies. It may well be China, with an emphasis both on the economic damage caused by the outbreak as well as the disagreements that predate it.*

2nd article:

Amid US hysteria over China's rise, the world is in need of more voices of reason

- *Academic Kishore Mahbubani's latest book again makes the case that the West should not seek to stop the Chinese resurgence, but should try to work with it*
- *Conflict with China is a confrontation the West cannot afford to wage, or lose*

> *Let me ask you: would you be foolish enough to persist in advocating a balanced-sensible approach to China amid this murderous coronavirus crisis, for which so many blame Beijing? In this poisoned atmosphere of*

global suspicion and recrimination, would you try to buck the anti-China fever, as I will here?

Especially if you are in Hong Kong, where the “one country, two systems” trope looks increasingly to be on a slippery slide into “one country and just shut up”. The round-up of anti-government critics and protest leaders, even if designed by the Hong Kong government to double down on security, only adds to the optics of an evil Beijing.

China is starting to lose a measure of international esteem, and one special person in particular needs to review the loss. President Xi Jinping pointedly allowed state intrusion into the business sectors, narrowed the intellectual broadband of its best universities, arrested anyone thought corrupt (or irritating), and tested the boundaries of China’s sea and economic adventures.

Though US President Donald Trump claims a good relationship with Xi, almost no one in Washington now publicly claims that China’s continued rise is good for the US. Almost anyone trying to offer a balanced view on China these days runs the risk of being viewed as unbalanced.

Even otherwise sensible Americans are “recalibrating” where they stand as they tack ever closer to a darker view of China. More sophisticated counterviews tend to come from scholars and journalists in the Asia-Pacific region itself. Living much closer to the awakened giant, they have a lot at stake and know they must get it right.

Kishore Mahbubani, the first dean of the Lee Kuan Yew School of Public Policy and a former Singapore ambassador to the UN, is the author of a bookshelf of original, feisty thinking about China, the US and Asia. He can be brutally blunt, and is ever ready to prick Western hot-air balloons.

Though denounced as anti-American by some, he offers unconventional deep thinking about our future, into which the younger generation is about to be pushed...

*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.