



August 11, 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>Jul. 2020</u> | <u>Year-to-date</u> |
|-------------------------|------------------|---------------------|
| Hong Kong Partners LP* | 3.3% | -16.8% |
| Hang Seng Index ** | 0.7% | -12.8% |
| Hang Seng Small Cap | 8.2% | 7.7% |
| Index MSCI HK Small Cap | 1.0 % | -10.6% |
| Index HS Mid Cap Index | 9.1% | 1.7% |

Partners' NAV \$2.1543 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

'China rocks!'

'China rocks, in my opinion. The energy in China is great... there's like a lot of smart, hardworking people. And they're really — they're not entitled, they're not complacent.'

Tesla boss Elon Musk on China. Aug. 3, 2020

South Ocean's portfolios of small/mid cap, Hong Kong-listed companies are geared toward growth in China's economy. Our tech-related stocks, most purchased years ago at depressed prices, were out-performers in our portfolios once again. Last month, foreign net buying in Hong Kong's stock market was heavily skewed towards TECH-related names. We have begun trimming these positions and currently have in excess of 20% sidelined cash.

The large cap, Hang Seng Index, (which is trading around book value or near record-low valuations), books about 2/3rd of its revenues from the mainland. In the Mid-cap index, material stocks (aluminum, cement, etc.) have recently ticked up (albeit from extremely low bases) as China's domestic demand for basic materials surged after the Covid virus-related work stoppages earlier this year. China's largest aluminum company, Chalco, for instance, rose 37% in July after years of a subdued stock value...



Because it's difficult to 'time' purchases in cyclical stocks (as demonstrated by the years of underperformance of Chalco), we own just one basic material company, leading property and auto glass manufacturer Xinyi Glass (code 868hk, market cap HK\$ 49.8 billion, US\$ 6.4 billion). Xinyi Glass gained 19.6% last month...



With the company's new production plant coming on stream in Malaysia for overseas auto glass sales and glass prices stabilizing, we continue to hold this long-term position.

Our portfolio holdings have an average [return on equity](#) ratio of 17.2% versus 13.4% for the Hang Seng Index (50 constituents, ex-financials). These long-term positions sell at an average earnings yield of 14.3% (versus a 3% yield on China's 10-year bond). Our weighted average portfolio Price/Earnings ratio on this year's down-rated estimated earnings is just 8.0 times.

Our fundamentally strong, leading companies are not expensive and offer exposure to the improving mainland economy. As China's [manufacturing](#) index shows a continued rebound and improvement, a majority of our holdings will announce first half financial reports in August.

And, here's why Tesla's Musk danced in [Shanghai](#).

Sincerely,

Brook McConnell

President

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PS; China/Hong Kong notes

Tesla has delivered its first cars **made in China**, marking a major milestone for the electric vehicle maker. It comes as Elon Musk's company aims to secure a significant slice of the world's biggest car market. ...Dec 30, 2019

In 2017, Elon Musk said that **Tesla would** eventually **build 10-20 Gigafactories** around the world. So, the current score **is** three down (Nevada, New York, Shanghai), seventeen to go. Jul 22, 2020

How big will the Gigafactory be?

15 million square feet

When it's fully complete, Tesla's Gigafactory in Sparks, **Nevada**, will be the largest building in the world, sprawling over 15 million square feet on a plot of land more than **three times larger** than Central Park. Apr 15, 2019

As I write from our home in Montana, Hong Kong is suffering a third wave of the Covid-19 virus this summer:

<https://youtu.be/mXjC9Kd-hAo>

...and is preparing a makeshift hospital at the idle AsiaWorld Expo Center. Three-minute video clip here:

<https://youtu.be/Cf03a8YvvTY>

Due to increased measures to contain the outbreak, the Hong Kong Government banned indoor seating at restaurants, causing undue hardships for working citizens at lunch breaks.

The Government had to do a U-turn:

<https://youtu.be/geLkDHxLhI4>

(Double click the above blue links to access the SCMP videos).

***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.