



March 16, 2021

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. 2021</u>	<u>Year-to-date</u>
Hong Kong Partners LP*	13.2%	13.3%
Hang Seng Index**	6.0%	10.1%
Hang Seng Small Cap Index	7.0%	15.0%
MSCI HK Small Cap Index	11.8%	18.2%
HS Mid Cap Index	1.7%	4.1%

Partners' NAV \$2.6427 after management fee and provisions, but before annual incentive fees of 15% on appreciation. Please refer to footnotes at the end of this commentary for descriptions of the Fund's indexes and Fund risk disclosures.

## China is going to 'eat our lunch' – President Joe Biden.

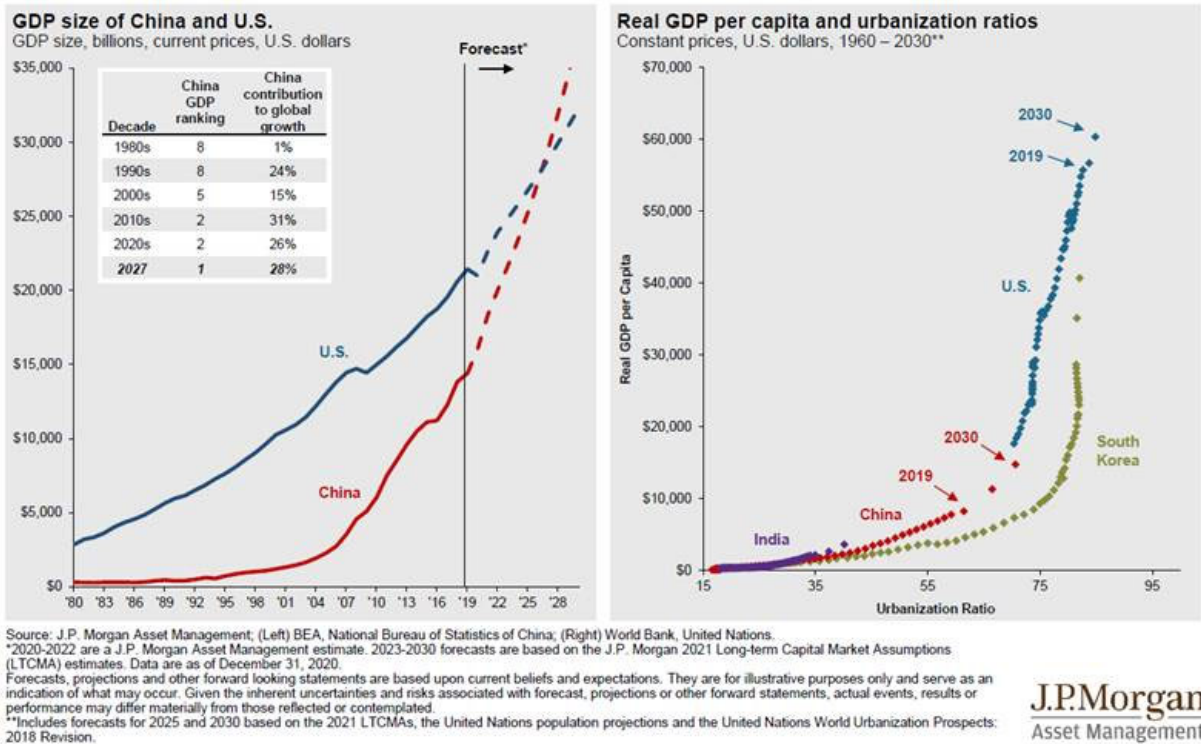
Our value-oriented holdings of small/mid cap, Hong Kong-listed holdings were bolstered in February ahead of earnings to be reported in March. There was an announced increase in stamp duties on stock trades in Hong Kong which caused the Hang Seng Composite Index of approximately 500 stocks to sink 7.4% the last week of trading. Even though the tax announcement likely triggered redemptions from mainland mutual funds, which had been strong buyers earlier in the year, our portfolios managed a 14% gain for the month.

China is growing rapidly. The South China Morning Post reported:

- China's entire railway system could span 200,000km by 2035, according to a new policy document. That equates to about **five trips around the world at its equator**.
- Additionally, **162 new civilian airports are expected to be added across China by 2035**, with innovation at the heart of Beijing's new transport strategy.

<https://www.scmp.com/economy/china-economy/article/3123151/china-sets-15-year-transport-expansion-plan-it-seeks-double>

China's rapid economic progress is expected to surpass the US economy in the not too distant future:



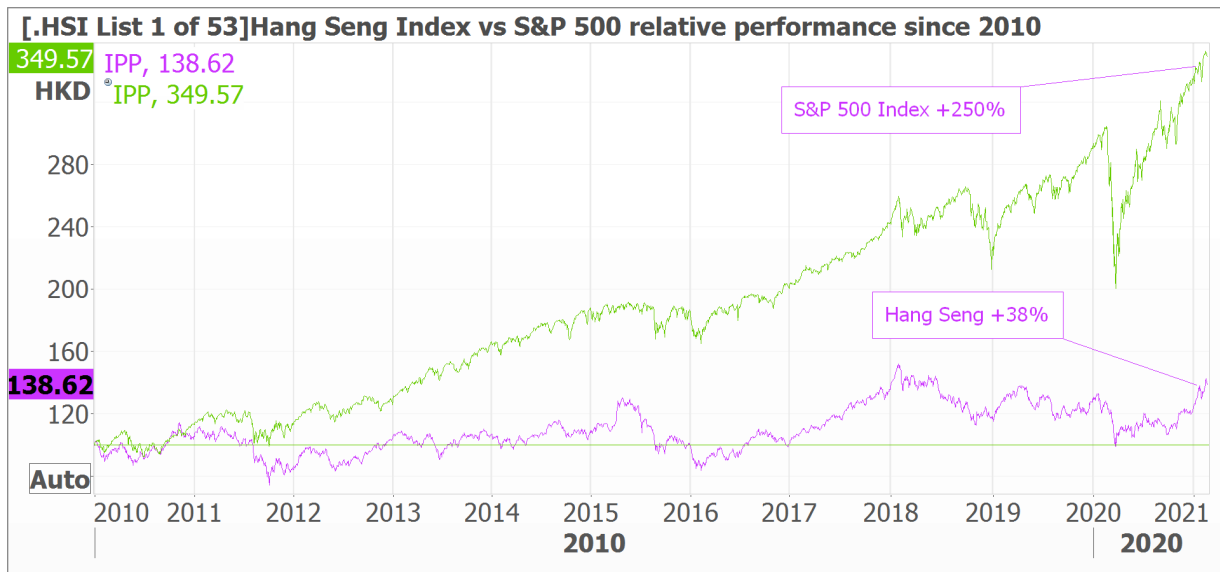
The new US administration recognizes this:

*US President [Joe Biden warned earlier this month](#) that China was threatening to outcompete the US on infrastructure and public transport through massive investments, noting that America must step up major spending projects to upgrade the nation's facilities.*

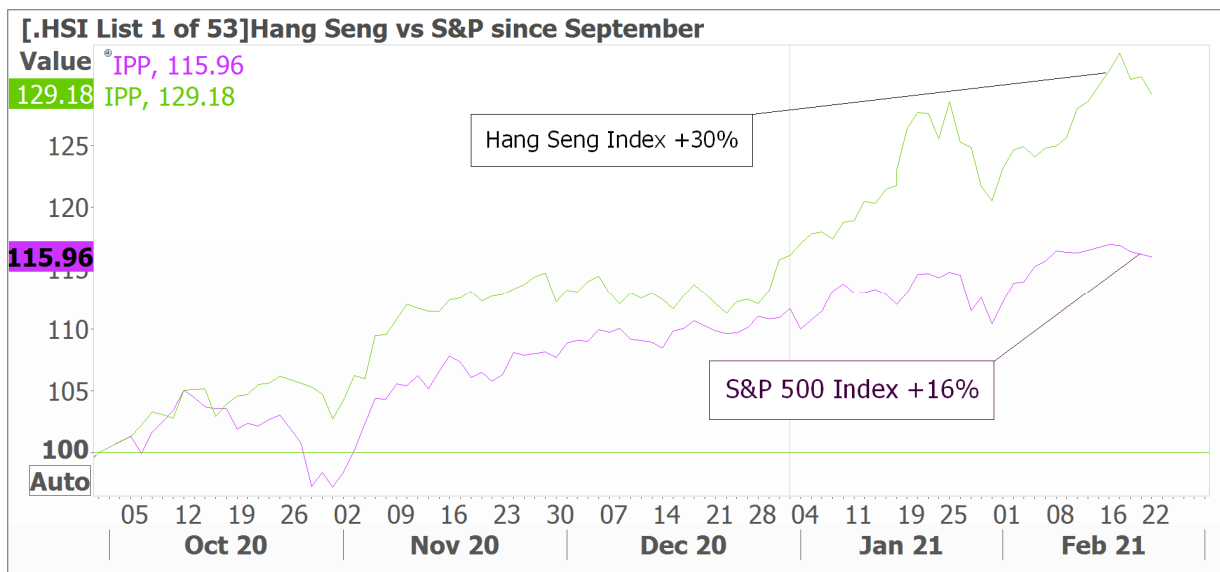
*"If we don't get moving, they're going to eat our lunch," Biden said at a closed-door meeting with senators on infrastructure spending.*

*He pointed in particular to China's extensive high-speed rail network and efforts to develop clean-energy alternatives to internal-combustion-engine vehicles.*

Hong Kong stocks have been depressed, but we believe they will likely catch-up:



Since September last year, Hong Kong has conceivably started to reverse the underperformance:



Charts through Feb 22 2021.

We remain optimistic and as I've outlined in my new book...: [Insights of an American Investment Manager in Hong Kong, by Brook McConnell](https://www.amazon.com/INSIGHTS-AMERICAN-INVESTMENT-MANAGER-HONG-ebook/dp/B08KTWK2R4). Paperback and Kindle eBook available on Amazon. Click the link: <https://www.amazon.com/INSIGHTS-AMERICAN-INVESTMENT-MANAGER-HONG-ebook/dp/B08KTWK2R4>

... China has many strengths.

Sincerely,

Brook McConnell

## President – South Ocean Management, Ltd.

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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](mailto: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.