



March 14, 2022

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. 2022</u>	<u>Year-to-date</u>
Hong Kong Partners LP*	-1.6%	-3.5%
Hang Seng Index**	-4.6%	-2.9%
Hang Seng Small Cap Index	0.7%	-5.7%
MSCI HK Small Cap Index	-0.7%	-2.3%
HS Mid Cap Index	-0.3%	-4.6%

Partners' NAV \$2.4939 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.

Our small/mid cap holdings of China-related, Hong Kong listed companies have been subdued in year-to-date trading. Our numerous positions in deep-value, high-yielding Chinese State-Owned Enterprises (SOEs) have been performing relatively well during today's inflationary times. Our aluminum, copper, fertilizer, solar/wind, iron ore, coal/energy and shipping industry holdings are beneficiaries of trade disruptions all along the supply chain.

Smaller capitalized stocks in Hong Kong were quite weak in January and February as higher US interest rate fears restrained many high growth stocks. South Ocean Management's long term holding in small capitalized natural gas distribution company, Tian Lun Gas (code 1600hk, 2.4% holding, HK\$ 6.0 billion market cap, US\$ 769.2 million) was our biggest detractor in February after the company announced a discounted share placement. Proceeds from the sale will be used for rooftop photovoltaic/solar projects for rural residential users which we believe is a positive, longer term development for the company. Clean energy heating services is in line with China's overall carbon reduction goals.

After two years, both China and Hong Kong are still dealing with economic disruptions from recent Covid-19 outbreaks. Since the middle of last year,

regulatory crackdowns have hit a wide range of industries – property, technology and education – which has weighed on both industry giants (Alibaba, Evergrande, TAL Education) as well as smaller companies (the Hang Seng small cap index is minus 14% in the last three months). The Russian invasion of Ukraine has heightened volatility, as of this writing.

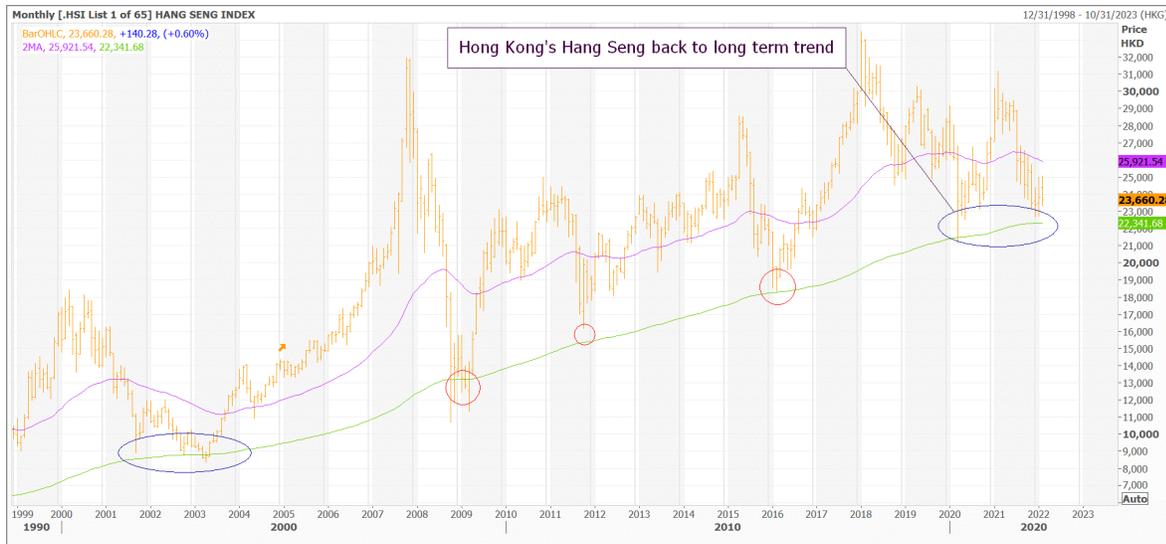
Hong Kong stocks have, consequently, priced in a sharp earnings contraction and are selling at trough valuations (1/2 the levels of US stocks):

S&P 500 COMPOSITE		28-Feb-22		HANG SENG			
Index Price:	4,384.65			Index Price:	22,767.18		
		2021 Est	2022 Est			2021 Est	2022 Est
Price/ EPS		20.1	18.2	Price/ EPS		11.8	10.6
Price/ Cash flow		15.7	14.2	Price/ Cash flow		8.4	7.5
Dividend Yield		1.4	1.6	Dividend Yield		2.8	3.1
Price/ Book		4.1	3.8	Price/ Book		1.2	1.1
Price/ Sales		2.5	2.4	Price/ Sales		1.1	1.0
Price/ EBITDA		12.5	11.6	Price/ EBITDA		7.7	7.1
EV/EBITDA		12.6	11.6	EV/EBITDA		6.5	5.7

Refinitiv data

There is an easing cycle currently underway in China which may bring stronger macro performance and improved sentiment in the coming months (the central bank cut two policy interest rates by 10 basis points (0.10%) this year, which followed December cuts to the one-year loan prime rate and to bank required reserve ratios).

For the past 30 years, it's been highly rewarding buying at the long-term support level in Hong Kong, as shown in this monthly chart of the Hang Seng Index since late 90s):



The best entry point for stocks, from a wide viewpoint, is when there are economic headwinds, when equities are cheap, investors bearish and policymakers are turning stimulative. In other words, we believe reduced expectations are well discounted in Hong Kong stock prices and any alleviation in economic slowdown concerns in China will ignite these depressed share prices.

All together, we see a compelling case for holding China-related stocks.

Lastly, to our Hong Kong Partners L.P. limited partners, K1 tax forms are being finalized and will soon be sent to all our investors by our Administrator, Apex Limited, Hong Kong.

Sincerely,



Brook McConnell

President, **South Ocean Management, Ltd.** (Est. 1992)

21/F, The Phoenix Building, 23 Luard Road, Wan Chai

Hong Kong

Tel: +852 2521-0332, Cell +852 9082-7474

Email: brook@south-ocean.com website: www.south-ocean.com

"Our proprietary investing systems, developed since the early 1990s, capture growth in China, the fastest growing large economy on earth, by owning intrinsically undervalued Hong Kong-listed companies."

South Ocean Management, Ltd. is a fund management company based in Hong Kong. South Ocean has 6 team members and is registered with the SFC and SEC regulators.

*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.

The S&P 500 Index is a market capitalization- weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity, and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies.

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.