SOUTH OCEAN MANAGEMENT, LTD.
南海管理有限公司
HONG KONG

June 12, 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:

	May 2022	Year-to-date
Hong Kong Partners LP*	1.4%	-10.4%
Hang Seng Index**	1.5%	-8.5%
Hang Seng Small Cap Index	-0.6%	-15.5%
MSCI HK Small Cap Index	-0.2%	-11.9%
HS Mid Cap Index	-0.8%	-13.2%

Partners' NAV $2.3165 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.

Nerves were on edge last month as investors witnessed continued selling in Hong Kong stocks until the end of the month rally. At one-point last month, the blue-chip Hang Seng Index was down close to 9% (or roughly -18% for the year) on no particular news.

After the market declines through May this year, our small/mid cap holdings of China-oriented companies listed in Hong Kong sell at only 6.9 times this year's (weighted) expected earnings.

During the first two-months of the second quarter, the main Hang Seng Index fluctuated by negative 14.9% from its high to low points. After it bottomed in early May, the Index rose +11.7% to close the month with a slight gain (actually increasing +7.7% the last 4 trading days of the month). The US's Dow Jones Industrial Average was also under duress and declined for 7 straight weeks through May 20, almost a record in length.

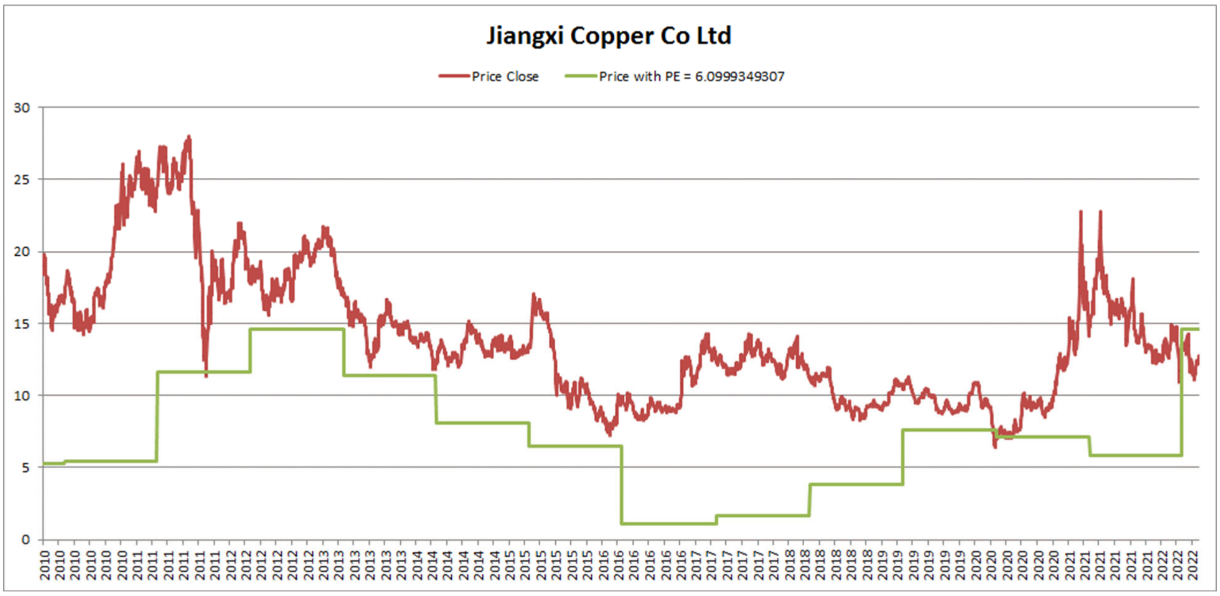
There were no particular catalysts prompting the late month recovery. Selling dried up, shorts covered and large cap stocks rebounded sharply in the volatile trading environment (not uncommon for Hong Kong).

We have found it is near impossible to time these sudden bounces in stock prices. To try and re-position from being in cash on the sidelines and back into shares that have witnessed intense selling is a fruitless endeavor. In fact, if you miss being fully invested in just a few days of any rebound during the year, your returns can be halved. When a quality stock has fallen in price to an attractive level, we might start buying even though the market is still in decline.

During last month, the tech bellwethers in Hong Kong, like Tencent and Meituan, remained weak. Our shipping/logistics and energy holdings outperformed. A select few material/mining stocks and our technology related stocks were generally the weakest performers (we own about a 10% position in 8 long term, tech-related holdings).

For instance, our holding in copper and metals miner, JIANGXI COPPER (code 358hk, HK$52.6 billion market cap, US$6.7 billion market cap, 1.1% position) declined 2% for the month and 1.6% for the year. Though copper is predicted to soon be in short supply as more electric vehicles (EV) are manufactured together with new hybrid electrification systems (wind and solar uses), copper prices, which doubled from lows in early 2020, have stagnated this year. Jiangxi Copper shares sell at just 7 times expected 2022 earnings, 0.7 times book value, with a dividend yield of 3.9%.

Jiangxi's lowest annual Price Earnings (PE) ratio over the past 5 years was 6.1 times. The shares sell below the green earnings line (expressed as trailing earnings per share times 6.1) which is quite a conservative valuation. The historic, 5-year average PE ratio has been 13.8 times for the shares.

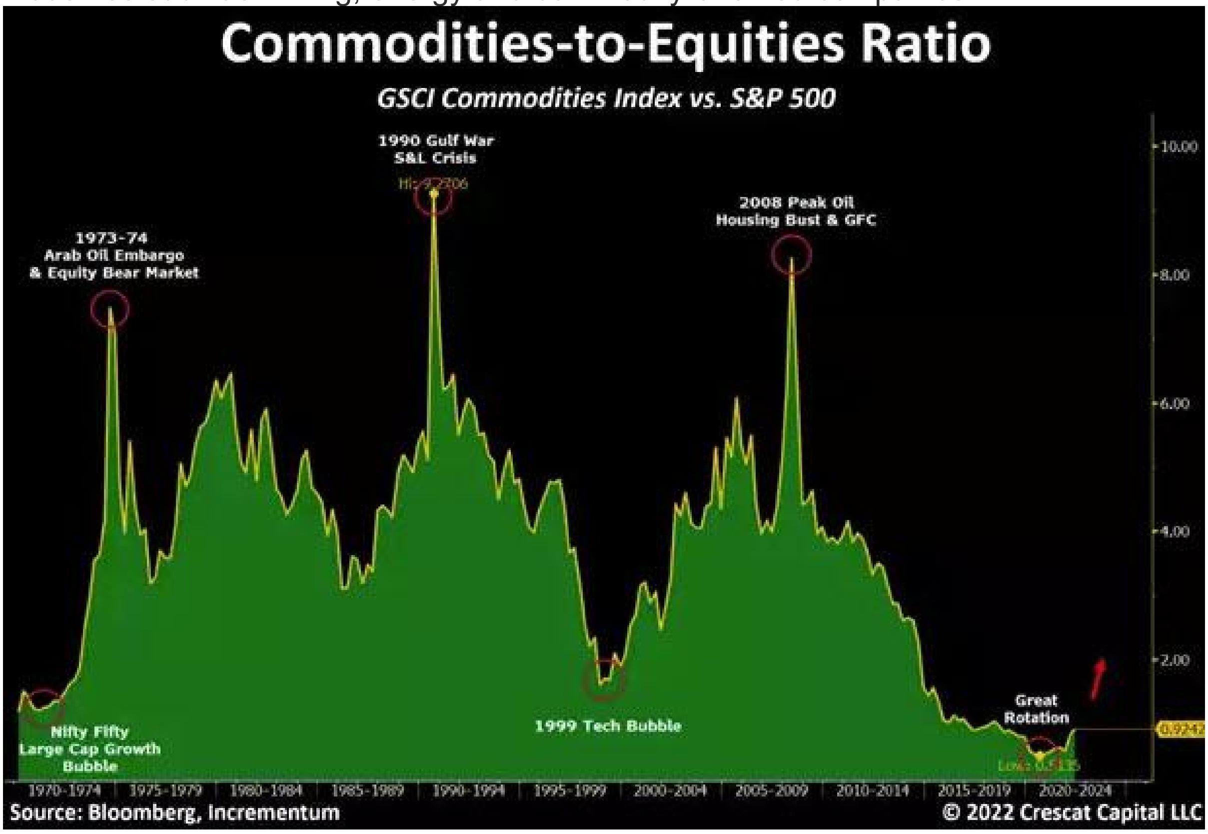


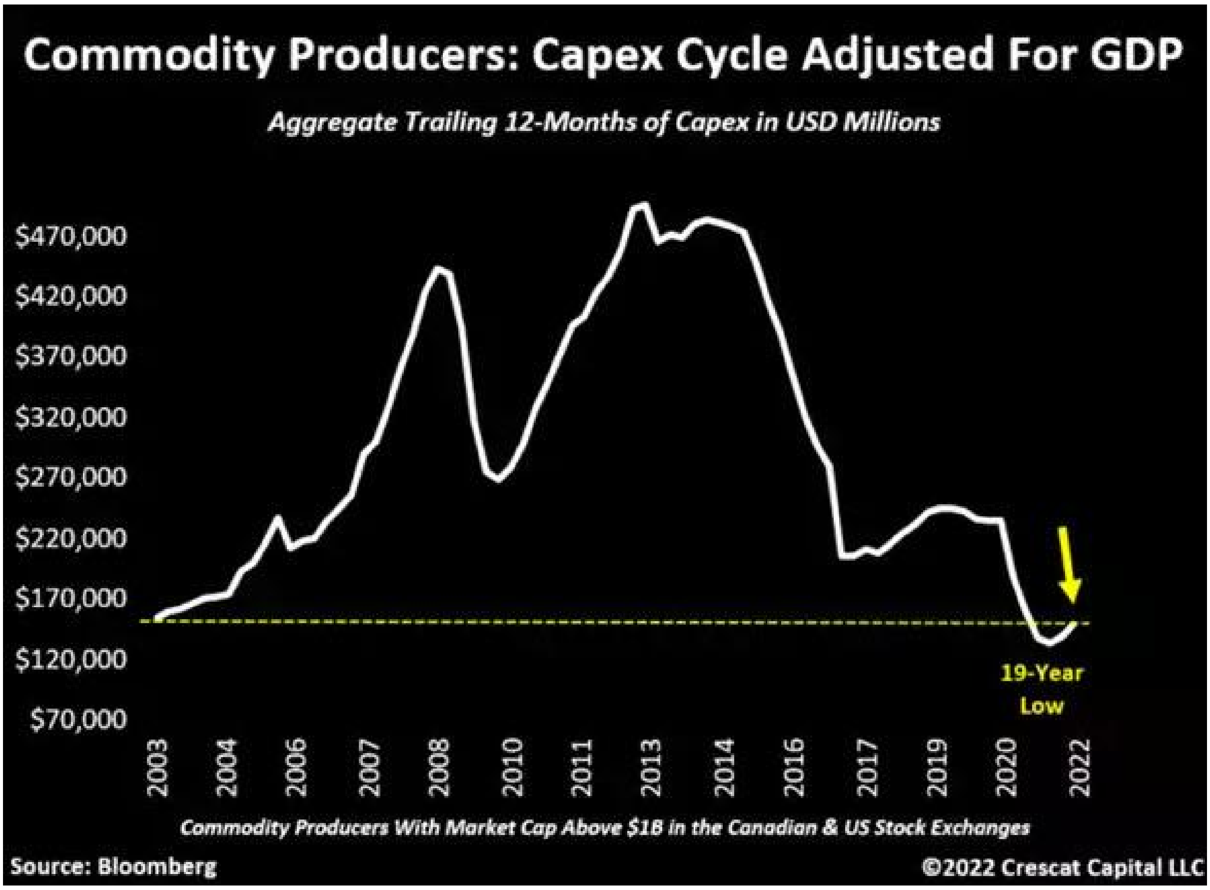
While we profess no special skill predicting where copper prices are headed, the supply demand equation is favorable. A fully-electric car needs at least four times the amount as in a gas-powered car (or 80 kg). Cathie Wood of ARK sees Electric Vehicle (EV) sales rocketing from 2-3 million a year to 40 million a year by 2025. Glencore CEO Ivan Glasenberg made the following observations:

> "Today, the world consumes 30 million (metric) tons of copper per year and by the year 2050, following this trajectory, we've got to produce 60 million tons of copper per year. If you look at the…past 10 years, we've only added

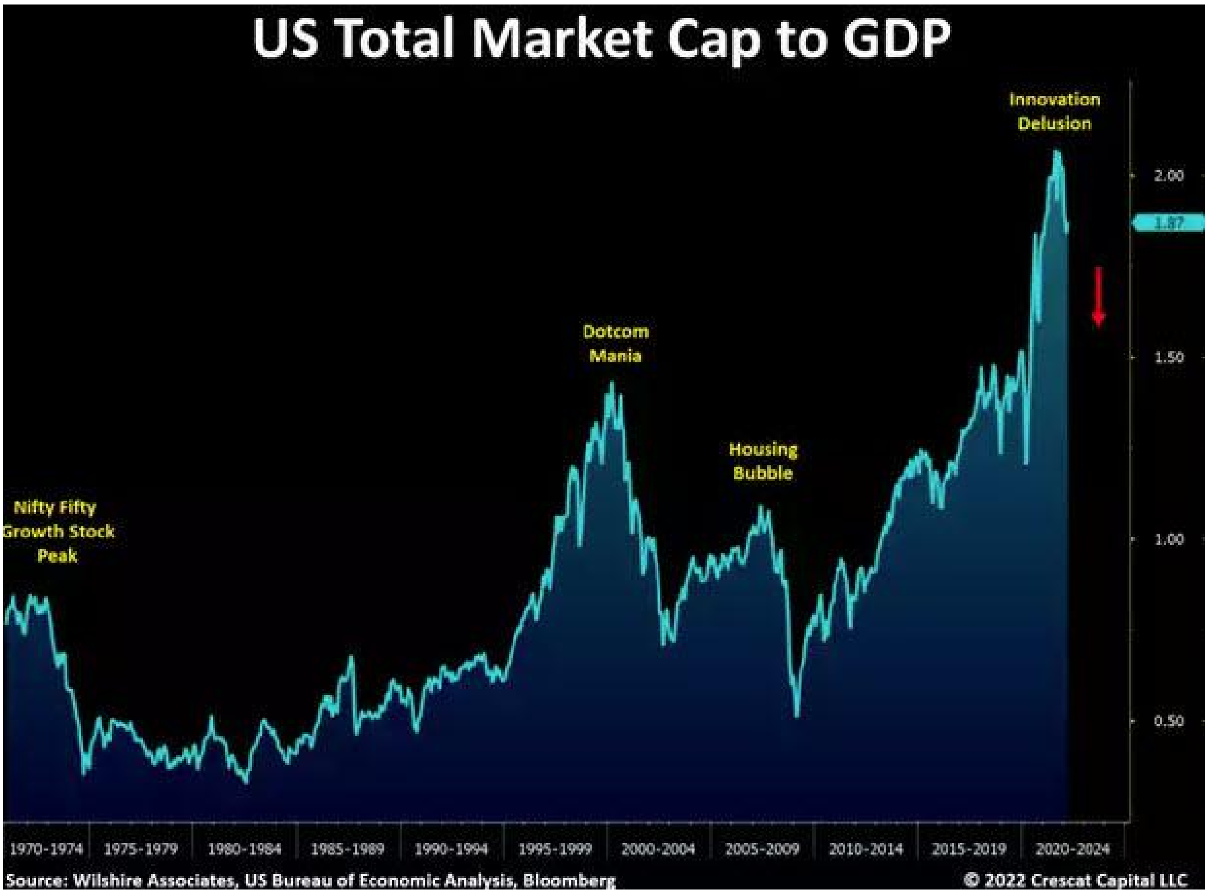
500,000 tons per year…Do we have the projects? I don't think so. I think it will be extremely difficult."

Commodities out-performed during the stagflation-era of the 1970s, which is where South Ocean's investments are positioned today; in shares of China's upstream industries such as mining, energy and commodity-oriented companies:





As an observation (rather than prediction), the early 1970s were brutal years for stocks, especially the high-flying Nifty Fifty stocks. It was during the 1970s stock market decline that the stock market total value shrank to just 40% of GDP. Today, after 15% declines year-to-date, the total market cap to GDP is 187%.



Though China's listed companies are not as intertwined with its growing economy as are US listed companies (in fact, all Asian companies rely mostly on bank financing as their predominant funding avenue versus equity financing), China's stock market capitalization (including companies listed in Hong Kong and US exchanges) amounts to US$9.4 trillion, or just 64% of its GDP (which is US$14.7 trillion, according to the World Bank).

A much lower valuation than in the US.

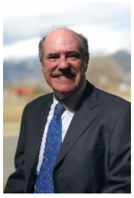
Further, mainland regulators aim to deepen China's financial markets by closely studying and blueprinting the US stock markets as their guide.

As we have mentioned in these monthly letters, Hong Kong's stock market is cheap, both relatively and absolutely. China's economy, after the current Covid lockdown slowdown, is still forecast to grow at more than twice the rate as in the US. Any further US dollar debasement is a positive headwind for Hong Kong equities.

Fast growth along with cheap values is an enticing risk/reward ratio. China-related securities are at bargain levels today and are the most depressed global equities (according to Bank of America Global Research, 02 June 2022). As one manager aptly remarked, 'You don't break anything falling out of the basement.'

This year's wrenching downdrafts in stock prices, especially in 'yesterday's' favorite tech stocks, jogged my memory of observations portrayed in the last chapter in Insights of an American Investment Manager in Hong Kong, copied below.

Yours Faithfully,



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"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.

CHAPTER 24 September 2020

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We developed our investing systems in conjunction with the growth and transformation of China. Our focused and disciplined approach helps mitigate risks involved investing in Hong Kong, though doesn't totally eliminate them.

In our experience of dealing with institutions, here's a scenario to avoid: investment committee mentality.

Because most consultant, pension committees are run by hired people, they seek to save their important jobs. They have to answer to another committee of trustees, advisors, etc. and they can't be seen holding a losing position or relying on a trailing manager. Large accounts may be selling positions for reasons other than value and more about recent past performance. The resulting large flows of sell orders are one place where the best values can be found, especially in turbulent, volatile markets. Furthermore, there can be committees after committees reaching the same wrong conclusions at the same time. They're human, after all, and that's how markets behave.

Look at any 'fiduciary' pension manger's stock portfolio today and you will find the top five holdings are the popular FANG stocks. These fiduciaries have to perform, even on a quarter by quarter basis, otherwise the consultants (with piles of analysts' and strategists' recommendations on stocks/sectors) can critically execute dire pressure that might mean the end to a manager's selection. Many of these managers, therefore, are hugging an index or sector for fear of not performing every quarter.

For instance, one morning in the future, they may all wake up and find that the popular FANG stocks (Facebook, Apple, Netflix, Google) are down precipitously. They decide they should sell and invest in the 'less risky' sectors of the market. No matter that they sell out right at the bottom, they dare not be accountable for holding 'losing' positions. This explains one reason why markets can be inefficient.

This is what happened in the year 2000. Nobody knew March 2000 was the top of the market. Nearly everyone was fully invested in exorbitantly expensive new, internet-related companies. In fact, five years prior, every pull back in internet stocks was a buying opportunity. Then, after the top in March, many investors kept buying the subsequent pullbacks, losing all gains within a year.

Back to FANG stocks, which have been the main performing names in the bull market since 2009. Fully one-third of the 1,000-point gain in the S&P 500 Index, from the 2,000 level to the 3,000 level in 2019, was generated by only ten large cap stocks. The other two-thirds were accounted for by the remaining 490 constituents. A manager had to have been invested in just those few out-performing stocks to report 'out-performance.'

If you want to make above-average, risk-adjusted returns, go with smaller, independent money managers that can invest against the trends and withstand the immense, intense mantra of "I have to show continued returns otherwise I'm fired." To obtain above-average returns, it is wise to be leery of hired-hand, committee-run funds.

At our Hong Kong firm, we are fortunate to have clients that patiently allow our investment holdings the time to mature and become multibaggers. Our investment strategy is not complex, we simply seek quality businesses in growing industries that are run by competent mangers. They are smaller companies that can grow faster than large companies. It takes a bit more work to control the risk of holding 'junk' small companies that can decimate a manager's returns, but it's often richly rewarding.

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As I've traveled through the hinterlands of mainland China, I have encountered many adventures as well as many dichotomies. I've been through small villages with barely any electricity and no telephone lines, and yet in the rice fields were tall cell towers newly erected. The juxtaposition of new and old has been stark. A farmer used to need three days to haul his harvest to the market to sell. Now, he gets price quotes on his crop from a cell phone before even leaving his fields.

I've witnessed abject poverty in the countryside, but the conditions were not like third-world slums. Communities held order, some of which were centuries old. I remember seeing an elderly man in old shabby clothes squatting on the worn-down, dusty curbside, cleaning into the gutter the last of his rice bowl. Maybe his conditions had always been desperate but his younger kin have much brighter futures. He is unlikely to become the next quantum computer engineer, but there are three hundred million entrepreneurial millennials anxious to seek and be a part of China's progressing society. The race is now moving from the starting lines onto the track.

As a latecomer to the rest of the world, China is unencumbered by legacy technologies and long-standing gridlocks holding back advancement. It's like an artist's clean canvas readying for a masterpiece. China's competitive advantages are quickly evolving in a rapidly changing global landscape.

We continue to believe there is more risk in not investing in China, even if it is an authoritarian regime. I have many good friends living in Hong Kong and China. My wife is of Hong Kong Chinese heritage. And though many civil liberties are not yet available, one needs to decide if that is against one's principles or whether the Middle Kingdom will evolve to higher freedoms in the future as better economic conditions dictate.

As I've tried to outline briefly in this book, China's future looks bright.

Best to go East, young man.

*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.