



August 10, 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>July 2022</u>	<u>Year-to-date</u>
Hong Kong Partners LP*	-5.1%	-13.6%
Hang Seng Index**	-7.8%	-13.9%
Hang Seng Small Cap Index	-6.5%	-20.3%
MSCI HK Small Cap Index	-5.6%	-17.3%
HS Mid Cap Index	-9.0%	-18.8%

Partners' NAV \$2.2337 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.

"I urge those of you who have not spent considerable time in China to look past the caricatured pictures that are often painted by biased parties and rid yourself of any stereotypes you might have that are based on what you thought you knew about the old "communist China" - because they are wrong.

Ray Dalio, "Principles for Dealing with the Changing World Order" Founder, Co-Chief Investment Officer, and Member of the Bridgewater Board.

South Ocean Management Ltd.'s portfolios of small/mid capitalized Hong Kong-listed stocks of companies geared for growth from operations in China were subdued in July. Investors were fixated on slowing growth on the mainland (GDP advanced just 0.4% for the second quarter). Coupled with draconian lockdowns, reports of irate homeowners stopping mortgage payments on unfinished apartments shook sentiment (by mid month, the Hang Seng property index, a sector we avoid, was down 11.9% before recovering slightly to -10.8% for the month).

Technology stocks were weak. The Hang Seng Tech index declined 12.3% for the month, -23.6% year-to-date. Our long time holding in Liquid Crystal Display manufacturer, Truly International (code 732hk, 1.7% holding, HK\$5.6 billion market cap, US\$718 million) reported its first half revenues declined by ~2% due to slow smartphone and auto display sales. The stock, though, declined 28.5% to less than 4 times depressed estimated earnings this year.

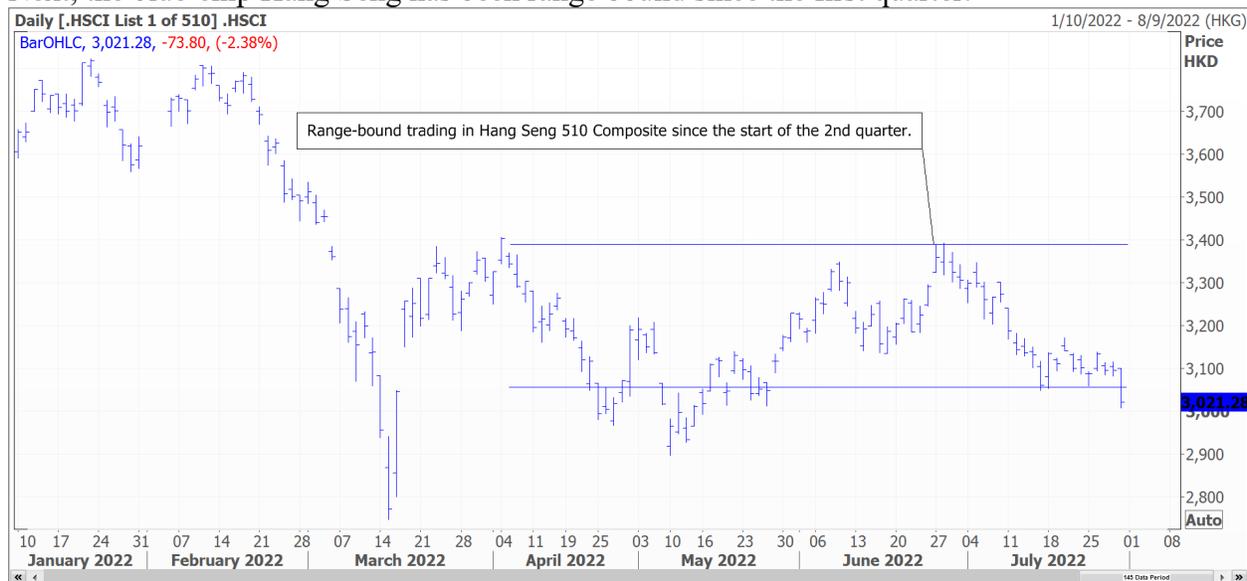
Even amidst the state of the undemanding equity prices in Hong Kong (like Truly's share price) there is a brighter prospect (though contrarian to most forecasts today) evolving for the second half this year. There are several notable strengths for this to transpire:

In 2021, China's GDP hit US\$16 trillion, second only to the US (and larger than the 27 country EU market combined). To meet its 5.5% GDP growth target for 2022, Beijing will likely forge ahead with needed economic stimulus measures. Because China did not over stimulate its economy during the past several covid-affected years, the country has room to reduce interest costs (China avoided zero interest rates).

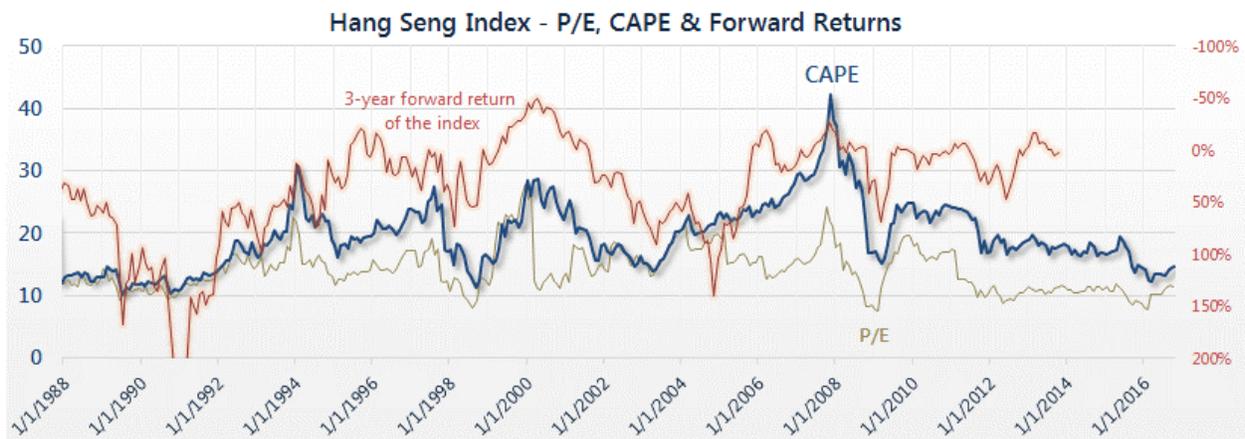
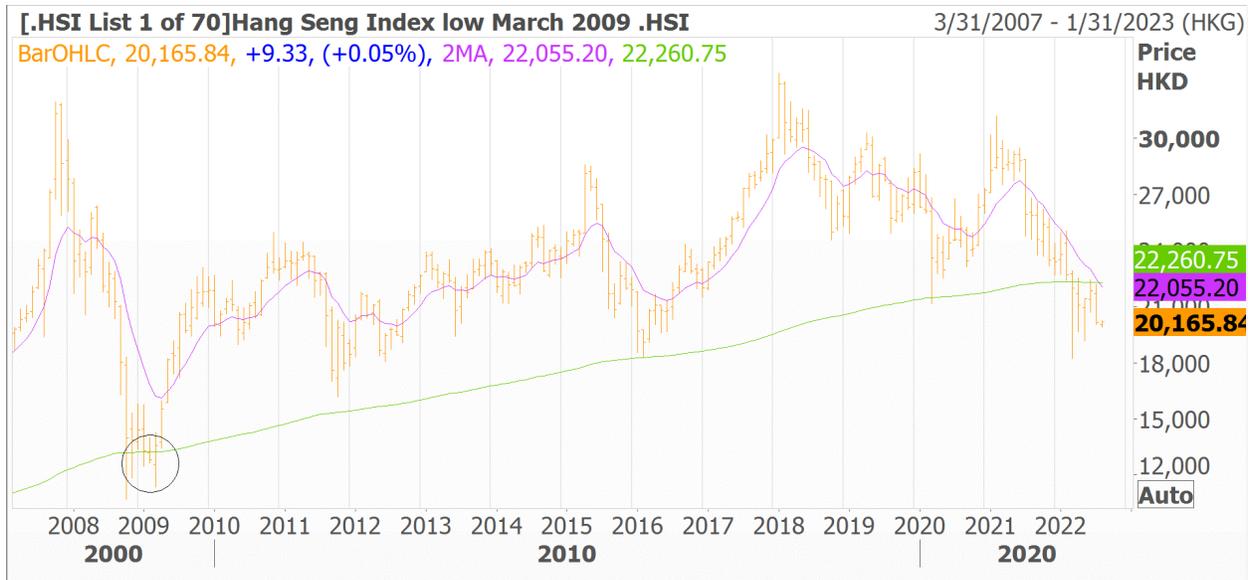
Inflation is low in China. Savings have dramatically increased in 2022 as saving deposits in China banks amount to over [US\\$16.3 trillion](#), the highest savings rate in the world (incidentally, US household *debt* recently increased to US\$16.1 trillion). Savings are critically important for a country's economy.

Though China's workforce has stopped growing, its educated/skilled workers are far more productive than smaller non-western countries. New factories built today are equipped with robots and automation aimed at higher valued manufactured goods. Most multi-nationals (including GM, KFC, Cummins Engines, Starbucks, Apple, Intel) are aiming to invest more in China.

Next, the blue-chip Hang Seng has been range bound since the first quarter:



Consensus forecast is for 20.7% earnings per share growth for the Hang Seng Index in 2022. The estimated 2022 Price to earnings ratio is 10.2 times, about the same low valuation as was at the depths of the Great Recession in March of 2009:



Lastly, the Hang Seng blue chip index historic low valuation today suggests a very undervalued market. First half interim financial reports begin in August. A strong, second half rally could be in the making should any positive event or strong economic recovery emerge and surprise investors amidst the negative sentiment that abounds today.

It has been a tough, volatile year to make money for our investors. We are very pleased that you have remained invested with us and thank you for entrusting your capital invested alongside our own money in the Partnership.

Yours Faithfully,



Brook McConnell

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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.

*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.