



September 8, 2014

Dear Clients, Partners, and Friends,

The results for South Ocean Management's Delaware LP, Kong Partners L.P., before incentive fees, were as follows:

	<u>Aug 2014</u>	<u>Year</u>
Hong Kong Partners LP	-1.4 %	8.2%
Hang Seng Index	-0.1%	6.2%
Hang Seng Small Cap Index	0.3%	-3.5%

Partners' NAV \$3.0834 after management fee, but before annual incentive fees of 15% on appreciation.

The Hong Kong stock market grappled in August with mixed economic data from China and a slew of earnings announcements. South Ocean's portfolios own Hong Kong-listed, small/mid cap stocks of companies with earnings benefitting from mainland China operations. We screen for undervalued stocks to own, with sound businesses, using a Warren Buffett-like intrinsic valuation method.

August witnessed a surge in foreign fund flows into China ETFs and Hong Kong stocks (listen to my comments on local radio last month recorded in link below). Further hints of central government easing to the property sector have seen, as of this writing in early September, shares rally to six year highs. Our work, though, is bottom up, focusing on business fundamentals of companies to invest rather than on market flows or daily news commentary. A company's business quality and earnings power growth over time are what matters most.

Investors are frequently distracted by macro and regulatory actions highlighted in the media, such as the Occupy Central movement, that over and over again influence sentiment, but do not structurally affect our company's future earnings stream. As such, these events often do not have long-term fundamental impacts on the business value. Certainly, these are not concerns to be dismissed but they don't shake our view that our companies will enjoy continued growth in the future.

### **Money for Nothing, RTHK**

Interview starts about 6 minutes into the recording;

[http://programme.rthk.hk/channel/radio/player\\_popup.php?pid=5126&eid=271422&d=2014-08-26&player=mp3&type=archive&channel=radio3](http://programme.rthk.hk/channel/radio/player_popup.php?pid=5126&eid=271422&d=2014-08-26&player=mp3&type=archive&channel=radio3)

Sincerely,

Brook McConnell  
President

Email: [brook@south-ocean.com](mailto:brook@south-ocean.com) Website: [www.south-ocean.com](http://www.south-ocean.com)  
Hong Kong