



November 10, 2015

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>Oct. 2015</u>	<u>Year-to-date</u>
Hong Kong Partners LP	6.5%	10.3%
Hang Seng Index	8.6%	-4.1%
Hang Seng Small Cap Index	6.1%	-4.5%
MSCI HK Small Cap Index	1.9%	-16.8%

Partners' NAV \$3.1239 after management fees, but before annual incentive fees of 15% on appreciation.

Hong Kong's stock market rebounded in October, along with the China stock markets, after the summer's intense selloff. Our holdings of quality small/mid cap Hong Kong-listed stocks rose with the improved sentiment.

Hong Kong's dollar peg to the US dollar requires Hong Kong to maintain similar interest rate levels in the SAR. After the non-rate hike by the US Fed in September, investors were relieved and began anticipating another interest rate decrease in China. On Friday, October 23, after the market closed, the PBOC announced a lending rate cut, the 6th within a year's time. Large cap banking and property-related stocks (a sector we have no exposure in our portfolios) had risen sharply through the month (+10 to 15%) and, as the old adage goes (buy-the-rumor, sell-the-fact), the blue chip index fell the following Monday (the Hang Seng Index is heavily interest-rate sensitive, with financials representing over 56% of the index).

At South Ocean, we are first concerned in investing in productive businesses that are advancing with China's economic growth (and not whether interest rates will move in the next few months nor if the presidents of China and Taiwan will or will not meet). Second, we seek to own companies whose share prices are either mispriced and/or sell below our intrinsic value estimation. These are generally smaller, less researched companies, an area where we find higher-valued opportunities in Hong Kong. We connect with management of each holding to gain further, in-depth knowledge and understanding of their businesses and contemplated future direction.

More information in our [monthly fact sheet](#): please send us an email with any questions.

Sincerely,

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Hong Kong