Spring Ocean Capital Newsletter 2Q 2016

Introduction

Spring Ocean Capital was founded in January 2016, and was registered as a Florida investment advisor in Apr, 2016. So far, only my personal accounts are managed under Spring Ocean Capital LLC. We will add a few friends and family accounts in the next couple months. Based on this situation, all referenced performance data in this letter are based on my personal accounts currently managed by the Company.

Portfolio Performance

Our portfolio performance for the first half of the year are:

	S&P500	Spring Ocean Composite*
2016 1Q	1.4%	7.8%
2016 2Q	2.5%	8.6%
2016 1st Half	3.8%	17.0%

** We use the Interactive Broker's portfolio analytic data output. It includes all manage accounts. For detailed monthly return data, please see the other report (IB portfolio performance report). Performance data are not audited.*

The following table shows our best and worst 5 stocks for the first half year. It also shows their Profit/Loss as a percentage of NAV at begin of 2016.

	Profit	Loss
APEI (American Public Education)	3.6%	
PCI (PIMCO Dynamic Credit Income)	2.4%	
CJR.B (Corus Entertainment Inc.)	2.2%	
PFN (PIMCO Income Strategy Fund)	1.2%	
OUTR (Outwall Inc)	1.1%	
SEC (Senvest Capital Inc.)		- 0.3%
MNDO (MIND C.T.I. Ltd.）		-0.3%
MCD H6 (Canadian Dollar Future)		-0.4%
MDY (SPDR S&P MIDCAP 400 ETF TRST)		-0.6%
BKE (Buckle Inc.)		-0.9%
Total：	10.5%	-2.6%

The top 5 best performing stocks have a total PnL of 10.5%. The worst 5 performing stocks have a total PnL of -2.6%. In total, these 10 stocks has a PnL of 7.9% and the other positions contribute the rest of PnL of about 9%.

Among the 5 most profitable positions, APEI, CJR.B and OUTR are equities. Last year we incurred some heavy loss from these positions and we believed the market overreacted to the fundamental. This year, the market price rebounded and they contributed nicely to our profit.

PCI and PFN are our large positions in close-ended fixed-income funds. They offer some of the highest yields and are managed by one of the best fixed-income management company (PIMCO) in the world.

When we started these positions a year ago, their market values had a huge discount compared to their net asset value (NAV) due to the concern that the Fed would increase rate and the long bond bull market would end. These funds had limited duration. We reasoned that as long as the Fed did not increase the interest rate too quickly, we could still make money. So far, due to many well-known factors, such as the RMB unexpected quick depreciation in last August and Brexit in June, the Fed only increased rate once by 0.25%. The fixed-income funds have in general outperformed the equity in the first half of the year.

Among the 5 biggest losers, BKE is a retailer of casual apparel for young men and women. The last couple years has been tough for retailers. As people spend more on online shopping, they spend less time in the mall. However, we still believe BKE offers value. They also has a very competitive management, who is shareholder friendly (about 7% dividend yield) and hold major positions in the company.

SEC is a relatively new position. We believe that this investment company has a big potential. Plus, the huge market discount relative to its net tangible book value of about 50% give us a very safe margin.

MNDO is a small Israel based telecom software provider. Nothing changed much in the second quarter in terms of both price and the fundamental. We will still hold the position and wait for the market to realize the company's potential.

MDY and MCD H6's are our hedging positions. We sell short MDY to hedge some of the market risk. For the first half year, the market went up, and we incurred some loss in the MDY position. MCD H6 is a hedging on some of our Canadian dollar exposure. Since they are hedging positions, their loss are usually cancelled out by the other positions that make money.

In summary, our first half year performance of 17% is significant better than the market. We are very happy with the results.

Major positions at the end of 2nd quarter 2016

Our top 5 positions at end of Jun 2016 are:

	Mar 2016	Jun 2016
PCI (PIMCO Dynamic Credit Income Fund)	17.9%	19.4%
EMC(EMC Corp)	0%	15.8%
MDY(SPDR S&P MIDCAP 400 ETF TRST)	-14.7%	-12.6%
PDI(PIMCO Dynamic Income Fund)	12.2%	13.4%
PFN(PIMCO Income Strategy Fund II)	10%	11.2%

We reduced our CJR.B position significantly and increased the EMC position. EMC is an arbitrage position from recently announced Dell acquisition. We believe that the Dell acquisition has a very high chance to success and there is still significant price difference between the current price to the target acquire price. We expect to get an annualized return of more than 20% from this position once the acquisition finished.

Our positions by asset class at the end of 2nd quarter are:

	Mar 2016	Jun 2016
Equity	66.4%	51.1%
Equity Index Hedge	-15.7%	-13.0%
Fixed-income fund	49.2%	48.6%
Arbitrage	0%	15.1%
Cash	0.1%	-1.8%

Special Topic --- on Brexit

The biggest market turbulence during the second quarter was caused by Brexit. After the surprising Brexit referendum results, the market had a big swing. S&P 500 lost about 5.4% in 2 days. We were underweighted in equity and had been waiting for a market pull back since April. Our portfolio incurred some loss in those two days, but the loss is much less than the market. The market turbulence offered us a great opportunity to add positions. We cautiously started to add some positions, and prepared for much worse market downturn. However, to our surprise, the market turns around very quickly.

We still hold the view that the US equity market is slightly over-valued, which may not offer sufficient growth rate for the next decade. On the other hand, relative speaking, the equity market is probably still the best game in town. It offers one of the best yield compared to other alternatives. Going forward, we will keep this view in mind and allocate our assets cautiously.

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