Spring Ocean Capital Newsletter 1Q 2017

Portfolio Performance

Our portfolio performance for the year was:

	S&P500	Spring Ocean Composite*
2016	11.95%	26.8%
2017 1Q	6.1%	3.7%

** We used the Interactive Broker's portfolio analytic data output. It included all managed accounts. For detailed monthly return data, please see the other report (IB portfolio performance report). Performance data were not audited.*

The following table shows our five best and worst performing stocks for the first quarter. It also shows their mark-to-market Profit and Loss (PnL) as a percentage of consolidated Net Asset Value (NAV) at the beginning of 2017.

	YTD Profit%	YTD Loss%
PCI (PIMCO Dynamic Credit Income)	1.5%	
ABC (AmerisourceBergen Corp.)	1.5%	
DVMT (Dell Technologies Inc.)	1.0%	
PFN (Pimco Income Strategy Fund II)	1.0%	
GNW (Genworth Financial Inc.)	0.9%	
APEI (American Public Education)		-0.2%
KORS (Michael Kors Holdings Ltd)		- 0.5%
GILD (Gild Science Inc.）		-0.6%
BKE (Buckle Inc.)		-0.9%
Index Hedging(Index ETFs)		-0.9%
Total：	5.9%	-3.1%

The top 5 best performing stocks had a total PnL of 5.9%. The bottom five had a total PnL of -3.1%.

PCI and PFN were our two large fixed income positions. As we discussed before, they offered some of the highest yields and was managed by one of the best fixed-income management company (PIMCO) in the world. These two stocks continued growth momentum. At the end of the first quarter, PCI was approaching its Net Asset Value (NAV), and PFN had a slight premium compared to its NAV. These two positions were in the top 5 best performing stocks last year and continued the moment this year.

ABC was one large new position we initiated last year. The company still grows in both revenue and income, and the stock is reasonably priced. It is hard to find such company in current market environment. We put a relative large weight in this stock and it performed well in the first quarter.

DVMT is the tracking share to VMW (VM ware) after DELL acquired VMW's parent company EMC and spin off part of the EMC ownership. Traditionally, tracking shares have certain discount to the original shares. In the DVMT case, the discount to original share VMW was close to 30%. We felt the discount was too large and we are expecting the discount to close to a more reasonable 10% range in the next couple years.

GNW is an arbitrage position. China Oceanwide announced that they would acquire GNW at $5.43 per share in the middle of this year. The current stock price of about $3.8 offers a return of 43% if the acquisition completed. Such a big discount usually suggests that there are lots of doubt in the deal. After some research, we conclude that the success rate should be higher than 50%. Even in the worst case that the acquisition is not completed, GNW will still has lots of value to offer and our loss could be limited.

Among the 5 biggest losses, BKE and KORS were our major retail holdings. Retail industrial had lots of headwind recently. In the first quarter of 2017, nine retailers filed bankruptcy, the highest since 2009. In addition, big national retailers like JC Penney, Sears, and Macy's were closing hundreds of stores. For our holdings in BKE, we had experienced large price depreciation last year. The trend continued to the first quarter this year. However, after we revisited the stock's fundamental, we still believe we could wait it out as the company is still profitable and has a large discount to our valuation. KORS was a profitable position last year, however, KORS reported a stagnant sales number last quarter and stock price decreased. We still believe that both companies offer large discount to our estimated valuation, and we will keep holding these positions.

GILD was a new position from last year. We still saw price depreciation in the first quarter. However, we believe the strong research power and extremely low valuation offers us lots of safety margin for this stock.

Our index hedge positions include some short positions for the stock index ETFs. The market went up in the first quarter, we experienced some expected loss here. As we said before, the hedge position was used to decrease our portfolio volatility. In the long run, those hedge positons will cost us money as the market in general moves up. But it also gives us some valuable opportunity when the market goes down. In the down market, we may experience less downside movement and have resources to pick up some attractive investments.

APEI saw some good profit last year, and the price had fall back a little bit in the first quarter.

In summary, our portfolio were underweighted compared to the market, and as the market kept going up, our 1th quarter results lagged behind the market. We believe we need to take a defensive position right now and the slight underperformance is probably worthwhile in the long run.

Major positions

Our major 5 positions at the end of March 2017 were:

	Dec. 2016	Mar. 2017
Index ETFs	-20.7%	-20.6%
PCI (PIMCO Dynamic Credit Income Fund)	18.1%	16.8%
ABC (AmerisourceBergen Corp.)	10.3%	11.9%
GILD (Gilead Sciences)	9.8%	11.4%
PFN (PIMCO Income Strategy Fund II)	11.3%	10.8%

Compared to the end of 2016, we increased our position in ABC and GILD slightly. Also, we trimmed some fixed-income position in PCI and PFN as their price appreciated.

Our positions by asset class at the end of March 2017 were:

	Dec. 2016	Mar. 2017
Equity	61.6%	65.5%
Equity Index Hedge	-20.7%	-20.6%
Fixed-income fund	34.8%	32.7%
Arbitrage	-0.9%(9.8%, -10.7%)	-1.1%(11.8%, -12.9%)*
Cash/cash equivalent	25%	23.4%

**The arbitrage position consist of 11.8% long and -12.9% short positions, net of -1.1%.*

We trimmed some of our fixed-income fund position and increased equity positions (i.e. more on ABC and GILD).

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