Spring Ocean Capital Newsletter 2017 2Q

Portfolio Performance

Our portfolio performance for 2016 and this year was:

	S&P500	Spring Ocean Composite*
2016	11.95%	26.8%
2017 1Q	6.1%	3.7%
2017 2Q	3.1%	4.3%
2017 YT2Q:	9.3%	8.2%

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

We performed slightly better than S&P 500 in the second quarter, slightly underperformed the S&P 500 index for the first half year. The following table shows our five best and worst performing stocks for the first half year. 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.

	YT2Q Profit%	YT2Q Loss%
PCI (PIMCO Dynamic Credit Income)	2.7%	
ABC (AmerisourceBergen Corp.)	2.7%	
PFN (Pimco Income Strategy Fund II)	1.7%	
SEC (Senvest Capital)	0.8%	
PFL (PIMCO Income Strategy)	0.8%	
T (AT&T）		-0.1%
APEI (American Public Education)		-0.1%
KORS (Michael Kors Holdings Ltd)		- 0.5%
BKE (Buckle Inc.)		-1.0%
Index Hedging(Index ETFs)		-1.4%
Total：	8.7%	-3.2%

The top 5 best performing stocks had a total PnL of 8.7%. The bottom five had a total PnL of -3.2%.

PCI and PFN were our two largest fixed income positions. The fixed income fund still kept the price momentum even after FED increased rate twice this year. PFL is the sister fund of PFN. They were managed by the same fund manager and invested in similar style. We sometimes moved the position between PFN and PFL based on their relative value and liquidity. We have a relative smaller position in PFL fund.

ABC was one new large position we initiated last year. The company still grows in both revenue and income, and the stock is reasonably priced. It continued the momentum into the second quarter.

SEC is a Canadian investment company. It has a large discount compared to its net asset value. As a fund manager, it also has great performance for the last decade. Due to liquidity, we do not have a large position here. This stock performed well in the second quarter.

Our biggest loss in the first half is our index hedging position. The market went up about 9% in the first half, 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.

BKE and KORS were our major retail holdings. The retail industrial had lots of headwind recently. We haven't see any turn around yet. However, after we revisited the stock's fundamental, we could still 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 first 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.

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

T is a very small position and due to price fluctuation, we experienced some loss here.

In summary, our portfolio outperformed the market in the second quarter. First half year, we still underperformed the S&P 500 by a small margin. At the end of June, we still underweight equity. 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 Jun. 2017 were:

	Mar. 2017	Jun. 2017
Index ETFs	-20.6%	-19.3%
PCI (PIMCO Dynamic Credit Income Fund)	16.8%	16.2%
SYT (Syngenta)	0%	12.7%
GILD (Gilead Sciences)	11.4%	12.5%
ABC (AmerisourceBergen Corp.)	11.9%	12.3%

Compared to previous quarter, we put a major position on SYT. This is an arbitrage position. ChinaChem finished the tender offer for SYT, and will finish the squeeze out merger in about 3-5 month. It is like holding a short term cash position with an annualized interest rate between 3-5%, depending how fast the merger can be finished. We also increased our position in ABC and GILD slightly.

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

	Mar. 2017	Jun. 2017
Equity	65.5%	65.7%
Equity Index Hedge	-20.6%	-19.3%
Fixed-income fund	32.7%	28.3%
Arbitrage	-1.1%(11.8%, -12.9%)	12.4%(22.5%, -10.1%)*
Cash/cash equivalent	23.4%	12.9%

**The arbitrage position consist of 22.5% long and -10.1% short positions, net of 12.4%.*

We trimmed some of our fixed-income fund positions and increased a major arbitrage positon on SYT.

Hua Wei, Ph.D., CFA on Aug. 7, 2017 at Orange, OH

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