Spring Ocean Capital Newsletter 2018 1Q

Portfolio Performance

Our portfolio performance was:

	S&P500	Spring Ocean Composite*
2016	11.95%	26.8%
2017	21.8%	16.7%
2018 1Q	-0.76%	-1.47%
2018 YTD:	-0.76%	-1.47%

** 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. Individual account performance may vary.*

We underperformed S&P 500 in the first quarter. The under-performance was mostly from January 2018 when the market was up by 5.7% and we were up by 2.4%, and offset by a smaller decrease in February and March when S&P 500 down by 6.1% and we were down by 3.8%. Our conservative positions helped during the down months but underperformed for the first month when the market was up.

The following table shows our five best and worst performing stocks for the first quarter of 2018. It also shows their mark-to-market Profit and Loss (PnL) as a percentage of consolidated Net Asset Value (NAV) at the beginning of 2018. *(We excluded certain arbitrage positions from the top list as their profit and lost cancelled each other.)*

	2018Q1 Profit%	2018Q1 Loss%
PCI (PIMCO Dynamic Credit Income)	0.8%	
GILD(Gilead Sciences Inc.)	0.7%	
APEI(American Public Education)	0.6%	
Index Hedging(Index ETFs)	0.3%	
OHI (Omega Healthcare Investors)	0.1%	
MNDO(MIND CTI Ltd)		-0.4%
ABC (AmerisourceBergen Corp)		-0.5%
GNW (Genworth Financial Inc)		-0.6%
DVMT (Dell Technologies Inc.)		-0.8%
CBL(CBL & Associates Properties)		-1.2%
Total：	2.4%	-3.5%

The top 5 best performing stocks had a total PnL of 2.4%. The bottom 5 had a total PnL of -3.5%.

PIMCO Dynamic Credit Income Fund (PCI) was the largest fixed income position. Back in 2015 and 2016, we built some large positions in PIMCO closed end funds. Back then, most of these funds had large Net Asset Value (NAV) discounts. The market was concerned that the future interest rate increase would cause a bear market for Bond. We estimated that the discount offered ample safety margin for the interest rate increase. As long as the interest rate did not increase too fast, we could make money. It turned out the rate did increase slowly. Plus, PIMCO managed the portfolio well. Thus, we have made lots of profit from these positions. Both in 2016 and 2017, two of the PIMCO closed end funds (including PCI) were our top 5 profit contributors.

However, recent interest rate increase has had us worried about these positons. These closed end funds used leverage to improve performance. The higher interest rate not only decreased the market value of bond portfolios, but also increased their borrowing cost. PIMCO is still an excellent Bond portfolio management company. The market probably recognized it and bid up many of those funds prices from discount to premium compared to their NAVs. We trimmed some of the positions based on the market condition.

Gilead Sciences (GILD) increased price slightly in the first quarter.

American Public Education (APEI) had a sudden price jump (about 80%) in March. The fundamental was similar to before but the Market's perception for this company changed. We sold out this position to lock-in the profit.

Because market went down in the first quarter, our **Index hedging position** became one of the top 5 contributors.

Omega Healthcare Investors (OHI) was one of the new positions initiated in the first quarter. OHI is a REITs Company with 10% yield, and is one of the blue chips in REITs with long history. It operates in the senior nursing home sector.

Our biggest loss in the first quarter was **CBL & associates properties (CBL)**. This was a new position initiated in the first quarter. CBL is a REITs company operating shopping malls. Retail industry and the shopping malls are under stress now. What attract us in this stock are the high fully covered yield of 18%, and the relatively stable cash flow. However, our timing was not good. Just after we bought the stock, the company reported worse than expected quarterly results and we suffered some loss here.

Dell Technologies (DVMT) is the tracking stock of VMware. The loss in the first quarter mostly likely comes from the market uncertainty. Dell Technologies is considering to list its shares (DVMT is just the V class share, partial interest of the company, used to track VMware). There are a couple approaches to achieve that. Each approach may have different impact on the value of DVMT stock. The current uncertainty caused the low valuation of DVMT. Our estimated expected future value is much higher than current market price.

Genworth Financial (GNW) is an arbitrage position. China Oceanwide offered $5.43 per share to acquire GNW (currently trading at $3). Due to recent regulation uncertainty under Trump administration, and the tense trade relation between U.S. and China, the market gives the stock a big discount. In fact, GNW had applied for CFIUS approval multiple times last year without success. They are still working on the regulation approval. We adjusted the probability of the merger as well as the fair value of the stock based on new information available.

AmerisourceBergen Corp(ABC) and **MIND CTI Ltd(MNDO)** were long term positions. We discussed them in the past. In the first quarter, **ABC** was affected by news that Amazon was planning to enter the pharmacy distribution business, which directly compete with ABC. However, Amazon later announced it would cancel the plan. There seems not to be any news with MNDO and the losses in the first quarter were mostly likely due to market fluctuation.

In summary, we slightly underperformed the S&P 500 in the first quarter 2018. We underweighted equity and were taking a defensive position. This helped us during the down months in February and March. However, we lacked behind in January in the up market.

Major positions

Our major 5 positions at the end of first quarter 2018 were:

	Dec. 2017	Mar. 2018
Index ETFs	-20.2%	-24.5%
PCI (PIMCO Dynamic Credit Income Fund)	13.6%	14.9%
ABC (AmerisourceBergen Corp.)	12.3%	11.2%
GILD (Gilead Sciences)	10.9%	11.0%
DVMT(Dell Technologies Inc.)	7.9%	8.2%

Compared to the end of 2017, increased hedging position on index ETF, and slightly increased position on fixed-income fund PCI.

Our positions by asset class at the end of first quarter 2018 were:

	Dec. 2017	Mar. 2018
Equity	63.3%	82.4%
Equity Index Hedge	-20.2%	-24.5%
Fixed-income fund	18.9%	17.4%
Arbitrage	21%(34.9%, -13.9%)	-0.6%(11.3%, -11.9%)*
Cash/cash equivalent	16.9%	25.3%

**The arbitrage position consist of 11.3% long and -11.9% short positions, net of -0.6%.*

We completed arbitrage position on Syngenta (SYT) and put some of the cash into equities.

Hua Wei, Ph.D., CFA on May 15, 2018 in Orange, OH

Portfolio Manager, Founder, Spring Ocean Capital LLC
Tel: 1-888-560-6709
Email: hwei@springOceanCapital.com
Website: http://www.SpringOceanCapital.com