Spring Ocean Capital Newsletter 2018 2Q

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 2Q	3.44%	4.89%
2018 Q1-2:	2.65%	3.35%

** 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 outperformed S&P 500 in the second quarter. The out-performance was mostly from Jun. 2018 during which we were up by about 4% and S&P 500 was up around 0.6%.

The following table shows our five best and worst performing stocks for the first two quarters 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 out.)*

	2018Q1-2 Profit	2018Q1-2 Loss
GNW (Genworth Financial Inc.)	2.6%	
PCI (PIMCO Dynamic Credit Income)	1.5%	
CBL (CBL & Associates Properties)	1.2%	
APEI (American Public Education)	0.6%	
KORS (Michael Kors Holding Ltd)	0.5%	
SEC (Senvest Capital Inc.)		-0.4%
MNDO (MIND CTI Ltd)		-0.5%
ABC (AmerisourceBergen Corp)		-0.6%
Index Hedging (Index ETFs)		-0.8%
00001(CK Hutchison Holdings Ltd.)		-1.1%
Total：	6.4%	-3.4%

The top 5 best performing stocks had a total PnL of 6.4%. The bottom 5 had a total PnL of -3.4%.

Genworth Financial (GNW) is an arbitrage position. China Oceanwide offered $5.43 per share to acquire GNW. GNW finally got approval from CFIUS in June 2018. The price went from around $3 to $4.7 after the news came out. At current price, there is still a large discount (about 20%) to the target offer price. GNW is still waiting for a few state insurance agency approvals. In our view, there is much less uncertainty involved and we will still hold these positions. We expect the merger finished in the third quarter with the full price.

PIMCO Dynamic Credit Income Fund (PCI) is the largest fixed income position. We started trimming the fixed income positions due to rising interest rate concern. The fund still has some price momentum and earned some profit here.

CBL & associates properties (CBL) is a REITs company operating shopping malls. It was our largest loss in first quarter 2018. It has a high fully covered yield of more than 14%, and relatively stable cash flow. In the second quarter, some retailers, like Macy's, reported better earnings. This brought a nice rebound to stocks in the retail industry. CBL was oversold in the first quarter and rebounded in the second quarter.

American Public Education (APEI) was a position we closed out in the first quarter. The profit was all from first quarter.

Michael Kors Holding (KORS) belongs to the retail sector. The whole sector rebounding in the second quarter helped its price.

Our first half biggest loss is **CK Hutchison Holdings Ltd. (00001)**. It was a recent new position built early this year. Shortly after that, the founder Li Ka-shing announced retirement and pass the reins to his eldest son Victor Li. The market probably reacted to this news and price went down in the second quarter.

Index hedging position suffered loss as the market has turned upward in the second quarter.

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 competed with ABC. However, Amazon later announced it would cancel the plan. The loss here is mostly from the first quarter. The second quarter price for ABC did not change much. MNDO's losses were mostly from first quarter.

Senvest Capital (SEC) is a Canadian asset management company. The company mainly manages its own money and some outside money. Its stock price has a huge discount (about 40%) compared to its net asset value. The stock is thinly traded; in average it only trades a couple hundred shares a day. We suspect it is the liquidity caused the temporary price decrease in the second quarter.

In summary, we slightly outperformed the S&P 500 in the first half 2018. Considered that we underweighted equity and were taking a defensive position, it was a successful quarter for us.

Major positions

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

	Mar. 2018	Jun. 2018
Index ETFs	-24.5%	-24.3%
ABC (AmerisourceBergen Corp.)	11.2%	11.3%
GILD (Gilead Sciences)	11.0%	9.6%
DVMT(Dell Technologies Inc.)	8.2%	7.8%
PCI (PIMCO Dynamic Credit Income Fund)	14.9%	7.7%

Compared to the first quarter 2018, we trimmed some position in PCI and DVMT. The weight changing in GILD were caused by market price fluctuation. We didn't trim our position on GILD in the second quarter.

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

	Mar. 2018	Jun. 2018
Equity	82.4%	87.4%
Equity Index Hedge	-24.5%	-24.3%
Fixed-income fund	17.4%	9.7%
Arbitrage	-0.6%(11.3%, -11.9%)	-2.2%(17.1%, -19.3%)*
Cash/cash equivalent	25.3%	29.5%

**The arbitrage position consist of 17.1% long and -19.3% short positions, net of -2.2%.*

We decreased our fixed-income fund position and used some of the proceeds to add more equity positions. We also increased some arbitrage positions.

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