

# Spring Ocean Capital Newsletter 2018 4Q

## Portfolio Performance

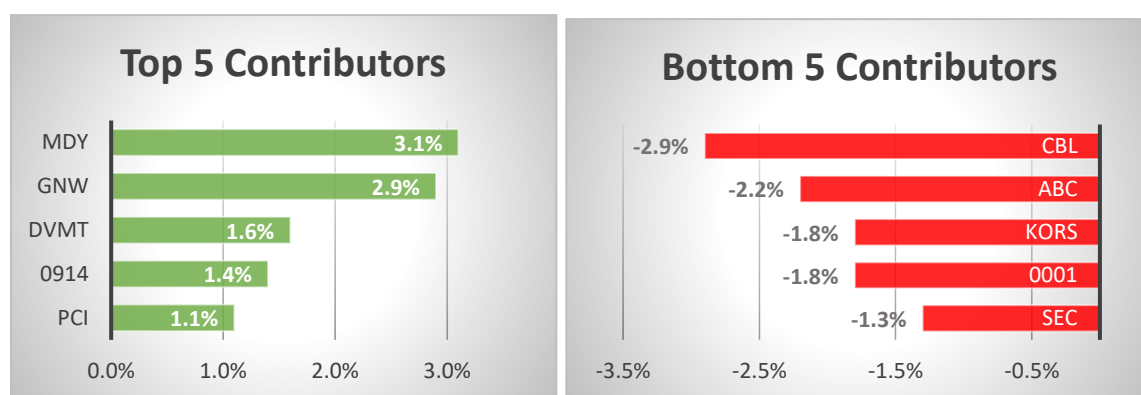
Our portfolio performance was:

	S&P500	Spring Ocean Composite <sup>1</sup>
2016	11.95%	26.8%
2017	21.8%	16.7%
2018 1Q	-0.76%	-1.47%
2018 2Q	3.44%	4.89%
2018 3Q	7.71%	1.17%
2018 4Q	<u>-13.5%</u>	<u>-6.6%</u>
2018:	-4.4%	-2.4%

The stock market had a sharp decrease in the fourth quarter. S&P 500 were down 13.5%. We did much better with only 6.6% down. For the whole year, we were down 2.4% and slightly outperformed the market's 4.4% down.

Our outperformance in the fourth quarter was mostly due to our defensive positions built in the last 2 years. The steep market drop in the fourth quarter shows how quickly the sentiment can change. We took the opportunity during the steep market drop to reduce some of our short positions (i.e. we bought back some index ETF). There were many explanations of this recent market fall, such as trade war with China, invert yield curve, and an aging bull market, etc. However, we observe that fundamentally, the economy is very strong in US right now. We believe the tax reform in the end of 2017 strongly stimulates the economy. All leading financial indices have not shown any sign of recession. The market would likely rebound in the short term and we took this opportunity to reduce some of our hedging position. We will watch the market closely and adjust our view or position based on new incoming information and data.

Our five top and bottom contributors for 2018 are listed below. The top 5 contributors have a total PnL of 10.1%. The bottom 5 have a total PnL of -9.9%.



<sup>1</sup> 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.

**SPDR S&P MidCap 400 ETF (MDY)** is our hedging position. We have large short position on it and the market fall in this year helps.

**Genworth Financial (GNW)** was offered 5.43 to be acquired by China Oceanwide. We are still waiting the deal to be closed.

**Dell Technologies (DVMT)** is the tracking stock of VMware. We closed this position in the third quarter and locked in the profit.

**Anhui Conch Cement (0914)** is our arbitrage position, its profit may partially be cancelled out by the hedging position.

**PIMCO Dynamic Credit Income Fund (PCI)** is the largest fixed income position. There is minimal trade in this position.

Our biggest loss is **CBL Properties (CBL)**. It is a REITs company operating shopping malls. The fourth quarter market drop had a big impact on the stock price.

**AmerisourceBergen Corp (ABC)** saw lots of up and down this year. We saw about a 20% price drop in the stock price in the fourth quarter. This stock was our top long position and had large loss.

**Michael Kors (KORS)** loss was mostly due to the price decrease in the fourth quarter. Michael Kors bought Italian fashion house Gianni Versace for \$2.1 Billion. The deal closed at the end of 2018 and the company name changed to Capri Holdings (CPRI). The market probably worried that KORS overpaid for the acquisition and stock price decreased in the fourth quarter.

**CK Hutchison Holdings Ltd. (0001)** loss in this position was probably due to the general market.

**Senvest Capital (SEC)** is a Canadian asset management company. The loss was also due to market movement.

In summary, we outperformed the S&P 500 in 2018 by about 2%. As we mentioned many times in previous newsletters, we have taken a defensive position to prepare for a possible pull back of the market. This defensive position helped in the fourth quarter and the whole year overall.

## Major positions

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

	Sep. 2018	Dec. 2018
Index ETFs	-24.9%	-16.4%
ABC (AmerisourceBergen Corp.)	13.0%	11.4%
OMC (Omnicom Group)	8.0%	8.9%
GILD (Gilead Sciences)	10.0%	8.7%
BEN (Franklin Resources INC)	8.0%	8.0%

Compared to the third quarter of 2018, we reduced some of the hedging position in index ETFs. ABC and GILD's weight changes were mostly due to price decrease.

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

	Sep. 2018	Dec. 2018
Equity	89.0%	93.6%
Equity Index Hedge	-24.9%	-16.4%
Fixed-income fund	9.3%	8.8%
Arbitrage	-2.0%(15.9%, -18%)	-1.7%(12%, -13.7%)*
Cash/cash equivalent	28.6%	15.1%

*\*The arbitrage position consist of 12% long and -13.7% short positions, net of -1.7%.*

We reduced about one third of the hedging position, and increased some equity positions.

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