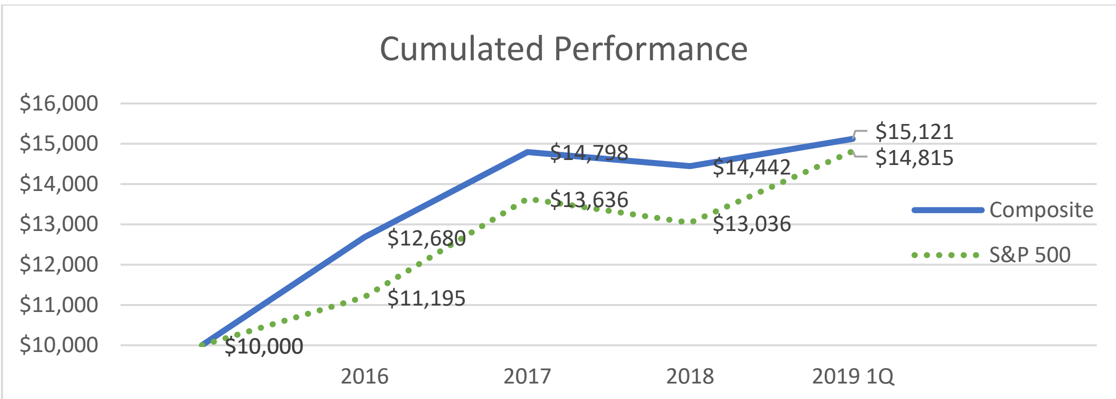
Spring Ocean Capital Newsletter 2019 1Q

Portfolio Performance

Our portfolio performance was:

	S&P 500	Spring Ocean Composite[1]
2016	11.95%	26.8%
2017	21.8%	16.7%
2018	-4.4%	-2.4%
2019 1Q	13.65%	4.7%
2019 YTD:	13.65%	4.7%

Assume $10,000 was invested in the beginning of 2016, the cumulated performance would be:



The market bounced back 13.65% in the first quarter from the sharp drop last December. The reversal has completely recovered the loss in the fourth quarter of 2018. We were up only 4.7%.

Although we correctly predicted that market might rebound based on the strong fundamentals, and also made some trades that benefit from this view in the previous quarter (i.e. trimming some hedging positions in December 2018, and the buying of some stocks during the sharp drop of the market), we did not realize the full potential when the market bounced back in the first quarter.

We own a few large positions in health care related stocks like ABC, GILD. We also added CVS in the first quarter. Health care industrial related stocks underperformed in the first quarter. The Medicare-for-all or single-payer health care system is the campaign topic of a couple democratic presidential candidate. It caused a small market panic for the health care sector. Although it will be nice to have a single-payer health care system, it is unlikely to be accomplished in short term. Take Obama-care as an example, it is a much smaller change (mainly focused on the individual health insurance market) compared to the single-payer health care proposal; it still took about 2 year to pass the law and another 4 years to take effect. Many health insurance related stocks actually more than tripled after Obama care. Our other underperformance comes from some particular stocks like GNW and the REITS stock CBL.

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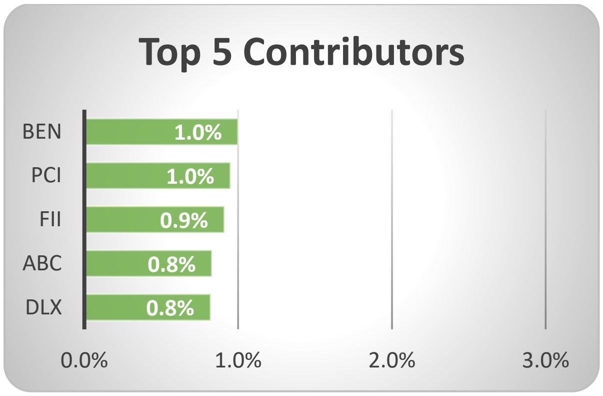
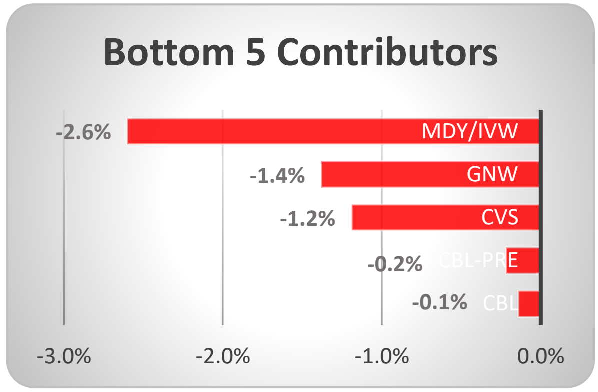
[1] We used the Interactive Broker's portfolio analytic data output. It included all actively managed accounts after all expenses and fees but exclude passive managed accounts. For detailed monthly return data, please see the other report (IB portfolio monthly PnL report). Performance data were not audited. Individual account performance may vary.

Our five top and bottom contributors for the first quarter of 2019 are listed below. The top 5 contributors have a total PnL of 4.5%. The bottom 5 have a total PnL of -5.5%.





Our top 5 profitable positions are generally rise with the market in the first quarter:

1. Franklin Resources Inc (**BEN**) is one of the largest mutual fund management companies.
2. PIMCO Dynamic Credit Income Fund (**PCI**) is our largest fixed income position.
3. Federated Investors Inc (**FII**) is a smaller mutual fund management company. This stock and BEN usually have high correlation with the market.
4. AmerisourceBergen Corp. (**ABC**) is one of the largest drug wholesale distributors.
5. Deluxe Corp. (**DLX**) is famous for the check printing business. The company has evolved over the years to become a software and payment processing company serving small and mid-size business.

Our bottom 5 contributors are:

1. The index hedging position (**MDY/IVW**). We have large short positions on them and the market rise in the first quarter caused the loss.
2. Genworth Financial (**GNW**) was offered $5.43/share to be acquired by China Oceanwide. The acquisition cleared all U.S. related regulation approval in 2018, but it has new approval delays from Canadian government and the price has decreased about 15% in the first quarter.
3. CVS health Corp. (**CVS**) is one of the largest pharmacy retail and health management company in US. We started this position in this year. The price decreased in the first quarter alone with the health sector.
4. CBL Properties (**CBL** and **CBL-PRE**). It is a REITs company operating shopping malls. We own a small position of both the preferred share E series (**CBL-PRE**) and common share (**CBL**). There are lots of bad news for malls and the price was not doing well. Due to the small size, the loss was relatively small.

Major positions

Our major 5 positions at the end of the Mar. 2019 were:

	Dec. 2018	Mar. 2019
Index ETFs	-16.4%	-19.3%
ABC (AmerisourceBergen Corp.)	11.4%	10.2%
GILD (Gilead Sciences)	8.7%	7.9%
BEN (Franklin Resources Inc)	8.0%	7.3%
OMC (Omnicom Group)	8.9%	6.7%

Compared to the fourth quarter of 2018, we slightly increased some of the hedging positions. The weight changes in the other positions were mostly due to the dilution effect of new funding. Those new fund have not been put to similar position yet at the end of March.

Our positions by asset class at the end of March 2019 were:

	Dec. 2018	Mar. 2019
Equity	93.6%	99.1%
Equity Index Hedge	-16.4%	-19.3%
Fixed-income fund	8.8%	7.5%
Arbitrage	-1.7%(12%, -13.7%)	-0.3%(4.0%, -4.3%)*
Cash/cash equivalent	15.1%	13.0%

**The arbitrage position consist of 4% long and -4.3% short positions, net of -0.3%.*

We slightly trimmed our fixed-income fund, increased the index hedging position, and increased equity position. We also significantly reduced one of the arbitrage position.

Hua Wei, Ph.D., CFA   on May. 15, 2019 in Orange, Ohio

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