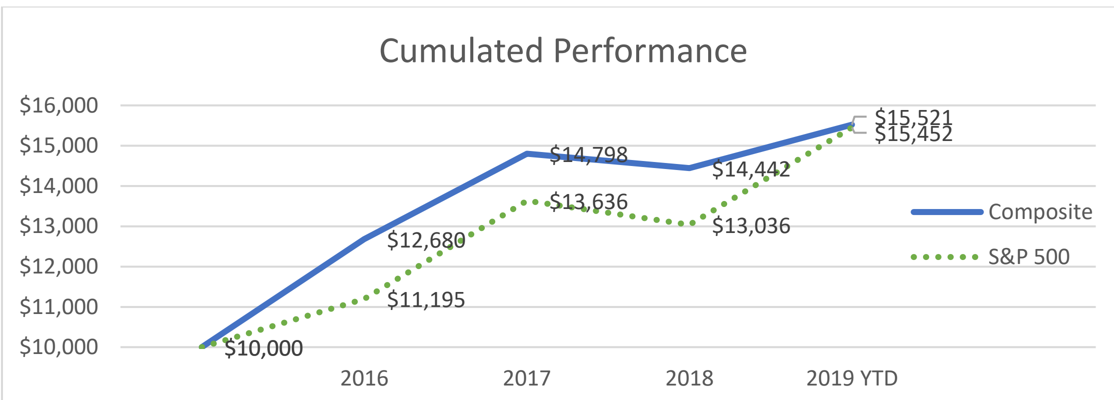
Spring Ocean Capital Newsletter 2019 Q2

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 Q1	13.65%	4.7%
2019 Q2	4.30%	2.65%
2019 Q1-2:	18.54%	7.47%

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



The S&P 500 index continued the advance for another 4.3% in the second quarter. We were up 2.65%. For the first half, S&P 500 index advanced 18.5% and we increased 7.5%.

After the stock market making new highs in the second quarter, we are turning cautious again. We increased our hedge position to last year's level. There were signals that the economy may face slow down or even recession in the next year or two. Trade war and inverted yield curve are the main concerns. The trade war between China and the U.S. has shifted focus from a pure economical dispute on trade to more political conflicts. Although the trade tariff in itself may have a small effect on the economy--- total imported goods of 500B taxed at 20% gives a tax of 100B, about 0.5% of the U.S.'s GDP of 20 trillion --- however, the intensified geopolitical tension disrupts the global supply chain, and will have a profound impact on the global economy.

The second concern is the inverted yield curve (i.e. the short term interest rate is higher than the long-term interest rate). It has been a very reliable indicator. Since 1960, the inverted yield curve has preceded a recession in 7 out of 8 times, including the most recent 2008 recession. (See the following graph of the yield curve spread and real GDP growth)

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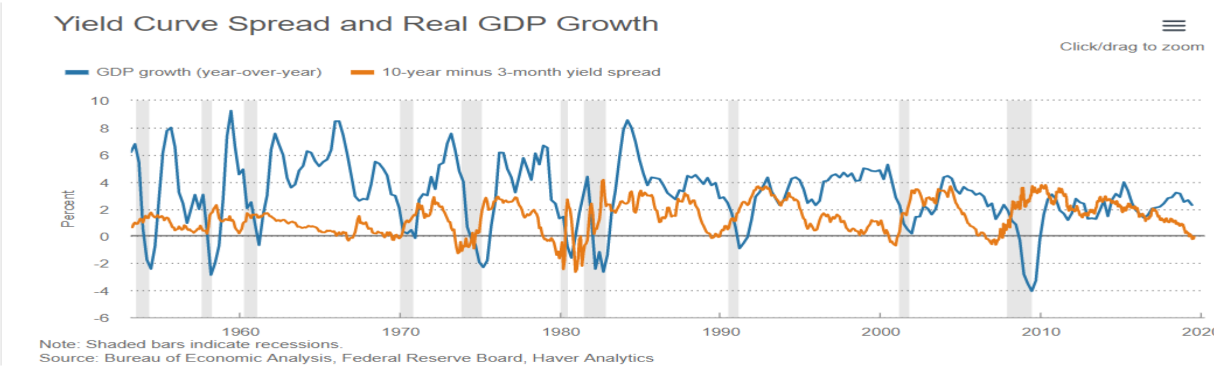
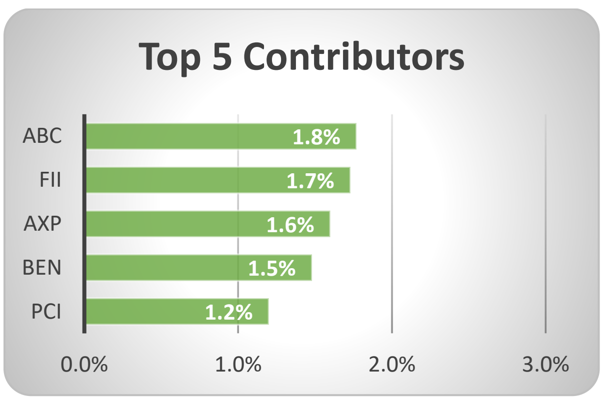
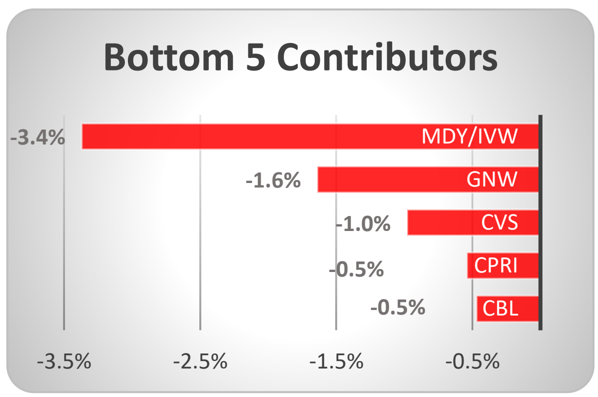
[1] We used the Interactive Broker's portfolio analytic data output. It included all actively managed accounts after all expenses and fees but exclude passive managed accounts. For detailed monthly return data, please see the other report (IB portfolio monthly PnL report). Performance data were not audited.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



In addition to those concerns, President Trump added another level of uncertainty. He broke many years of traditional norm of U.S. presidents and directly interfere Federal Reserve's monetary decision. He is also deeply concerned with the stock market's daily movement. Any dramatic stock market movement could change his policy decision. With above concerns, and the relative high valuation of stock market right now, we have to be more cautious for the rest of the year.

Our five top and bottom contributors for the first half of 2019 are listed below. The top 5 contributors have a total PnL of 7.8%. The bottom 5 have a total PnL of -7.0%.





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

1. AmerisourceBergen Corp. (**ABC**) is one of the largest drug wholesale distributors.
2. Federated Investors Inc (**FII**) is a smaller mutual fund management company. This stock and BEN usually have high correlation with the market.
3. American Express (**AXP**) is one of the major credit card companies.
4. Franklin Resources Inc (**BEN**) is one of the largest mutual fund management companies.
5. PIMCO Dynamic Credit Income Fund (**PCI**) is our largest fixed income position.

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 half 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 companies in US. We started this position early this year. The price decreased in the first quarter along with the health sector.

4. Capri Holdings (**CPRI**) is previously known as Michael Kors. It acquired brands Jimmy Choo and Versace recently.
5. CBL Properties (**CBL**). It is a REITs company operating shopping malls. We own a small position.

Major positions

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

	Mar. 2019	Jun. 2019
Index ETFs	-19.3%	-24.3%
ABC (AmerisourceBergen Corp.)	10.2%	10.6%
CVS (CVS Health Corp.)	6.7%	8.5%
GILD (Gilead Sciences)	7.9%	8.4%
OMC (Omnicom Group)	6.7%	7.7%

Compared to the first quarter of 2019, we increased our hedging position. We also increased the position of CVS when the price was low. The other positions' weight changes were mostly due to price movements.

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

	Mar. 2019	Jun. 2019
Equity	99.1%	95.6%
Equity Index Hedge	-19.3%	-24.3%
Fixed-income fund	7.5%	6.9%
Arbitrage	-0.3%(4.0%, -4.3%)	-0.1(1.9%, -2.0%)*
Cash/cash equivalent	13.0%	21.9%

**The arbitrage position consist of 1.9% long and -2.0% short positions, net of -0.1%.*

We increased the index hedging position, reduced some equity positions, slightly trimmed our fixed-income fund, and also reduced the arbitrage position by half.

Hua Wei, Ph.D., CFA on Aug. 14, 2019 in Orange, Ohio

Portfolio Manager, Founder,
Spring Ocean Capital LLC
http://www.SpringOceanCapital.com