

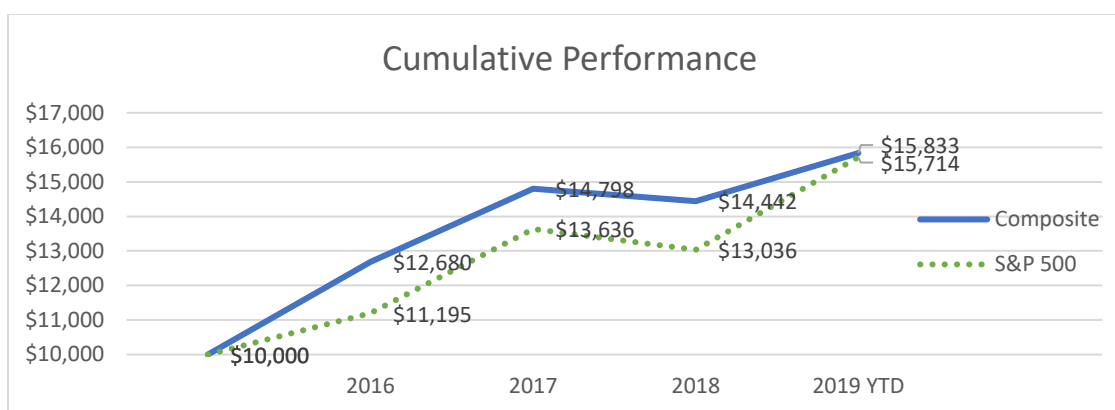
Spring Ocean Capital Newsletter 2019 Q3

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%	4.70%
2019 Q2	4.30%	2.65%
2019 Q3	1.70%	2.01%
2019 Q1-3:	20.55%	9.63%

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



The S&P 500 index continued its advance for another 1.7% in the third quarter. We were up 2% during the same period. For the first 3 quarters this year, S&P 500 index advanced 20.6% and we increased 9.6%.

In the third quarter, the market movement was still dominated by U.S. China trade war news. The trade war dispute has evolved to the conflict of two powers of the world. Ray Dalio, founder of Bridgewater one of the world's largest hedge funds, was an advocate of investment in China as late as April 2019. Now he is raising concerns of the geopolitical conflict. In his October LinkedIn post² "China and Pending Impeachment Conflict: Next Logical Steps in a Classic Dangerous Journey? The 1935-1945 Analogue", he noted that there are parallels between the current era and the late 1930s and early 1940s when the US limited Japan's participation in the US economy before WW2.

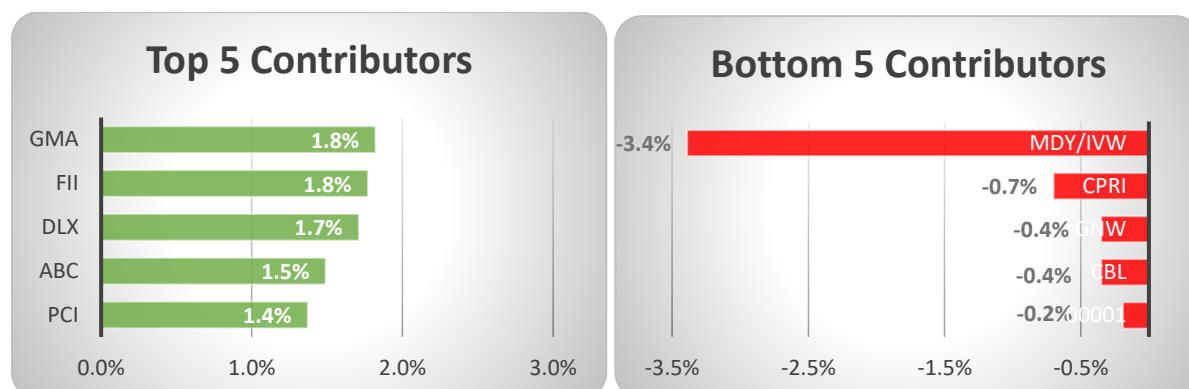
The president impeachment inquiry, however, had limited impact on the stock market so far.

The U.S. China geopolitical conflict does pose a unique challenge for our investors. We will monitor the special situation closely and promptly inform our investors if the situation changes.

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.

² <https://www.linkedin.com/pulse/threat-limit-capital-flows-china-pending-impeachment-conflict-dalio/>

Our five top and bottom contributors for the first three quarters of 2019 are listed below. The top 5 contributors have a total PnL of 8.2%. The bottom 5 have a total PnL of -5.0%.



Our top 5 profitable positions:

1. Genworth Mortgage Insurance (**GMA**) is an Australia mortgage insurance company. We bought it because of the low price compared to the net asset value and it has a high dividend. It had a large price increase in the third quarter.
2. Federated Investors Inc (**FII**) is a mutual fund management company. Its revenue, mostly in asset management fee, is correlated with stock market. With stock market increased this year, the stock price increased as well.
3. Deluxe Corp. (**DLX**) is famous for the check printing business. It was in our top 5 contributors list in the first quarter.
4. AmerisourceBergen Corp. (**ABC**) is one of the largest drug wholesale distributors.
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 caused the loss.
2. Capri Holdings (**CPRI**), previously known as Michael Kors, acquired brands Jimmy Choo and Versace recently. The price decrease is probably correlated with the general retail sector stocks.
3. Genworth Financial (**GNW**) was offered \$5.43/share to be acquired by China Oceanwide. Due to recent delays in Canadian regulation approval process, they decided to sell the Canadian subsidiary and quickly found a buyer. The price has recovered and our loss in this position have been decreased.
4. CBL Properties (**CBL**) is a REITs company operating shopping malls. We own a small position here. Some active investors initiated position in this stock.
5. CK Hutchison Holdings Ltd (**00001**) is a Hong Kong listed major conglomerate. Recent Hong Kong protests had a negative impact on the stock price.

Major positions

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

	Jun. 2019	Sep. 2019
Index ETFs	-24.3%	-23.5%
ABC (AmerisourceBergen Corp.)	10.6%	9.6%
CVS (CVS Health Corp.)	8.5%	8.9%
GILD (Gilead Sciences)	8.4%	7.9%
OMC (Omnicom Group)	7.7%	7.7%

Compared to the second quarter of 2019, we slightly trimmed some position in ABC.

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

	Jun. 2019	Sep. 2019
Equity	95.6%	93.9%
Equity Index Hedge	-24.3%	-23.5%
Fixed-income fund	6.9%	7.6%
Arbitrage	-0.1(1.9%, -2.0%)	0%
Cash/cash equivalent	21.9%	22.1%

We close out the small arbitrage position and slightly trimmed some equity positions.

Hua Wei, Ph.D., CFA on Oct. 28, 2019 in Orange, Ohio

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