

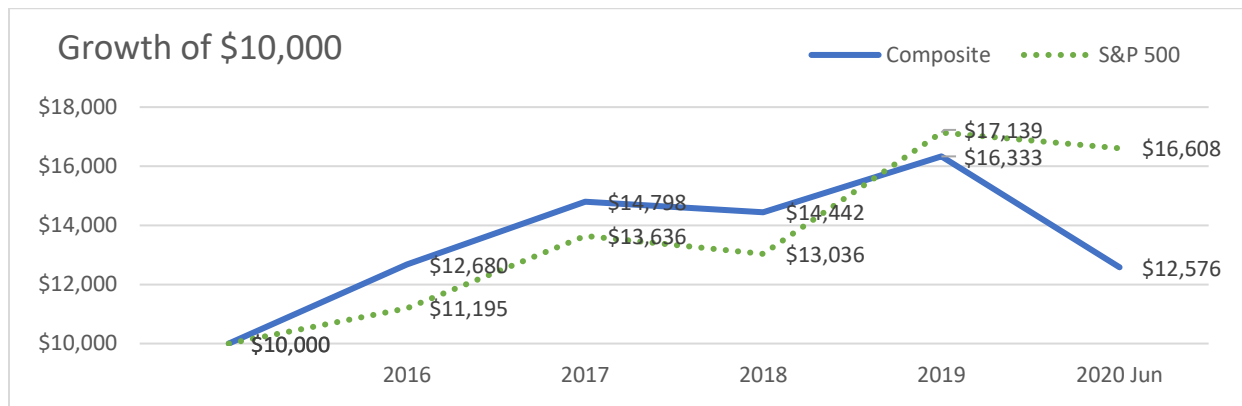
Spring Ocean Capital Newsletter 2020 Q2

Portfolio Performance

Our portfolio performance was:

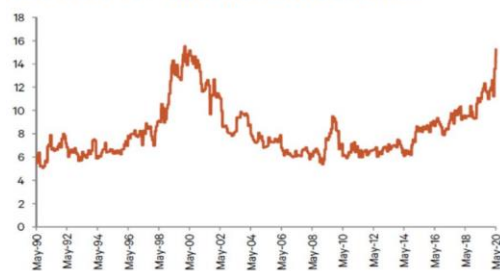
	S&P 500	Spring Ocean Composite ¹
2016	11.95%	26.8%
2017	21.8%	16.7%
2018	-4.4%	-2.4%
2019	31.49%	13.09%
2020 Q1	-19.6%	-25.41%
<u>2020 Q2</u>	<u>20.5%</u>	<u>3.23%</u>
2020 Q1-2	-3.1%	-23%

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



The S&P 500 index was up 20.5% in the second quarter. We were up about 3.2% during the same period.

S&P 500 P/E – INTERQUARTILE RANGE



Cheap Versus Expensive P/E Spread Hitting 2000 Levels

- Interquartile P/E range for S&P 500 near record widths
- Range has been widening consistently since 2009-10
- Last time the P/E gap was this wide was TMT bubble
- Reflects record cheap valuation for value

Source: Berenberg Research and Eikon

ONE STEP UP AND TWO BACK FOR VALUE SO FAR THIS YEAR...



Source: FactSet; FTSE Russell; Jefferies

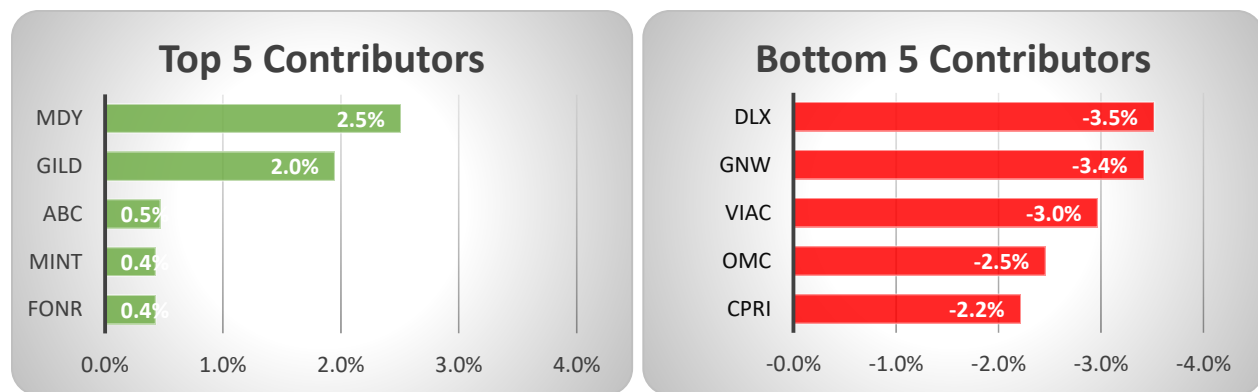
¹ We used the Interactive Broker's portfolio analytic data output. It included all actively managed accounts after all expenses and fees but exclude passive managed accounts. For detailed monthly return data, please see the other report (IB portfolio monthly PnL report). Performance data were not audited.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

The market has bifurcated between value stocks and growth stocks. Third avenue value fund's Q2 newsletter documented this phenomena: As shown in the above left graph, "Investment bank Berenberg has measured that the valuation spread between the least expensive decile of U.S. equities and the most expensive decile has never been so wide, including during the late 1990s." The above right graph shows that in 2020, the discrepancy between value and growth is getting bigger. The value discrepancy between value and growth has been approaching the 2000 bubble level. We are a value oriented investment manager. The recent market development had an adverse effect on our result.

It is hard to predict the future. But we believe that value based approach is fundamentally sound. In the short run, certain styles of investing will outperform and money will flow into them. However, crowded money usually brings higher price and less future return. Less crowd styles will perform better in the future.

In the second quarter, we had to limit our risk when we experienced large loss, we increased our hedging positions and reduced some equity positions. As a result, we did not share much upside in the quarter.

Our five top and bottom contributors for the first half of 2020 are listed below. The top 5 contributors have a total PnL of 5.8%. The bottom 5 have a total PnL of -14.6%.



The top 5 profitable positions are:

1. The index hedging position (**MDY**) made profit because S&P 400 (the middle sized 400 company index) was down in the first half year.
2. Gilead Science (**GILD**) has the only FDA approved COVID-19 drug Remdesivir. GILD is one of our major positions. We sold some of our positions during the first quarter when the stock was relatively high, locking in some profit.
3. AmerisourceBergen Corp. (**ABC**) is one of the largest drug wholesale distributors. We closed out our position in the first quarter and locked in the profit.
4. Pimco Enhanced Short Maturity Fund (**MINT**) is an active manage short term fixed income ETF. We put our idle cash in this fund.
5. Fonar Corp. (**FONR**) is a small medical equipment company specialized in upright MRI scanner research and MRI medical office management.

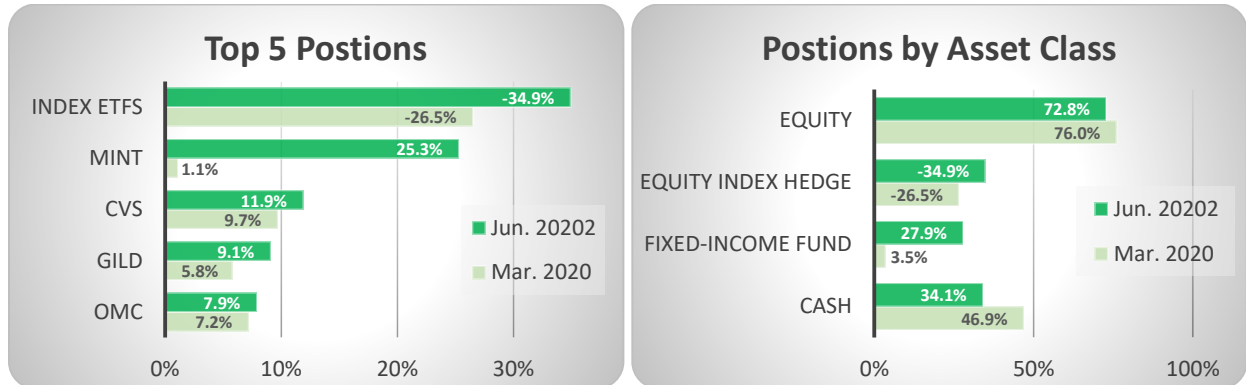
Our bottom 5 contributors are:

1. Deluxe Corp. (**DLX**) is famous for the check printing business. It mainly serves small business. The pandemic had a major impact on small business.
2. Genworth Financial (**GNW**)'s merger with China Oceanwide was delayed again due to a funding issue from China Oceanwide. The stock's market price indicates the merger will not be successful. Due to heightened Geo-political risk, we also believe there is little chance the merger will be successful. However, our valuation of GNW is much higher than its current stock price.

3. ViacomCBS inc (**VIAC**) is a media company that operates CBS TV network and the Paramount Picture film studios. We entered into the position just when the stock market sell off started, and incurred a lot of losses here.
4. Omnicom Group (**OMC**) is a major advertising agency.
5. Capri Holdings (**CPRI**) is the owner of Michael Kors, Jimmy Choo, and Versace. Traditional retailing is hard hit during the pandemics.

Major positions

Our top 5 positions and asset classes at the end of Jun. 2020 were:



CVS: CVS Health; GILD: Gilead Science Inc.; OMC: Omnicom Group; AFL: Aflac Inc

We had some large changes in the second quarter. We increased our hedging positions, increased CVS, GILD, and put idled cash into short term bond fund MINT.

To control the risk, we also decreased the overall equity position by about 4% and increased the equity index hedging positions.

In summary, our second quarter under-performance was partially caused by the stock market bifurcation which un-favor our investment style and partially caused by our decision to reduce risk after heavy loss. Going forward, we will not change our investment style. History suggests that market styles and sectors will rotate. Value investing will come back. Our mechanic risk reduce technique will help us to limit the downside risk when things are not working.

Hua Wei, Ph.D., CFA on Aug. 17, 2020 in Orange, Ohio

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