

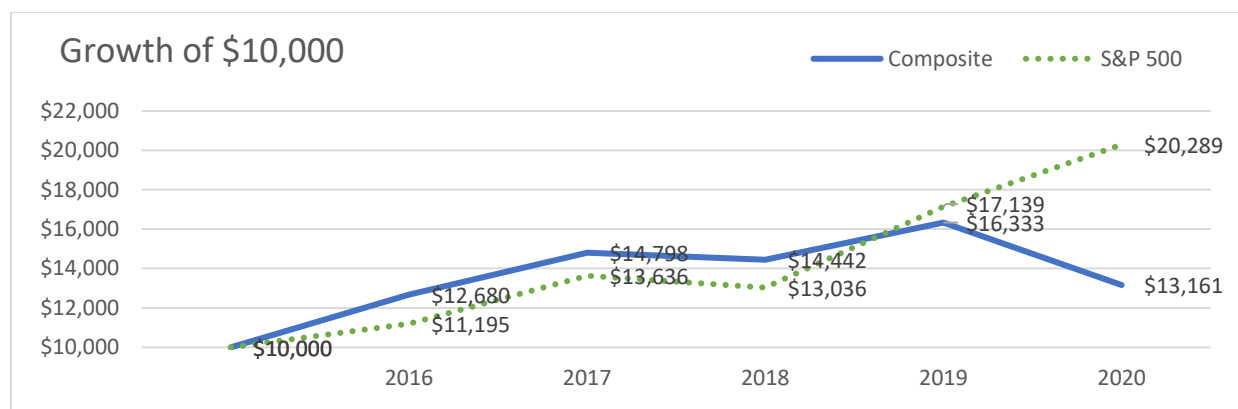
Spring Ocean Capital Newsletter 2020 Q4

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%
2020 Q2	20.5%	3.23%
2020 Q3	8.9%	-3.01%
<u>2020 Q4</u>	<u>12.1%</u>	<u>7.9%</u>
2020	18.4%	-19.4%

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



The S&P 500 index was up 12.1% in the third quarter. We were up about 7.9% during the same period.

Our performance improved this quarter compared to the third quarter, although we still underperformed the market. In the Q3 newsletter, we mentioned the main causes for our underperformance for that quarter. They were market bifurcation between growth stocks and value stocks, and the drawdown control technique we applied. Both factors improved in Q4.

The growth and value stock bifurcation slightly reversed in the fourth quarter. In the first three quarters, the S&P 500 value index (SVX) was behind S&P 500 growth index by about 30%. However, in the fourth quarter, the S&P 500 value index caught up and advanced 3% more than the growth index. This was partially caused by the announcement of the Pfizer Covid vaccine news. The effective vaccine made the market to think about the future after the pandemic and not over-penalize the value stocks.

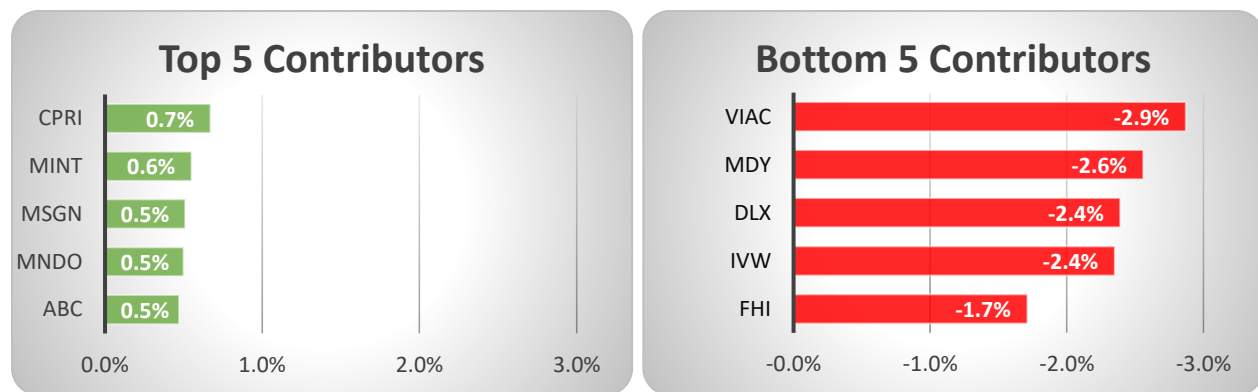
¹ We used the Interactive Broker's portfolio analytic data output. It included all actively managed accounts after all expenses and fees but excluded passive managed accounts. For detailed monthly return data, please see the other report (IB portfolio monthly PnL report). Performance data were not audited.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

The drawdown technique we applied in Q2 and Q3 limited our risk. But when the market went up, we lagged behind. In Q4, the situation improved and our risk limitation was also reduced. However, due to our portfolio's general low equity exposures, we did not advance as much as the market.

After the big run up of the market, we were concerned more about the high valuation of the market with the current economic situation. We also saw retailing investor are getting into the frenzy of the stock market. Big news like GameStop's forty fold increase in a couple of months attracted lots of attention. We usually do not participate in hot stocks. But one of our holdings, Senvest Capital, a Canadian hedge fund, bought about 5% of GameStop last year and sold them out at the top. Wall Street Journal reported Senvest made about \$700 million in this one trade. (Senvest has about \$2B asset under management).

The combination of high valuation of growth stock and the small frenzy of retail investors getting into the stock market makes the current situation look more and more like the pre 2000 tech-bubble area. Similarly to that time, we also still find many value stocks becoming attractive.

Our top and bottom five contributors for the year of 2020 are listed below. The top 5 contributors have a total PnL of 2.7%. The bottom 5 have a total PnL of -11.9%.



The top 5 profitable positions are:

1. Capri Holdings (**CPRI**) is the owner of Michael Kors, Jimmy Choo, and Versace. Traditional retailing was hit hard during the pandemics, and this stock was on our bottom 5 contributor list in Q2, however, the market perception changed in Q4 and it became our top contributor.
2. Pimco Enhanced Short Maturity Fund (**MINT**) is an active manage short term fixed income ETF. We put our idle cash in this fund.
3. MSG Networks Inc (**MSGN**) owns the sport broadcast rights of the New York Knicks and other sports teams in New York. We entered this position just before the market took off in Q4 and made some profit here.
4. MIND CTI Ltd (**MNDO**) is a small, Israel based telecom software provider. It was one of our long term positions. It has about a 10% dividend year over year. We talked about this company back in 2016.
5. AmerisourceBergen Corp. (**ABC**) is a large drug wholesale distributors. We closed out our position in the first quarter and locked in the profit.

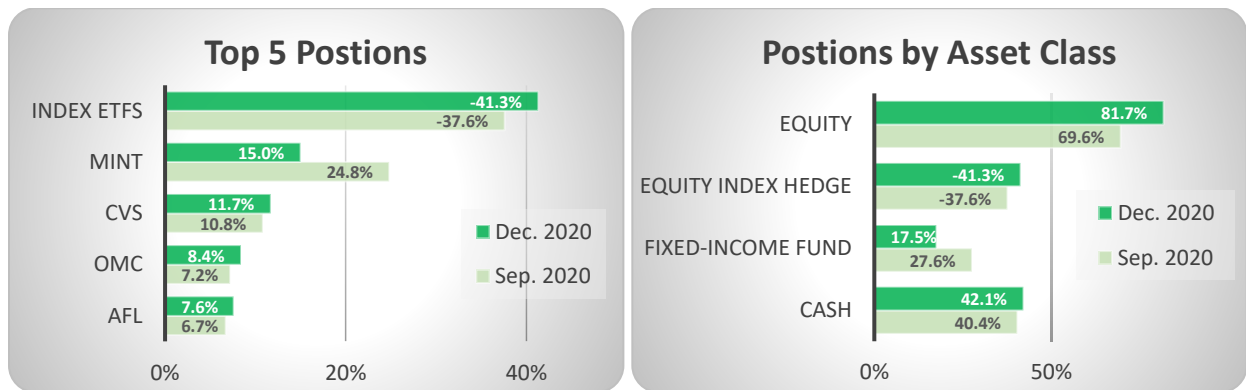
Our bottom 5 contributors are:

1. Viacom CBS inc (**VIAC**) is a media company that operates the CBS TV network and the Paramount Picture film studios. We trimmed positions on this stock in Q2 to control risk and the loss is realized.
2. The index hedging position (**MDY**) is the short position of S&P 400 Index EFT. (The middle sized 400 company index). MDY was up in Q4 and we incurred loss here.

- Deluxe Corp. (**DLX**) is famous for the check printing business. It mainly serves small business. The pandemic had a major negative impact on small business.
- Ishares S&P 500 Growth ETF (**IVW**) is another short position. The growth index is up and we incurred loss here.
- Federated Hermes Inc. (**FHI**) is a mutual fund management company. Its revenue, mostly in asset management fee, is correlated with the stock market. Due to our risk cutting in the second quarter, we realized some of the loss.

Major positions

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



MINT: Pimco Enhanced Short Maturity Fund , CVS: CVS Health; OMC: Omnicom Group; AFL: AFLAC

We trimmed some position in short term bond fund (MINT), and use the proceeds to purchase more equity positions. In the top 5 positions, we bought some OMC. Other changes in the Top 5 were mostly due to price changes.

In summary, the market bifurcation between growth and value seems to stop in Q4. The market in general is becoming expensive again. Due to the growth and value stock bifurcation for the year, we still find many value stocks attractive.

Hua Wei, Ph.D., CFA on Feb. 17, 2021 in Orange, Ohio

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