

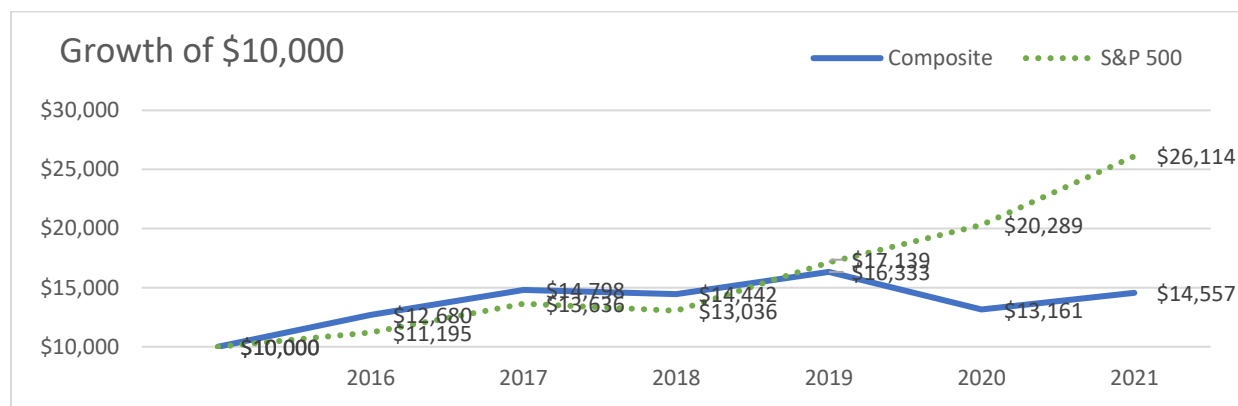
Spring Ocean Capital Newsletter 2021 Q4

Portfolio Performance

Our portfolio performance was:

	S&P 500 Total Return	Spring Ocean Composite ¹
2016	11.95%	26.8%
2017	21.8%	16.7%
2018	-4.4%	-2.4%
2019	31.49%	13.1%
2020	18.4%	-19.4%
2021 Q1	6.2%	9.1%
2021 Q2	8.6%	6.0%
2021 Q3	0.6%	-4.1%
<u>2021 Q4</u>	<u>11.0%</u>	<u>-0.2%</u>
2021 year	28.7%	10.6%

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

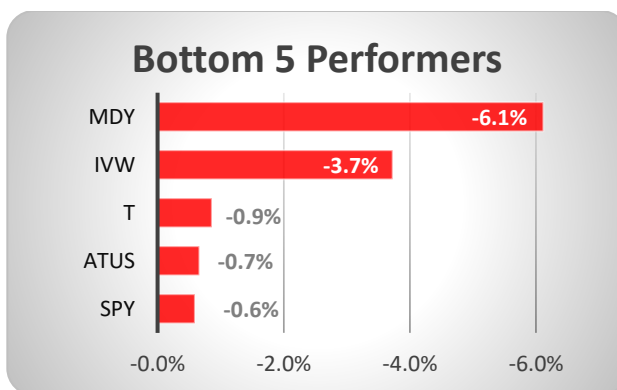
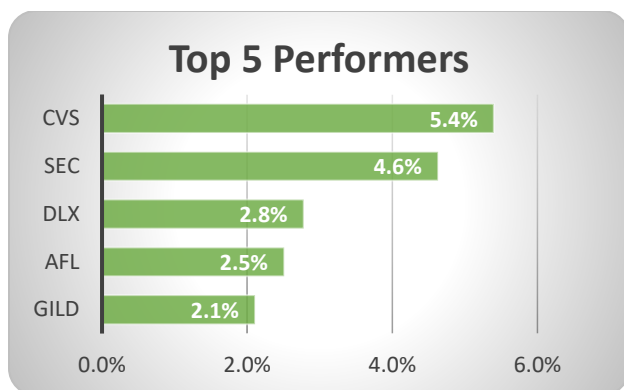


The S&P 500 index was up 11% in the fourth quarter and up 28.7% for the year. We were slightly down about 0.2% in the fourth quarter, and up 10.6% for the year.

In the fourth quarter, we continued to see that growth style stocks outperformed value style stocks. The growth style index outperformed value style index by about 7%. We were heavily tilted toward value stocks. This contributed to about half of our underperformance. The other half came from our hedging positions. As the market continued to advance, our short positions incurred loss. However, into January 2022, the market declined, and our short position made up some of the losses. We will report more details about it in the 2022 Q1 newsletter.

Our top and bottom five performers for 2021 are listed below. The top 5 performers had a total PnL of 17.4%. The bottom 5 had a total PnL of -12.6%.

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 top 5 performers are:

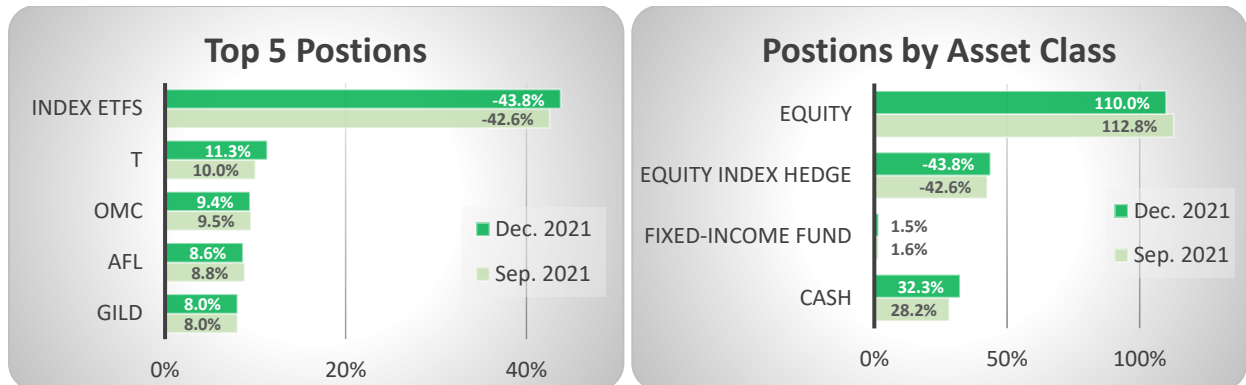
1. CVS Health Corp (**CVS**) is one of the largest health insurance companies and pharmacies in the U.S. It was our top contributor in 2019. Its price increased to our estimated value level in the fourth quarter, and we took the opportunity to trim some position and locked some profit.
2. Senvest Capital (**SEC**) is a Canadian asset management company. The company made a huge profit in the investment of GameStop in 2020 and early 2021. Its price slowly caught up after the first and second quarterly financial report was out.
3. Deluxe Corp. (**DLX**) is famous for the check printing business. Our profit here mostly comes from the first half year. We closed this position in Q3.
4. Aflac Inc. (**AFL**) is a large insurance company with the majority of its revenue from Japan. We started accumulating position in 2020 and incurred some loss then. However, it advanced well in 2021.
5. Gilead Science (**GILD**) is one of our major positions. It is famous for the first FDA approved COVID-19 treatment Remdesivir. However, the true profit center of this company is its HIV drugs. The market price seems undervalued the profit of the HIV drugs and other drugs that has large potential.

Our bottom 5 performers are:

1. 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 2021. We incurred loss here.
2. IShares S&P 500 Growth ETF (**IVW**) is another short position. The growth index was up and we have a modest short position, so the loss is smaller.
3. AT&T (**T**) is a recent addition in 2021. AT&T announced their spin-off plan of Time Warner in early 2021. We believe the current market value had a significant discount compared to the true value of AT&T's telecom business and Time Warner media asset. We expect AT&T's telecom business and Time Warner will be priced at a more reasonable level after the spin-off in mid-2022.
4. Altice USA. (**ATUS**) is a large cable operator in the US. We believed it was significantly undervalued and accumulated a relative large position this year. The price declined in 2021 and we incurred some loss here.
5. IShares S&P 500 ETF (**SPY**) is our smaller short position. The index was up in 2021, incurring a small loss here.

Major positions

Our top 5 positions and asset classes at the end of Q4 2021 were:



T: AT&T; OMC: Omnicom Group; AFL: AFLAC; GILD: Gilead

As CVS approaching our estimated fair value range, we trimmed some CVS position from its largest weight of 14% in Q3. We also slightly increased our position in AT&T (T). The weight changes in the other top positions were mostly due to price and cash movement. Total equity position decreased by about 3%.

In summary, we significantly underperformed the market in 2021. In particular, our underperformance in Q4 is under heavy influence of the movement of growth and value style stocks. We also had a large hedging position which causes a big drag on our performance in 2021. However, we have seen growth and value style stock rotation in our favor starting in 2022. We also see market correction in 2022. Both effects, which caused the underperformance in 2021, turned around and helped our portfolio in the first month of 2022. We expect this trend will hold for the rest of the year.

Hua Wei, Ph.D., CFA on Feb. 18, 2022 in Orange, Ohio

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