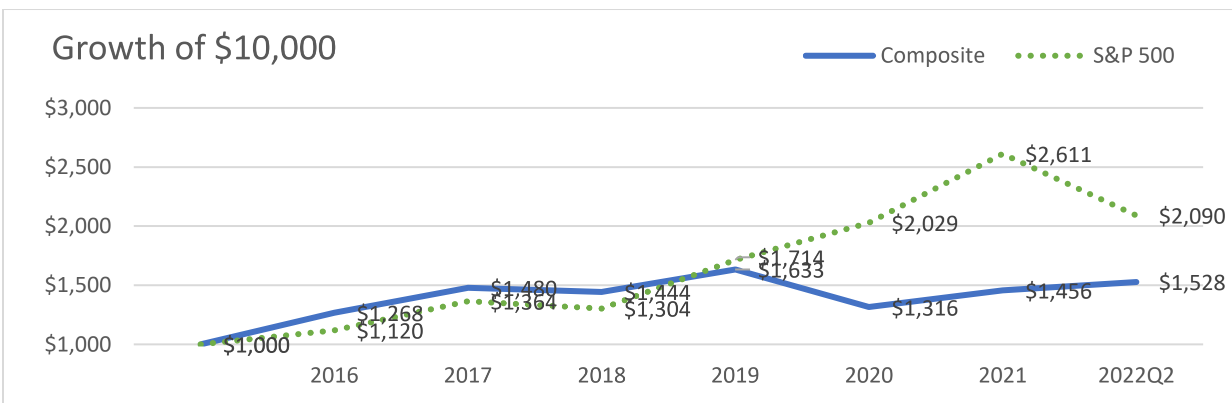
Spring Ocean Capital Newsletter 2022 Q2

Portfolio Performance

Our portfolio performance was:

	S&P 500 Total Return	Spring Ocean Composite[1]
2016	12.0%	26.8%
2017	21.8%	16.7%
2018	-4.4%	-2.4%
2019	31.5%	13.1%
2020	18.4%	-19.4%
2021	28.7%	10.6%
2022 Q1	-4.6%	7.6%
2022 Q2	-16.1%	-2.4%
2022 Q1-Q2:	-20.0%	5.0%

Assuming $1,000 was invested at the beginning of 2016, the cumulative performance would be:

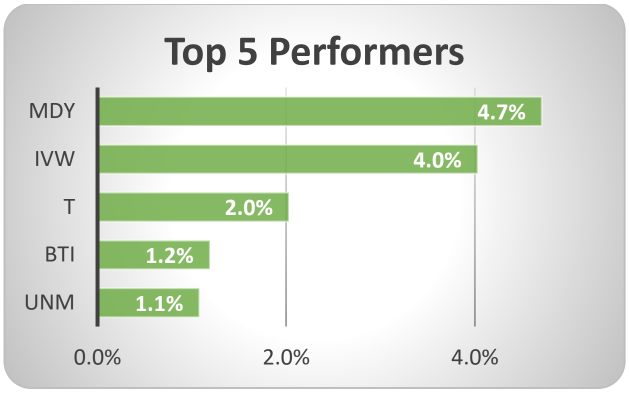


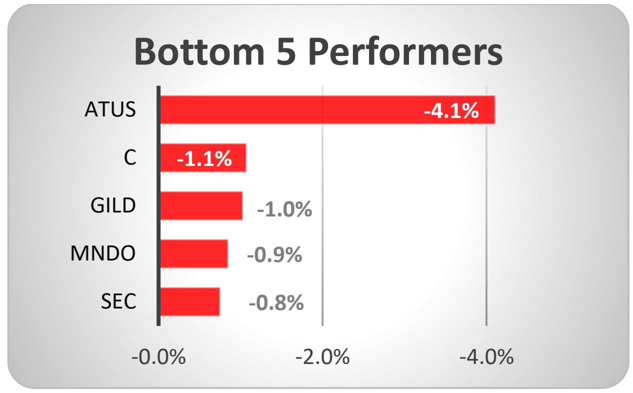
The S&P 500 total return index was down 16.1% in the second quarter, and down 20% for the first half of the year. We were down 2.4% in the second quarter and up 5% in the first half.

In the second quarter, we saw a continuation of the first quarter trend in the relative performance between growth style and value style stocks. The value style index outperformed the growth style index by about 10% in the second quarter. This trend greatly improved our result as we are heavily tilted toward value style stocks. Another part of our outperformance came from our short positions. As the market declined, our short positions boosted our result. These two key factors led to our good performance this quarter.

Our top and bottom five performers for 2022 first half year are listed below. The top 5 performers had a total PnL of 13%. The bottom 5 had a total PnL of -7.8%.

[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:

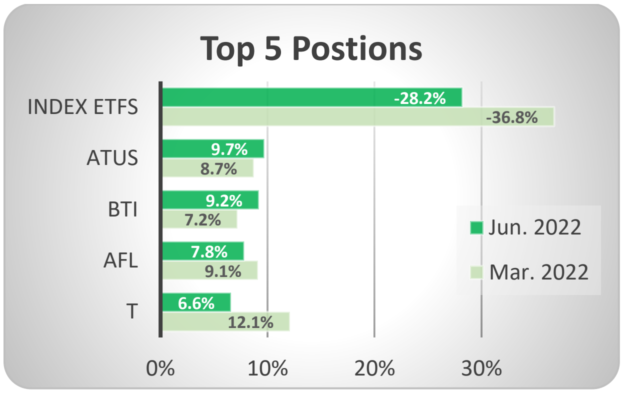
1. The index hedging position (**MDY**) is the short position of the S&P 400 Index EFT (the middle sized 400 company index). MDY was down in the first half of 2022. We made some profit here.
2. IShares S&P 500 Growth ETF (**IVW**) is another short position. The growth index was down in the first and second quarter and we made profit here.
3. AT&T (**T**) is an addition in 2021. We bought the stock for the Time Warner's spin-off plan. The fundamentals of Time Warner media business have deteriorated over the past year due to COVID and the streaming content investment. However, the spin-off did add some value to its stock. We sold our spin-off stock (Time Warner) and cut some weight when prices were relativly high.
4. British American Tobacco (**BTI**) owns brands such as Kent, Dunhill, and Camel. It has a very stable cash flow and a dividend yield of over 7%.
5. Unum Group (**UNM**) provides life and disability insurance products. We have a small position here and the stock performed reasonably well in the first half.

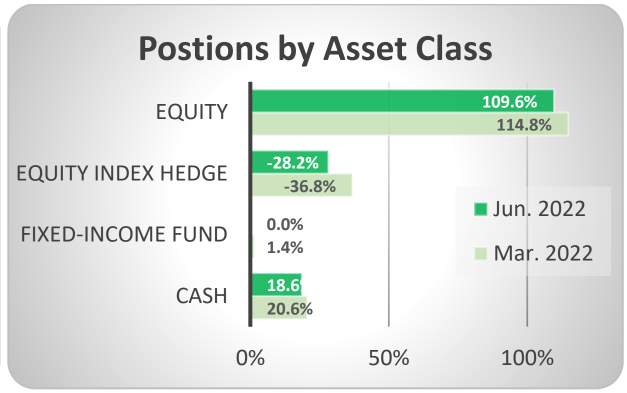
Our bottom 5 performers are the same as in the first quarter:

1. Altice USA. (**ATUS)** is the fourth largest cable TV and internet operator in the U.S. We believed it was heavily undervalued and accumulated a relatively large position in 2021. However, in the first half of the year, our loss in this position has become larger. Fundamentally, I do not see any deterioration in the business. It is a very stable business, and it is either a monopoly or a duopoly in its service area. The market is pricing it at an extremely low P/E of 5x. We will continue to hold this position.
2. Citi Group (**C**) is a recent position. It is one of the largest bank group in U.S. In a potential recession, the banking sector in generally does not perform well as the market. The exit from Russian and the general sentiment regarding a potential recession were the main reasons the loss in the first half. However, we believe that Citi's stock price has adequately discounted the current bad news. The bank is not highly leveraged, and market price is about 40% lower than the tangible book value.
3. Gilead Science (**GILD**) is one of our major positions. It is widely known for Remdesivir, the first FDA approved COVID-19 drug. However, the real profit center of this company is its HIV drugs. The market seems to underestimate the profitability of their HIV and other drugs with great potentials.
4. MIND CTI Ltd (**MNDO**) is a small, Israeli based telecom software provider. It is one of our long term positions (since 2016). It has about a 10% dividend year over year. The small loss here was most likely due to market price fluctuation.
5. 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 went up in 2021 and it was one of our top 5 performers last year. The loss here is mostly likely a pull back with the market.

Major positions

Our top 5 positions and asset classes at the end of Q2 2022 were:





ATUS: Altice USA; BTI: British American Tobacco; AFL: AFLAC; T: AT&T;

We had a large change in the hedging position of Index ETFs. It decreased from 37% to 28%, which is mostly due to price movements coupled with small amounts of trading. We slightly increased our position in ATUS and BTI. We also significantly reduced our position in T after the spinoff. In terms of asset class, total equity position was reduced by about 5%. The hedging position decreased from 37% to 28% because of price movement and our trading.

In summary, we outperformed the market by a large margin in 2022 Q2 as well as in the first half year. The main drivers are the rotation of value style and growth style stocks, as well as our hedging positions. Both factors reversed the trends that cause our underperformance during 2021.

Hua Wei, Ph.D., CFA   on Aug. 3, 2022 in Orange, Ohio

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