

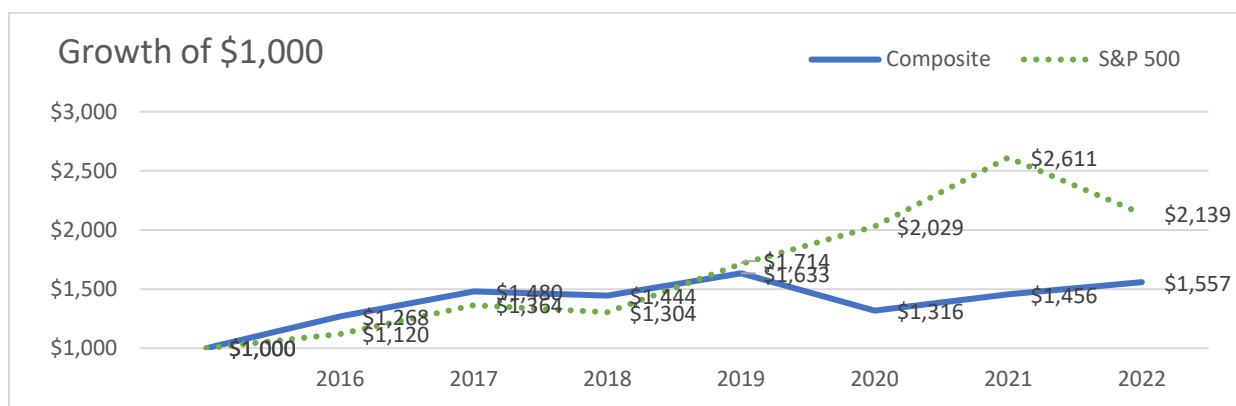
Spring Ocean Capital Newsletter 2022 Q4

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 Q3	-4.9%	-10.1%
<u>2022 Q4</u>	<u>7.6%</u>	<u>13.4%</u>
2022 Q1-Q4:	-18.1%	7.0%

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

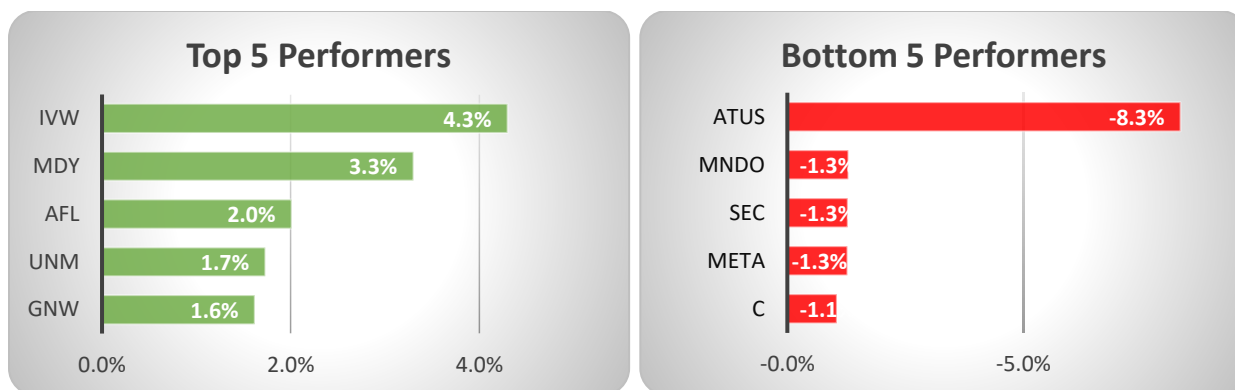


The S&P 500 total return index increased 7.6% in the fourth quarter, and decreased 18.1% for the whole year. We were up 13.4% in the fourth quarter and up 7% for the year.

The S&P 500 bounced back 13% in October and November but lost about 6% in December after a sharp drop in Q3. Our portfolio matched the performance of the stock market in October and November but lost much less in December. We outperformed the market in the fourth quarter by about 6%. The whole year, we outperformed the market by about 25% due to the lead in the first half of the year.

Our top and bottom five performers for 2022 are listed below. The top 5 performers had a total PnL of 13%. The bottom 5 had a total PnL of -13.2%.

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:

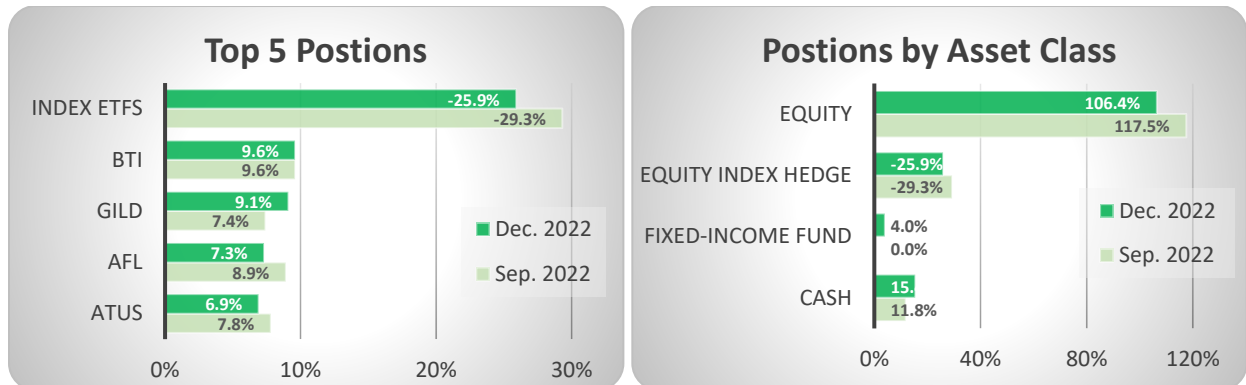
1. The IShares S&P 500 Growth ETF (**IVW**) is a short position. The growth index was down in 2022 and we made profit here.
2. S&P 400 Index (the middle sized 400 company index) ETF (**MDY**) is another short position. We have a slightly smaller profit than IVW because MDY was down less than IVW in 2022. We saw money moving out of growth style stocks in 2022. The value and small stocks declined less than the growth style stocks.
3. Aflac Inc. (**AFL**) is a large insurance company that derives most of its revenue from Japan. We began accumulating the position in 2020. It was among our top 5 performers in 2021 and continued to perform well in 2022.
4. Unum Group (**UNM**) offers life and disability insurance products. We had a small position here and the stock performed well in the first half of the year. We exited the position in the third quarter.
5. Genworth Mortgage Insurance (**GMA**) is an Australian mortgage insurance company. The share price was relatively stable in 2022 when the market had a lot of volatility.

Our bottom 5 performers:

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. This year, the company lost a small number of subscribers and the stock price fell. In addition to the company's operational underperformance, the Fed raised the interest rates rapidly in 2022. ATUS has a large debt in the balance sheet, and high interest rate will make it more difficult to service and renew its debt.
2. MIND CTI Ltd (**MNDO**) is a small telecom software provider based in Israel. It is one of our long term positions (since 2016). It has a dividend of around 10% per year. The small loss here was probably due to market price fluctuations.
3. Senvest Capital (**SEC**) is a Canadian asset management company. The company made a huge profit on its investment in GameStop in late 2020 and early 2021. Its stock price rose in 2021 and was one of our top 5 performers. The loss in 2022 was likely a pullback with the market.
4. Meta (or Facebook) (**META**) is our new position in the Tech sector this year. We entered the position slightly early and as the entire Tech sector underperformed in 2022, we had some loss here. But as we write today, it has fully recovered the loss.
5. Citi Group (**C**) is one of the largest banking groups in the U.S. In a potential recession, the banking sector generally does not perform well. The exit from Russia and the general sentiment of a potential recession were the main reasons for the loss in 2022. However, we believe that Citi's share price has adequately discounted the current bad news. The bank is not highly leveraged, and the market price is about 40% below its tangible book value.

Major positions

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



BTI: British American Tobacco; GILD: Gilead; AFL: AFLAC; ATUS: Altice USA;

For the top positions, we bought back some index ETF hedge positions in December, reduced some positions in AFL, and added some ATUS (the weight reduction was due to price change). The other top position changes were mainly due to price movements.

In terms of asset classes, in Q3, we took advantage of the sharp market decline and increased our total equity position by about 8%. In Q4, we again took advantage of the market rally and reduced our equity position by about 10%. The short position was also reduced by 3%. Overall, we ended the year less leveraged.

In summary, we made up for the Q3 loss in the last quarter. Looking back on the whole year, we had a good run with a positive return when the market was down 18%. As for the current economic environment, inflation did not worsen in December and the stock market reacted positively. However, we do not think we are out of the woods yet. All the potential problems such as inflation, tight monetary policy, inverted yield curve (which is usually a strong leading indicator of a recession) are still there. We will continue to closely monitor the market and the fundamentals of our portfolio companies' fundamentals and position our portfolios accordingly in this year.

Hua Wei, Ph.D., CFA on Feb. 10, 2023 in Orange, Ohio

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