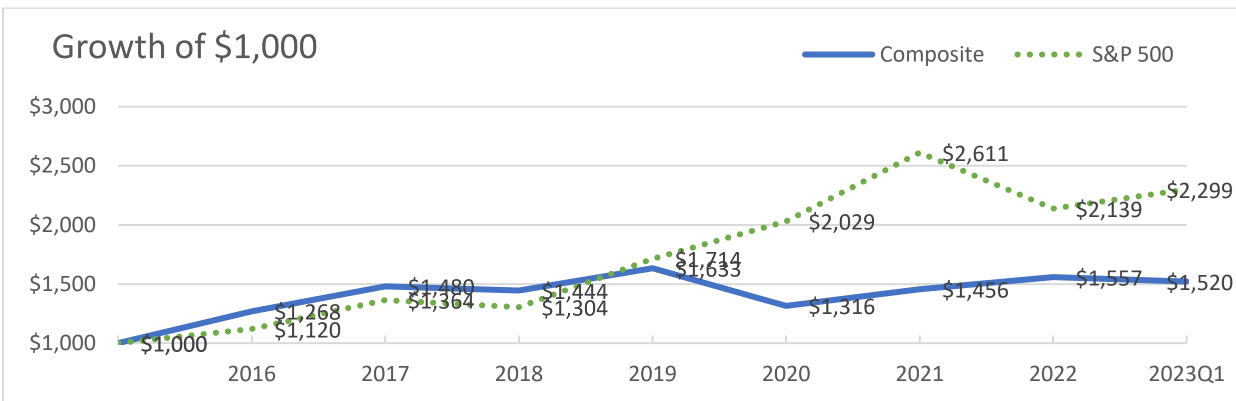
Spring Ocean Capital Newsletter 2023 Q1

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	-18.1%	7.0%
2023 Q1	7.5%	-2.4%

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



The S&P 500 total return index increased 7.5% in the first quarter of this year. We were down 2.4% in the first quarter.

In March, we witnessed a typical bank run of Silicon Valley Bank (SVB). The bank run caused failure spurred fears on regional banks while the large banks were holding well. This also affected the general market. Small cap stock generally performed worse in March while large cap held well. Some of the money that moved out from the large-cap tech stocks last year were moving back to that sector in Q1. For example, we saw our holding META (Facebook parent), which lost value last year, almost doubled the price in the first 3 months. Our bottom 5 performers lost 6% in Q1. Among them, ATUS and VNO are small-cap stocks. They are sensitive to the market sentiment. BTI and CVS are large-cap value stocks. Their loss might be caused by the reversed market trend from last year. Our short position also contributed a little to the loss.

Our top and bottom five performers for 2023 Q1 are listed below. The top 5 performers had a total PnL of 4%. The bottom 5 had a total PnL of -6.1%.

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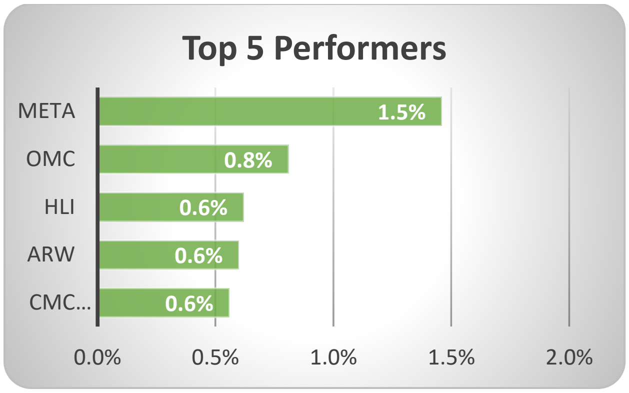
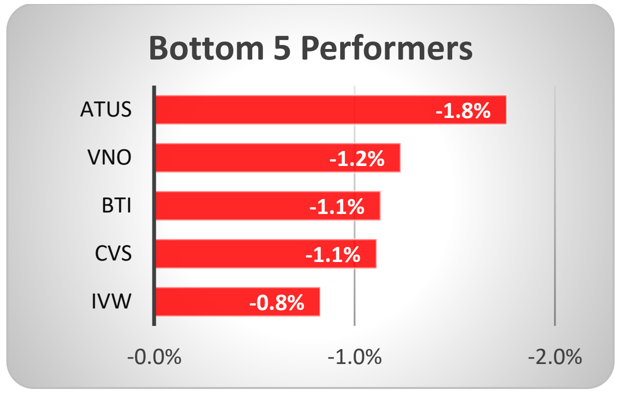
[1] We used the Interactive Broker's portfolio analytic data output. It included all actively managed accounts after all expenses and fees but excluded passive managed accounts. For detailed monthly return data, please see the other report (IB portfolio monthly PnL report). Performance data were not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





The top 5 performers are:

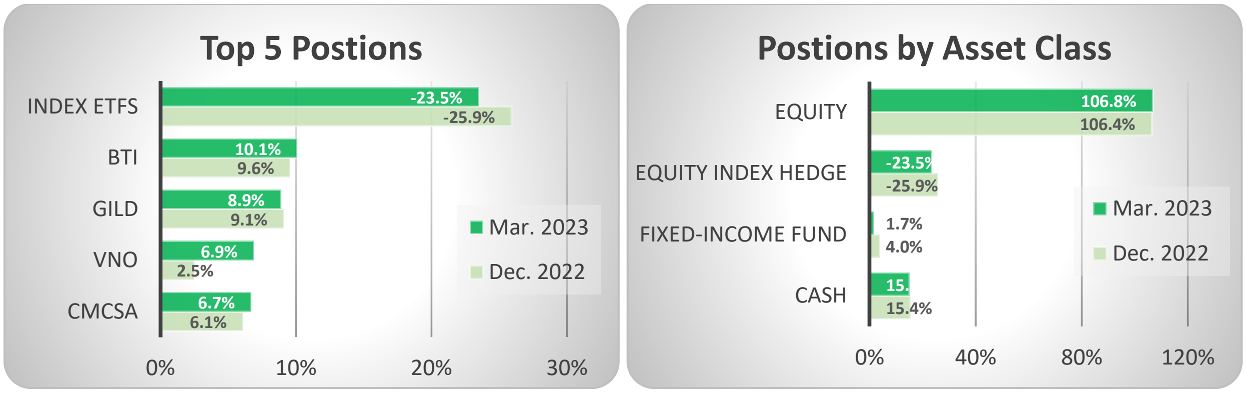
1. Meta (Parent of Facebook) (**META**) was our new position in the Tech sector last year and had some loss due to the market movement. However, its stock price almost doubled in the first quarter, and we recouped the previous loss.
2. Omnicom Group (**OMC**) is a major advertising agency. It had a good first quarter performance.
3. Helia Group (**HLI**), previously named Genworth Mortgage Insurance, is an Australian mortgage insurance company. We have held this stock since 2018. The stock price is below the tangible book value. They decreased their dividend during COVID and restored the dividend back in 2022. In the first quarter of 2023, the company declared a special 13% dividend and reinstated an annual 10% dividend. It performed well in the first quarter.
4. Arrow Electronics (**ARW**) is a new position we acquired in second half 2022. They provides products, services and solution of electronic components and enterprise computing solutions. The company benefited from the chip shortage and had great earnings in the last couple years.
5. Comcast (**CMCSA**) is one of the largest cable and Media Company. It owns Comcast cable network and NBCUniversal media, studios and theme parks, and Sky network in Europe. Cable and the media sector is under stress due to the cord-cutting and new competition from fixed wireless internet. Comcast earning held well and the stock performed well in Q1.

Our bottom 5 performers:

1. Altice USA. (**ATUS**) is the fourth largest cable TV and internet operator in the U.S. It has a large debt load in the balance sheet, and the recent quick Fed interest rate hike makes it more difficult to service and renew its debt. The stock is under stress.
2. Vornado Realty Trust (**VNO**) is a REIT (Real Estate Investment Trust) with a collection of premier assets focused on the New York City office and retail market. Both the office market and retail market were slow to recover after COVID. Higher interest rates coupled with the recent regional bank crisis made the commercial real estate finance market frozen. However, after a careful analysis of its debt structure and properties, we believe the company has almost no chance of bankruptcy and will survive this downturn. Once the market goes back to normal, the stock should be valued 3-5 times of current value.
3. British American Tobacco (**BTI**) owns brands like Dunhill, Kent, and Camel. It is now one of our largest position. We like its stable earnings and dividends, which is especially valuable during the current uncertain environment.
4. CVS health care (**CVS**) is one of the largest pharmacy service and health insurance companies. It has stable earnings. The first quarter loss is mostly due to the health insurance sector price movement.
5. The IShares S&P 500 Growth ETF (**IVW**) is a short position. The growth index was up in the first quarter and we had a loss here.

Major positions

Our top 5 positions and asset classes at the end of Q1 2023 were:



BTI: British American Tobacco; GILD: Gilead; VNO: Vornado REITs; CMCSA: Comcast;

We bought back some index ETF hedge positions in March when the market was low, and increased our positions in BTI, and VNO. We had Altice USA (ATUS) and Aflac (AFL) in our top 5 positions at the year-end of 2022. They were replaced by Vornado REITs (VNO) and Comcast (CMCSA).

In terms of asset classes, we further reduced our short hedging position in Q1 by about 2% and reduced some fixed-income funds. Other asset classes were about the same as yearend 2022.

In summary, we had a small loss in Q1 of about 2%. But the market performed extremely well and was up 7% considering that we just had a bank failure. For the current economic environment, inflation is slowly getting better, though is still at a relatively high level. Tight monetary policy and the inverted yield curve are still here. The inverted yield curve, where short-term yield is higher than long-term yield, is usually a strong leading indicator of a recession. One explanation is that banks usually pay short-term interest for deposits and loan out money at long-term rates. The invert yield curve makes banks unstable if they do not carefully match their asset and liability well. Recent SVB bank failure is an example. We will continue to closely monitor the market and our portfolio companies fundamentals.

Hua Wei, Ph.D., CFA on May. 18, 2023 in Orange, Ohio

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