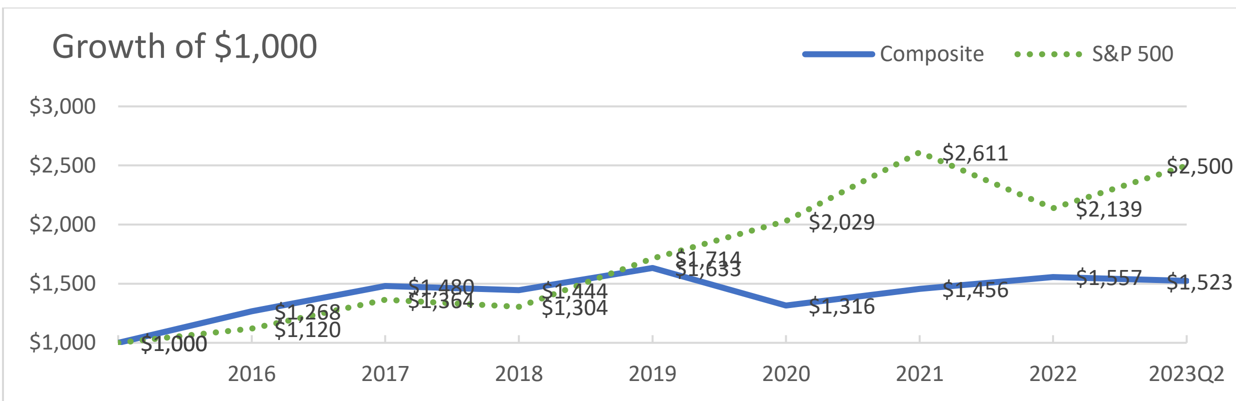
Spring Ocean Capital Newsletter 2023 Q2

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	-18.1%	7.0%
2023 Q1	7.5%	-2.4%
2023 Q2	8.7%	0.2%
2023 Q1-Q2:	16.9%	-2.2%

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

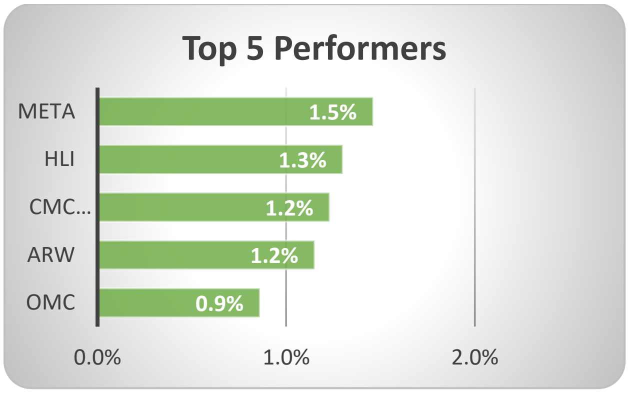


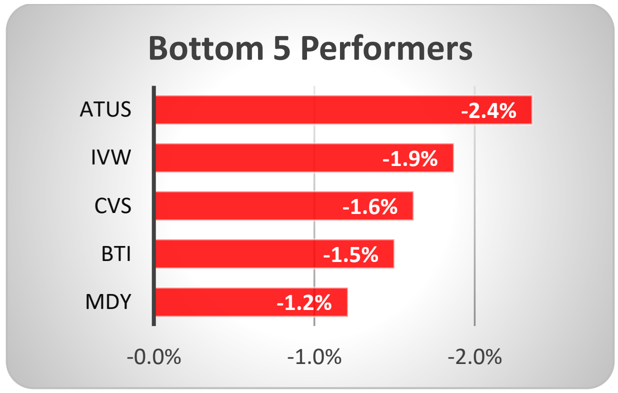
The S&P 500 total return index increased 8.7% in the second quarter after a strong first quarter. We were basically flat at 0.2% in the second quarter.

The stock market continued a trend in the second quarter. The technology sector reversed its downfall last year and almost recovered to the previous high. We hold value stocks and they did not perform well in this period. In our view, the hot AI topics (ChatGPT) spurred a little bubble in the tech sector. Take Meta (Facebook's parent company) for example, its' stock price peaked at 378 in September 2021. In October 2022, its price bottomed at 90, and just recently in July 2023, the price went up to 325 again. The price change is mostly come from the sentiment swings, with small changes on the earning side. The monthly PnL report from our broker performance attribution section shows that the Tech sector caused about 11% underperformance. Our short positions caused another 3%. Our two large holdings in BTI and CVS also did not perform well.

[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.

Our top and bottom five performers for 2023 first half are listed below. The top 5 performers had a total PnL of 6%. The bottom 5 had a total PnL of -8.6%.





The top 5 performers are:

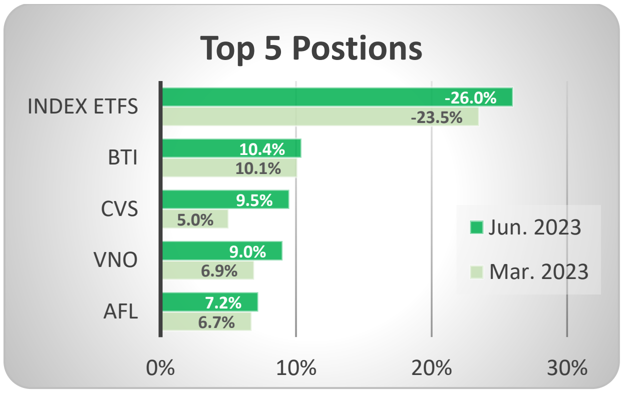
1. Meta (Parent of Facebook) (**META**) was our new position in the Tech sector last year and had some loss due to the market movement in 2022. However, its stock price almost doubled in the first quarter, and we recouped the previous loss and closed the position.
2. Helia Group (**HLI**), previously 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 half.
3. Comcast (**CMCSA**) is one of the largest cable and Media Company. It owns Comcast cable network, 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 the first half.
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. Omnicom Group (**OMC**) is a major advertising agency. It had a good first quarter performance.

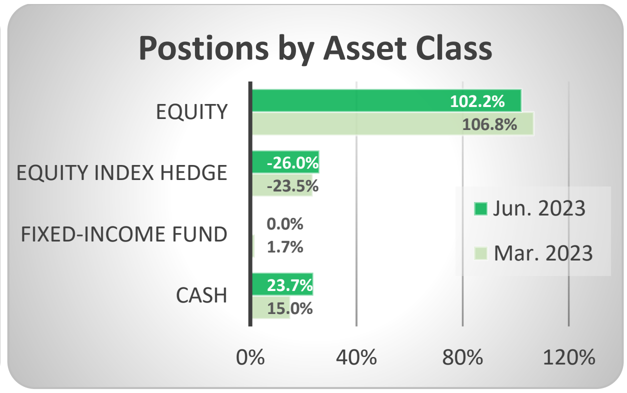
Our bottom 5 performers:

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 Fed interest rate hike makes it more difficult to service and renew its debt. The stock is under stress.
2. The IShares S&P 500 Growth ETF (**IVW**) is a short position. The growth index was up in the first half and we had a loss here.
3. CVS health care (**CVS**) is one of the largest pharmacy service and health insurance companies. It has stable earnings. The first half price decrease is mostly due to the health insurance sector price movement.
4. 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.
5. The S&P MidCap 400 ETF (**MDY**) is a short position. The mid-cap index was up in the first half and we had a loss here.

Major positions

Our top 5 positions and asset classes at the end of Q2 2023 were:





BTI: British American Tobacco; CVS: CVS Health; VNO: Vornado REITs; AFL: Aflac;

We slightly increased our ETF hedge positions in June and increased our positions in BTI, CVS, and VNO.

In terms of asset classes, we decreased our equity position by about 4% and increased the hedging position by about 2.5%. Cash position significant increase to 24%.

In summary, we are almost flat in Q2. The stock market was up 8.7% mostly due to technology sector. For the current economic environment, inflation is getting better, CPI number is at 3% approaching the Fed target of 2%. 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 but sometimes with long (1-2 years) lead time. We will continue to closely monitor the market and our portfolio companies fundamentals.

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

Portfolio Manager, Founder,
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