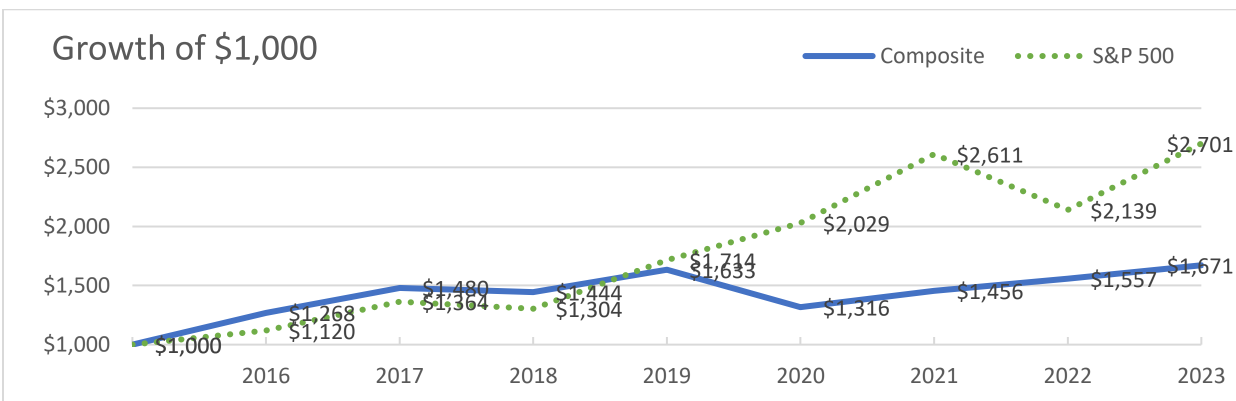
Spring Ocean Capital Newsletter 2023 Q4

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	-18.1%	7.0%
2023 Q1	7.5%	-2.4%
2023 Q2	8.7%	0.2%
2023 Q3	-3.3%	3.3%
2023 Q4	11.7%	6.3%
2023:	26.3%	7.3%

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



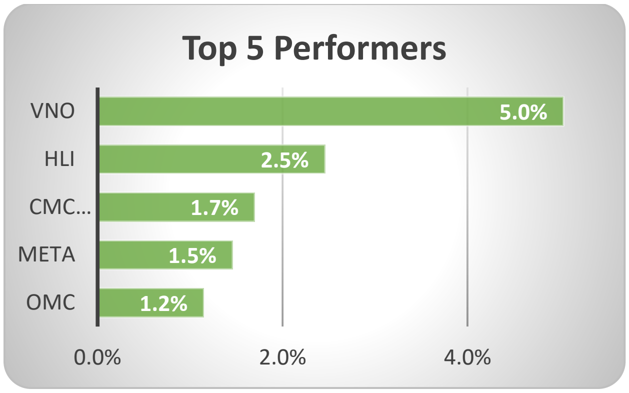
The S&P 500 total return index was up 11.7% in the fourth quarter, while our portfolio increased by 6.3% during the same period.

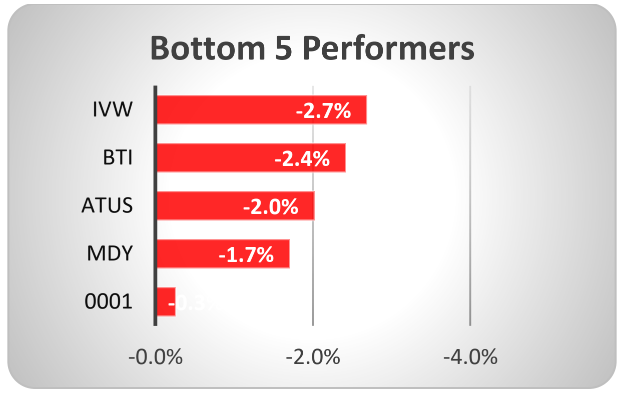
The stock market rebounded from third-quarter loss and advanced 11.7% in the fourth quarter. Our performance for this quarter lagged behind the market. This was mostly due to the tech sector's advance, which we do not have any exposure due to their high valuations, as well as partially attributable to our hedging positions, which incurred losses during the market's upward movement.

Below are our top and bottom five performers for the year. The top 5 performers had a total profit and loss (PnL) of 11.8%. The bottom 5 had a total PnL of -9.1%.

---

[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 remain the same as in Q3:

1. Vornado Realty Trust (**VNO**) is a Real Estate Investment Trust (REIT) with a collection of premier assets focused on the New York City office and retail market. We began buying this stock early this year when high interest rates, coupled with the work-from-home trend, made the commercial real estate market challenging. We estimated that once the market returned to normal, the stock should be valued at 2-3 times its low value. Things turns around quicker than we expected. By the end of 2023, although the underlying economic situation had not improved, the hint that the Fed would lower interest rates pushed the price to 2.5 times its low point.
2. Helia Group (**HLI**), previously known as Genworth Mortgage Insurance, is an Australian mortgage insurance company. We have held this stock since 2018. The stock offers high dividend and has performed well in 2023.
3. Comcast (**CMCSA**) is one of the largest cable and Media Companies. It owns the Comcast cable network, NBCUniversal media, studios and theme parks, as well as the Sky network in Europe. Cable and the media sector is under stress due to cord-cutting and new competition from fixed wireless internet and fiber builders. Despite these challenges, Comcast's earnings held up well, and the stock performed adequately throughout the year.
4. Meta (Parent of Facebook) (**META**) was our new addition to our tech sector holdings in 2022 and experienced significant volatility form 2022 to 2023. We closed the position in the first half of the year.
5. Omnicom Group (**OMC**) is a major advertising agency. Most of our profits of this stock came from the first half of the year. We sold most of the position when the price was relative high in the first half of the year and locked in the profit.

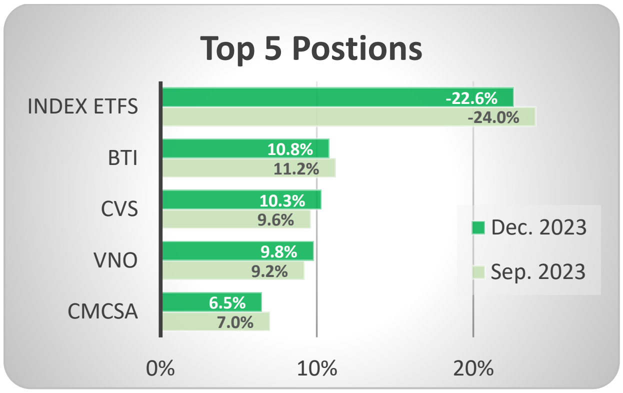
Our bottom 5 performers are as follows:

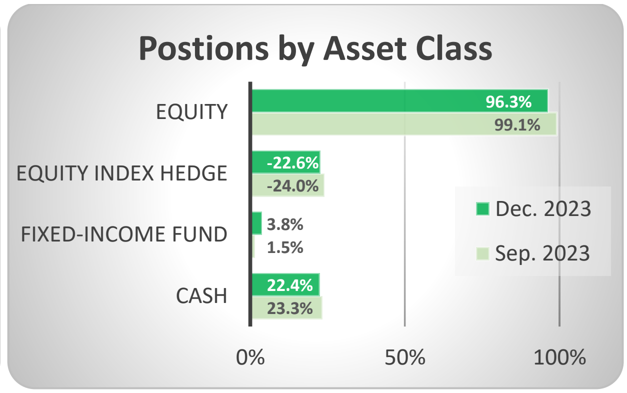
1. The IShares S&P 500 Growth ETF (**IVW**) is a short position. The growth index increased in 2023, resulting in a loss for us.
2. British American Tobacco (**BTI**) owns brands like Dunhill, Kent, and Camel. It is now one of our largest positions. We like its stable earnings and dividends, which are particularly valuable in the current uncertain environment.
3. Altice USA (**ATUS**) is the fourth-largest cable TV and internet operator in the U.S. With a substantial debt load on its balance sheet, the rapid interest rate hikes in 2023 made it challenging to service and renew its debt, putting the stock under stress.
4. The S&P MidCap 400 ETF (**MDY**) is a short position. The mid-cap index increased, resulting in a loss for us.

5. CK Hutchison Holdings Ltd (**0001**) is a major conglomerate listed in Hong Kong. The company is profitable and valuation is depressed. The underperformance is mainly because of the depression of the Hong Kong stock market.

Major positions

Our top 5 positions and asset classes at the end of Q4 2023 were as follows:





BTI: British American Tobacco; CVS: CVS Health; VNO: Vornado REITs; CMCSA: Comcast Corp;

We slightly increased our positions in BTI and sold some positions in VNO (the weight increases is due to price movement). Additionally, we reduced our hedge positions in Index ETF. In terms of asset classes, we reduced our equity position by 2.8% and decreased the hedging position by about 1.4%.

In summary, we lagged behind the general market in 2023. This was mainly due to underperformance in the first half of the year. In the second half, we outperformed the market by a small margin. Regarding market conditions, a tight monetary policy and the inverted yield curve persist. Due to better inflation number, the Fed indicated lower interest rate in 2024. The inverted yield curve, where short-term yields surpass long-term yields, typically serves a robust leading indicator of a recession, but sometimes with long (1-2 years) lead time. We will continue to closely monitor both the market and the fundamentals of our portfolio companies.

Hua Wei, Ph.D., CFA on Feb. 18, 2024 in Orange, Ohio

Portfolio Manager, Founder,
Spring Ocean Capital LLC http://www.SpringOceanCapital.com