January 2018 Monthly Report plus 2017 Year in Review

Returns 31-Dec-12 to 31-Jan-18

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	132.42%	63.22%	69.19%	42.06%	90.36%
Inception per annum	18.03%	10.11%	7.92%	7.14%	10.89%
2018 (ytd)	1.79%	-0.33%	2.12%	-0.54%	2.33%
2017	15.55%	12.47%	3.08%	20.02%	-4.46%
2016	9.31%	11.65%	-2.33%	13.18%	-3.87%
2015	36.80%	3.78%	33.02%	10.16%	26.65%
2014	10.81%	5.02%	5.79%	-3.81%	14.62%
2013	19.24%	19.66%	-0.41%	-0.76%	20.00%
1m	1.79%	-0.33%	2.12%	-0.54%	2.33%
3m	8.64%	3.63%	5.01%	6.65%	1.99%
6m	15.51%	8.75%	6.76%	17.65%	-2.14%
1y	18.18%	12.96%	5.21%	22.35%	-4.17%
2y pa	16.66%	14.94%	1.72%	19.23%	-2.56%
3y pa	19.52%	8.02%	11.50%	13.81%	5.71%
5y pa	17.81%	9.20%	8.60%	6.39%	11.42%
Sharpe Ratio	1.58	0.74	2.14x	0.43	3.68x
Sortino Ratio	2.96	1.18	2.50x	0.67	4.40x
Annualised standard deviation	9.55%	11.12%		13.28%	
Highest monthly return	8.30%	7.00%		9.81%	
Largest monthly loss	-5.80%	-7.30%		-7.77%	
Largest drawdown	-10.28%	-12.23%		-17.69%	
% positive months	73.77%	63.93%		59.02%	

Apologies for the later report this month which combines the monthly with our 2017 review. Given I am writing this on days 4 and 5 of my quarterly fasting routine with the Superbowl in the background and the market apparently falling in a heap, apologies also for any incoherent babbling. On to the report, we'll do a quick rundown on January's results and then spend a bit more time on (hopefully) a more interesting 2017 review below, following the monthly report.

Another positive month in January versus a small pullback for both the All Ords and Small Ords indices, all lagging a big > +5.6% S&P 500 return. Notable individual contributors/detractors during the month included:

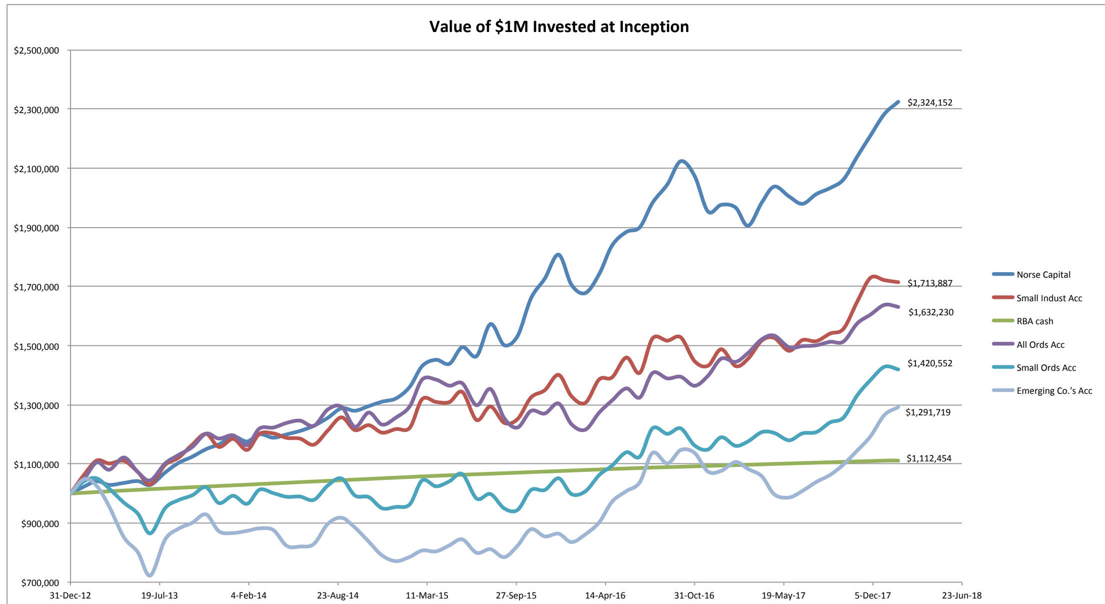
PME was the largest drag on the portfolio, down 7.6% in January and giving back its late December gains.
TLG was the biggest contributor, up 28.6% after the quarterly report which highlighted recent achievements. An interesting speculative long-term holding (since 2014) as we rarely invest in mining stocks.

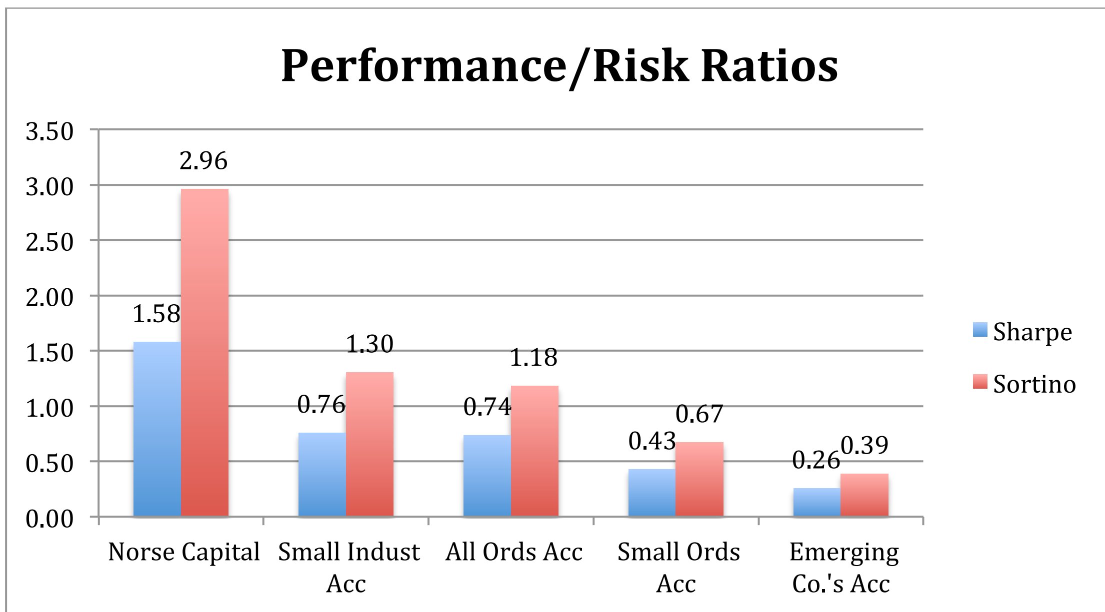
LVT rose another 29.4% on top of the previous month's +57.4% after release of updated ARR of $6.9m. An example of how even a smaller position can compound to become a reasonable contributor when you let it, albeit we trimmed the position slightly after release of the quarterly (although nowhere near the recent top).

Portfolio Holdings:

Cash:	21.3% (AUD and USD)
Non-AUD exposure:	20.7%
Longs:	79.1%
Shorts:	-1.3%
Hedge delta:	-5.4%
Net exposure:	72.4%
Top 5 equities (alphabetical):	ADA, APX, PME, RMD, TLG.

We have been increasing the cash weighting and continuing to add put protection at a slow, methodical pace (in hindsight too slowly given recent ructions in equity markets). Given the large upside move in US equity markets (where we do most of our option hedging), we remain cognisant that the portfolio hedge delta has been decreasing as our put protection moves further out of the money.


Value of $1M Invested at Inception
$2,500,000
$2,300,000
$2,100,000
$1,900,000
$1,700,000
$1,500,000
$1,300,000
$1,100,000
$900,000
$700,000
31-Dec-12
19-Jul-13
4-Feb-14
23-Aug-14
11-Mar-15
27-Sep-15
14-Apr-16
31-Oct-16
19-May-17
5-Dec-17
23-Jun-18
$2,324,152
$1,713,887
$1,632,230
$1,420,552
$1,291,719
$1,112,454
Norse Capital
Small Indust Acc
RBA cash
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc


Performance/Risk Ratios
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
1.58
2.96
0.76
1.30
0.74
1.18
0.43
0.67
0.26
0.39
Norse Capital
Small Indust Acc
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino

2017 Year in Review

The change of calendar year gives us an opportunity to look back at the performance of the portfolio in 2017 and to hopefully learn some lessons from both our mistakes and from what went well during the year.

From a high level view, we started out 2017 with a 26.8% cash weighting which by the end of the year had declined to 20.94%, averaging 24.4% over the year, not far from our historical, and what we consider to be neutral, 25% weighting. The cash weighting declined as a natural consequence of positive portfolio performance and our tendency to try to allow our holdings to compound over the long term, as well as an 8.1% increase in the AUD-USD exchange rate (which decreased the value of our USD cash holding vs outperformance of our USD equity holdings over and above the AUD exchange rate increase). In what was a bull market year, the cash weighting was obviously a drag on performance but without the benefit of a crystal ball we will continue to hold a meaningful cash weighting. In fact, with the benefit of this review, it could be argued we should be increasing our cash position in light of where valuations currently sit.

Looking at an individual asset level, the following holdings had a greater than +/-1% effect on the year's performance. We will start with the detractors. (If asked whether we prefer the good news or the bad news first, we'll normally choose to start with the bad).

Detractors (> 1.0% loss to performance):

ADJ: -2.5%
What can we say about a position that dropped over 57% from the start of the year to where we finally sold our last parcel (and over 69% from where we first entered and which subsequently has fallen a further >37% since our exit)? Where did we go wrong? The answer is overconfidence, with too high an initial position size for the quality of the business, coupled with the cardinal sin of adding to the position on the first substantial share price fall. (That goes diametrically against our historically successful approach of adding to investments as a business proves successful, despite higher share prices). Looking back at our checklist, we overrated the GroupM contract as 3rd party validation of the product before receiving confirmation of the monetisation pathway from cash receipts. In addition we should have paid more attention to management quality; we met management several times and succumbed

to drinking the koolaid when the departure of the CFO and an insider share sale were not positive signs to say the least.

AUD-USD: -1.8%
The AUD rallied ~8.1% over 2017, resulting in a -1.8% drag on performance for the year. As a long-term position held throughout the life of the portfolio, we are comfortable with our USD currency exposure with our plan being to readjust only at wide extremes of the AUD. In addition, the position provides a quasi-hedge to the portfolio with the AUD generally correlated to positive risk sentiment.

Hedging: -1.3%
Historically, our hedging (options plus short positions) has cost us ~2% per annum on average so to come in under that in a bull market year could maybe be perceived as a positive result. Part of the reason was the continued fall in volatility over the year which made options relatively cheaper. As well, we made a concerted effort earlier in 2017 to sell options to partially offset the hedging costs, doing more spread hedges. Given the steady uptrend through the year, all of the hedges expiring in 2017 went unused and much of the existing hedging at year-end has been left further out of the market with the continued rise in US equities. (As a reminder of our hedging approach, we tend not to hedge the first 5% downside in equity markets at hedge inception).

Contributors (> 1.0% contribution to performance):

APX: +8.7%
Historically, a small number of investments have typically contributed most of the return and 2017 was no exception. The Appen share price almost tripled during 2017 to make it the largest position in the portfolio. A position that we have added to over time and allowed to compound (almost 5 bags from our initial purchase), sitting tight despite 2 falls of over 20% during the year. In fact our biggest mistake with APX in 2017 was not adding to our position but sitting on the bid after upgraded guidance instead of paying 2-3c more when the share price was in the low $3 range. A very expensive mistake indeed given the year-end closing price of over $8. We finally did trim a small part of our exposure when the position approached 15% of the portfolio.

PME: +3.5%
Another investment that contributed a significant proportion of the 2017 gains with an almost 82% rise in share price contributing almost 3.5% to total portfolio performance. Again this is a holding which we have allowed to compound up (to almost 8 bags), having never made a sale since our initial purchase in late 2014. In some ways that has been small recompense to our regret for not paying up to increase our stake in Pro Medicus earlier in our holding history when the holding was a smaller percentage and the business continued to prove itself.

TLG +1.67%
A rarity in the portfolio, a small miner on the speculative end that started out as a smaller position and rose 148% over the year. Another position that we have never sold and added to, albeit at much lower prices than currently. We remain cognisant of the volatility/mark-to-market risk in this end of the market but are happy to take a longer-term view with our current position size.

LVT +1.59%
We have mentioned our position in LiveTiles in the last 2 monthly reports with the share price roughly doubling from our entry price over the second half of 2017. A smaller position that had a positive > 1% contribution to the overall portfolio return, perhaps illustrative of the run in small cap technology names over that period. We have trimmed 20% of the position after year-end on the possibility they will require further capital to sustain their growth expenditures. Time will tell if we end up regretting that decision given the lessons from other winners.

AAPL +1.0%
Just skimming over the 1% contribution threshold, our former largest holding AAPL rallied over 46% to rejoin our top 5 holdings at year-end, despite having sold half our position at much lower prices in previous years. A bittersweet positive performer given the reduced position size on an investment that at one point was almost a 20-bagger from our initial purchase.

So what lessons can we take from 2017? On the positive side of the ledger, taking a longer-term view, sitting tight and letting good companies compound. Our most costly mistakes have been either selling too early or not adding to winning positions as the underlying business succeeds. On the negative side, keeping a tight leash on and position-sizing appropriately for businesses that have yet to prove themselves.

Then again, 2017 was another year in the long bull market since the GFC and given the sharp equity market selloff that has occurred in the last few trading days we will see how difficult those and other lessons are to incorporate going forward. Now where did I put that crystal ball?