



## February 2018 Monthly Report

Returns 31-Dec-12 to 28-Feb-18

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	137.48%	63.51%	73.97%	42.10%	95.38%
Inception per annum	18.23%	9.99%	8.24%	7.04%	11.19%
2018 (ytd)	4.01%	-0.15%	4.16%	-0.51%	4.52%
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	2.18%	0.18%	2.00%	0.03%	2.15%
3m	7.42%	1.87%	5.54%	2.67%	4.75%
6m	16.84%	8.09%	8.75%	14.58%	2.26%
1y	24.66%	10.85%	13.81%	20.81%	3.85%
2y pa	18.98%	15.97%	3.01%	18.78%	0.20%
3y pa	18.38%	5.68%	12.70%	10.80%	7.58%
5y pa	17.91%	8.14%	9.76%	6.21%	11.69%
Sharpe Ratio	1.60	0.73	2.19x	0.42	3.79x
Sortino Ratio	3.01	1.17	2.57x	0.66	4.53x
Annualised standard deviation	9.48%	11.03%		13.17%	
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	74.19%	64.52%		59.68%	

Volatility finally reared its head in February after a long dormancy, giving us a very interesting month in the markets. (Reminding us of the apocryphal rejoinder to be careful what you wish for if you want to live in interesting times). The S&P 500 entered official correction territory with a greater than 10% drop to the lows before recovering around half of that by month end while the ASX 200 fell almost 6% before partially recovering.

The volatility also showed up in the portfolio with the intraday low just over a 4% drop from the previous month-end high water mark. Our hedge options finally came into play with two positions actually just in the money at the lows and the hedge delta at the lows of ~-14% dropping the portfolio to a ~50% net long exposure. (Although if the market had

dropped a further 3.5% the net long would have increased a few percentage points as some of the hedges are put spreads). We did not trade or take profit on the hedges, instead we have left them in place, replacing those that expired in February. In hindsight we would have been better to have done so with some of the positions but we are content to let the hedges perform instead of trying to trade in and out.

Pleasingly the fund registered another positive month at +2.18% despite the volatility with reporting season in Australia the biggest focus. Notable individual contributors/detractors during the month included:

APX our biggest position was also the biggest contributor in February, rising over 18% after a stonking full year report, beating expectations and upgrading guidance for another 78-96% rise in EBITDA in 2018 after 2017's greater than 50% increase. We bought back a third of what we had previously trimmed following the release.

TLG was another good contributor, up almost 15% although with little in the way of new news. An interesting opportunity arose in the listed warrants TLGOA during the month where the warrants traded for less than intrinsic value (i.e. negative time value). We took advantage of the situation, swapping almost the entirety of our position in the underlying for the warrants. We got almost 60% of our capital back, have the same upside exposure with downside protection until the end of 2018 below 45c (vs a stock price now at 78.5c), and got paid over 3% for the privilege! (On a side note, TLG is no longer in our top 5 weighted holdings as a result).

RUL a provider of mining services software was a detractor, down just over 13% for the month after their half year report showed a 10% drop in revenue and a loss at the earnings line with a global customer not renewing software licenses. We continue to hold, our thesis being that the transition from a license model to a subscription model will likely lead to short-term revenue reductions but increase value over the customer lifetime.

LVT was another detractor, down over 13% as they raised capital as we thought they might, which was why we had previously trimmed the position. (We currently hold 70% of our previous holding).

## **Portfolio Holdings:**

Cash: 24.8% (AUD and USD)  
Non-AUD exposure: 21.4%  
Longs: 75.2%  
Shorts: -1.3%  
Hedge delta: -6.0%  
Net exposure: 68.0%  
Top 5 equities (alphabetical): AAPL, ADA, APX, PME, RMD.

