



August 2018 Monthly Report

Returns 31-Dec-12 to 31-Aug-18

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	159.36%	75.42%	83.94%	51.69%	107.67%
Inception per annum	18.31%	10.42%	7.89%	7.63%	10.68%
CY2018 (ytd)	13.59%	7.12%	6.47%	6.20%	7.39%
CY2017	15.55%	12.47%	3.08%	20.02%	-4.46%
CY2016	9.31%	11.65%	-2.33%	13.18%	-3.87%
CY2015	36.80%	3.78%	33.02%	10.16%	26.65%
CY2014	10.81%	5.02%	5.79%	-3.81%	14.62%
CY2013	19.24%	19.66%	-0.41%	-0.76%	20.00%
1m	10.32%	1.71%	8.61%	2.49%	7.83%
3m	11.99%	5.99%	6.01%	2.53%	9.46%
6m	9.21%	7.28%	1.93%	6.75%	2.46%
1y	27.60%	15.96%	11.64%	22.32%	5.29%
2y pa	12.62%	12.38%	0.23%	12.35%	0.26%
3y pa	19.97%	11.81%	8.16%	16.88%	3.09%
5y pa	18.62%	9.18%	9.44%	9.18%	9.45%
Sharpe Ratio	1.49	0.79	1.89x	0.48	3.10x
Sortino Ratio	2.92	1.26	2.32x	0.76	3.85x
Annualised standard deviation	10.36%	10.80%		12.77%	
Highest monthly return	10.32%	7.00%		9.81%	
Largest monthly loss	-5.80%	-7.30%		-7.77%	
Largest drawdown	-10.28%	-12.23%		-17.69%	
% positive months	73.53%	66.18%		60.29%	

A rather incredible August, setting a new monthly return high for the portfolio of +10.32% despite starting the month with a cash weighting over 30%. A combination of some standout results over earnings season, no real shockers to drag on performance and a generous dollop of good fortune all combined to give us a first ever double-digit monthly return.

Almost all our top 5 positions returned double-digits with APX up over +41%, PME over +21%, AAPL +19.6% (+23.6% in AUD), AMZN +13.2% (+17% in AUD) and only RMD just shy at +9.9%. All our top 5 positions are multi-year holdings that we have held through volatile down periods, endorsing our propensity to try and hold our winners for the long-term.

As well, the AUD fell ~3.2% to boost our USD positions and USD cash holding. Plus, several smaller positions helped August's performance too with the likes of NAN up over +11% and a new position ZNT demonstrating the degree of good luck this month up over +29% on takeover news (although we had intended to remain longer-term holders).

Our performance in August however was not unique with some stunning returns in the ASX-listed technology sector with the likes of ALU, APT, WTC etc. up in the neighbourhood of ~+28-40%. We do remain cognisant though that today's returns can come at the expense of future returns and perhaps mean-reversion theory might suggest some future give back of this month's performance. While August's results are pleasing, we remain focused on the long-term.

Looking at individual company results, our largest holding APX contributed just under half the monthly performance on the back of stellar results with revenue, EBITDA and NPAT all at least doubling (with revenue up almost 50% organically excluding the Leapforce acquisition) and with full year EBITDA guidance upgraded from \$50-\$55m up to \$54-\$59m at 80c AUD. Appen also highlighted the strong AI tailwinds fuelling the need for more data, more frequently. Not only the sheer amount of data needed (on the order of "...at least 10 million labelled examples" to match human level performance), but significantly, the refresh frequency of that data. ("In one-third of the cases, the model needs to be refreshed at least monthly, and almost one in four cases requires a daily refresh"). Importantly, this implies more frequent and possibly stickier repeat customer relationships going forward. Appen also mentioned its first foray into China which although small could potentially become interesting over time.

Good results too from PME, our second-largest holding with NPAT up almost 37% (~27% underlying on a constant-currency basis) on revenue growth of ~14% and increasing EBIT margins to 48.5% with the high-margin US business growing well. Importantly, management indicated their pipeline remains "...the best it's been" which is positive to our thesis that Pro Medicus has a long runway ahead of it and we remain confident they will continue to win new contracts to more than justify the current share price in the long term.

AAPL became the first US-listed public company to exceed the \$1 trillion market cap threshold after reporting 3Q revenues up ~+17% and EPS up ~+40%, their 4th consecutive quarter of double-digit revenue growth, incredible numbers for such a large company. AAPL still trades

on undemanding multiples for the growth with a forward PE in the ~high teens before backing out its enormous cash pile which is being returned to shareholders, all while services revenue (which should attract higher valuation multiples) jumped over +30% to approach near 20% of the total.

We could continue to wax effusive about the bull case for our holdings on the back of a positive month but we realise that the market can change quickly and our holdings will have to continue to perform well to justify and exceed their current valuations.

Portfolio Holdings:

Cash:	27.5% (AUD and USD)
Non-AUD exposure:	20.6%
Longs:	71.9%
Shorts:	-0.0%
Hedge delta:	-2.6%
Net exposure:	69.3%
Top 5 equities (alphabetical):	AAPL, AMZN, APX, PME, RMD

As can be seen from the portfolio holdings snapshot above, our cash weighting has dropped from over 30% at the end of July down to 27.5%, mostly due to August's positive portfolio performance increasing the weighting of our equities and despite culling a few smaller positions from the portfolio. We intend to keep our cash weighting up even though it could be argued we would have been better fully invested; it does help with sleeping better at night. In addition, we added slightly to our hedges but again the put protection continues to decay and fall further out of the money.

