



## October 2018 Monthly Report

Returns 31-Dec-12 to 31-Oct-18

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	144.74%	62.33%	82.41%	36.65%	108.09%
Inception per annum	16.58%	8.66%	7.92%	5.50%	11.08%
CY2018 (ytd)	7.19%	-0.87%	8.06%	-4.33%	11.52%
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	-5.82%	-6.47%	0.65%	-9.60%	3.78%
3m	4.10%	-5.88%	9.98%	-7.67%	11.77%
6m	6.72%	-0.55%	7.27%	-4.22%	10.95%
1y	14.40%	3.07%	11.33%	2.59%	11.81%
2y pa	8.64%	9.08%	-0.45%	8.42%	0.22%
3y pa	13.79%	8.25%	5.55%	10.52%	3.28%
5y pa	16.30%	6.19%	10.11%	6.00%	10.30%
Sharpe Ratio	1.31	0.62	2.10x	0.32	4.14x
Sortino Ratio	2.43	0.96	2.53x	0.47	5.15x
Annualised standard deviation	10.65%	11.09%		13.29%	
Highest monthly return	10.32%	7.00%		9.81%	
Largest monthly loss	-5.82%	-7.30%		-9.60%	
Largest drawdown	-10.28%	-12.23%		-17.69%	
% positive months	72.86%	64.29%		58.57%	

As the reader will no doubt be aware, October 2018 was one of the poorest monthly performances for equity indices in many years: the All Ords lost ~6.5% and the Small Ords ~9.6%, while in the US the S&P 500 shipped ~6.9% and the Nasdaq ~9.2%. That backdrop I suppose provides some small solace for our 5.82% loss to show a positive performance on a relative basis but it was a painful month performance-wise nonetheless, setting an unwanted new largest monthly loss for the fund on an absolute basis (albeit by 0.02% worse than the previous largest monthly loss, -5.82% vs -5.80%).

More than 100% of the losses could be attributable to just 3 of our top 5 holdings alone, with APX down 23.8%, PME down 26.8%, and AMZN down 20.2% for the month, giving back a portion of their previous gains.

AMZN reported strong EPS above expectations and AWS continued to perform but the market disliked management's conservative revenue guidance for the important 4<sup>th</sup> quarter holiday sales season. The volatility in just these three shares can be seen from their drops from their previous intraday highs to intraday lows of between 28-40% before regaining some lost ground at month end.

Given the above, it is in periods like these, where our cash holding (currently over 30%) and shorts and hedges come into play. Unsurprisingly, the biggest positive contributor for the month came from our shorts and hedges, adding close to 2% to performance with many of our previously far away option strikes actually dipping into the money, dropping our effective exposure near the lows below 50%. We took the opportunity to buy back a small amount of the hedges and short positions this month as well as adding to some recently opened equity positions (although not that close to the lows unfortunately). We do intend to add back to our hedges as and when favourable conditions present themselves.

The other good positive contribution for the month came from our holding in VHT, up over 50% in October. Late the previous month, the breast imaging company reported FDA approval for additional features that will lead to the "introduction of their Volpara®Live! System enabling real-time decision support for mammography". In addition their quarterly cash flow report showed continued growth metrics while maintaining their ambitious guidance for the fiscal year. We trimmed a small amount of our holding which we have held for some time and to which we added substantially in the capital raise.

We have no idea where the overall market goes to from here but we intend to stick to our process of holding on to long term compounders while hedging out a portion of our market risk to help us "stay in the game". In fact, given the share price pullbacks we would argue that our largest holdings are at reasonable valuation levels as we believe their growth prospects remain intact.

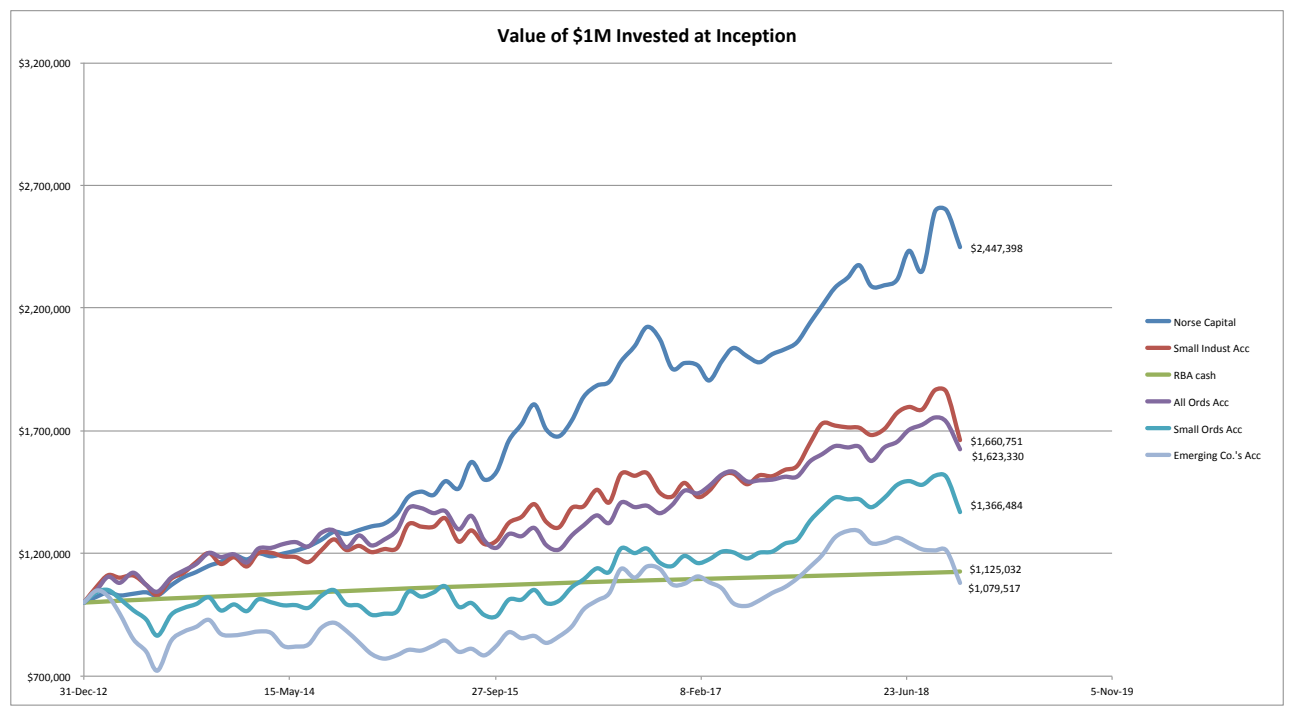
### **Portfolio Holdings:**

Cash:	32.2% (AUD and USD)
Non-AUD exposure:	21.0%
Longs:	70.6%
Shorts:	-4.3%
Hedge delta:	-9.8%

Net exposure: 56.6%  
Top 5 equities (alphabetical): AAPL, APX, PME, RMD, VHT

As can be seen from the portfolio holdings snapshot above and mentioned in our last report, we continued gradually adding to our short positions which we had re-started last month. Unfortunately we only got to around ~6% short (towards an ideal goal of something around 20%+ short) when the market started falling. As mentioned previously, we bought back some of our shorts and hedges in addition to an in-the-money hedge expiring in October. Despite this, our hedge delta is even more negative than the previous month, demonstrating the positive convexity of being long gamma. (i.e. getting shorter as the market drops, or less short as the market rises).

The > 20% drop in AMZN's share price coupled with the > 50% rise in VHT's share price sees the former drop out of and the latter enter our top 5 positions.



## Performance/Risk Ratios

