December 2018 Monthly Report plus 2018 Year in Review

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

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	145.36%	57.98%	87.38%	30.45%	114.91%
Inception per annum	16.13%	7.92%	8.21%	4.53%	11.60%
CY2018	7.46%	-3.53%	10.99%	-8.67%	16.13%
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	-0.90%	-0.45%	-0.45%	-4.18%	3.28%
3m	-5.58%	-8.98%	3.40%	-13.70%	8.12%
6m	0.82%	-7.28%	8.10%	-12.75%	13.57%
1y	7.46%	-3.53%	10.99%	-8.67%	16.13%
2y pa	11.42%	4.16%	7.26%	4.69%	6.73%
3y pa	10.71%	6.59%	4.12%	7.44%	3.27%
5y pa	15.52%	5.71%	9.81%	5.62%	9.90%
Sharpe Ratio	1.29	0.57	2.27x	0.25	5.18x
Sortino Ratio	2.39	0.87	2.74x	0.37	6.51x
Annualised standard deviation	10.54%	11.01%		13.24%	
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	72.22%	62.50%		56.94%	

Happy new year to you and yours and best wishes for a healthy and prosperous 2019.

A little bit of a later release date for the monthly report over the holiday season. We'll give a short recap on December's performance then take a more in-depth look at 2018's performance.

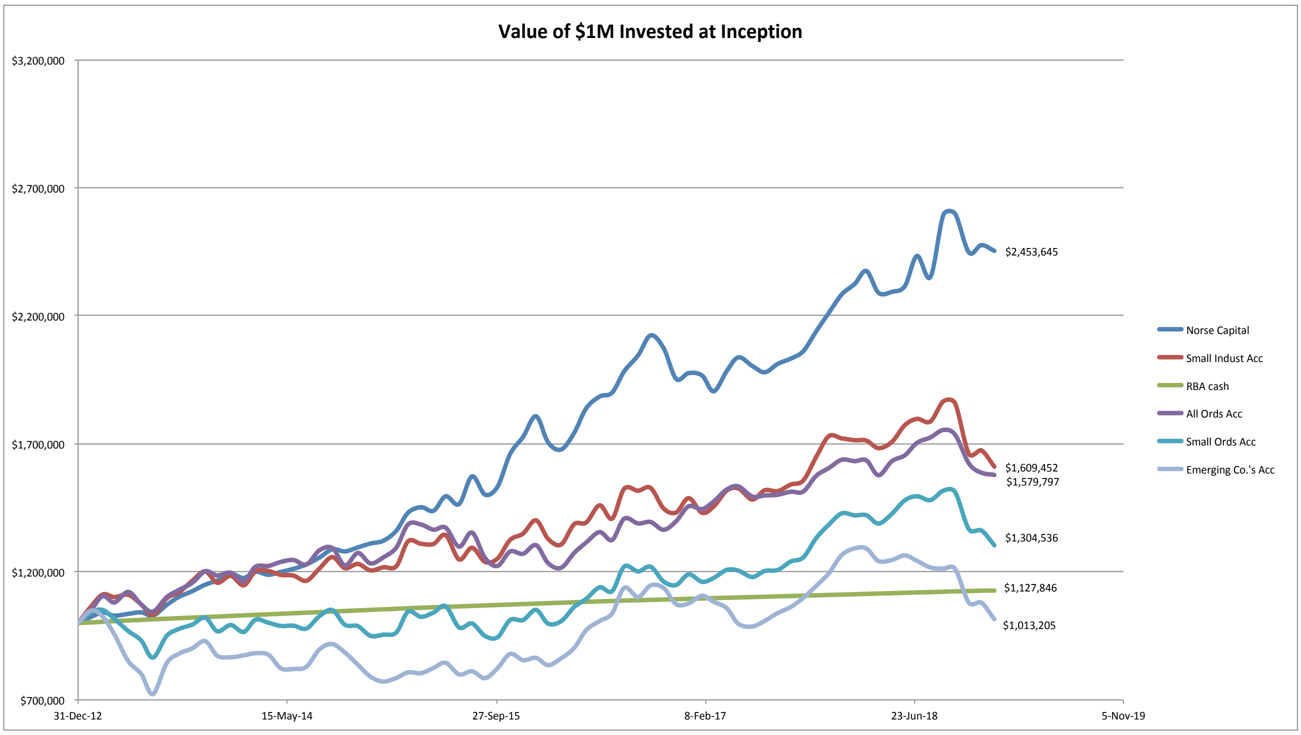
A negative month for the portfolio down 0.9%, slightly worse than the All Ords (down 0.45%) but much better than the Small Ords (down 4.18%) and very much better than both the S&P500 (down 9.2%) and the Nasdaq (down 9.5%). Given the massive volatility in late 2018, we're happy to close out 2018 and look forward to2019.

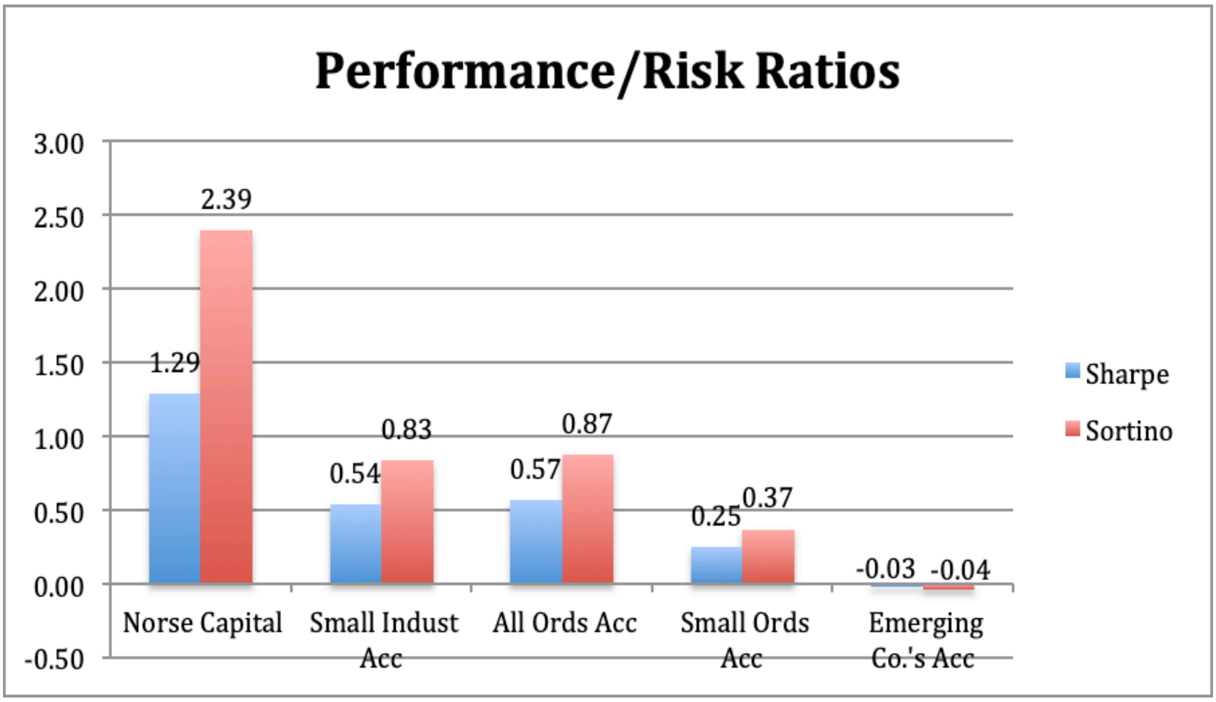
December's performance was mainly driven on the downside by Appen falling 7.7% and Volpara falling 11.3% with no company-specific news but following a falling market in general, mitigated somewhat by Pro Medicus rising 7.8% as they followed up November's Partners Healthcare announcement with an extension to an existing agreement with a German hospital network. As well, our hedges and AUD short position helped December's performance by ~+1.5%.

Portfolio Holdings:

Cash:	33.9% (AUD and USD)
Non-AUD exposure:	20.5%
Longs:	68.8%
Shorts:	-4.6%
Hedge delta:	-8.6%
Net exposure:	55.5%
Top 5 equities (alphabetical):	AMZN, APX, PME, RMD, VHT

We had some option expiries from mid to late December which were profitable but lessened some of our hedge delta which at one point had reached ~14% short. We took in cash from the expiries and rolled some of the protection out and down. Execution could have been better as we took some profit too early and didn't add enough to our longs as the market bounced. I will have to order a new crystal ball from Amazon.com given AMZN has come back into our top 5 at the expense of AAPL given their relative performances post month-end. Also to note we have started building up our short positions again after unwinding most of them profitably but too early late last year.


Value of $1M Invested at Inception
$3,200,000
$2,700,000
$2,200,000
$1,700,000
$1,200,000
$700,000
31-Dec-12
15-May-14
27-Sep-15
8-Feb-17
23-Jun-18
5-Nov-19
$2,453,645
$1,609,452
$1,579,797
$1,304,536
$1,127,846
$1,013,205
Norse Capital
Small Indust Acc
RBA cash
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc


Performance/Risk Ratios
3.00
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
2.39
1.29
0.83
0.54
0.87
0.57
0.25
0.37
-0.03
-0.04
Norse Capital
Small Indust Acc
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino

2018 Year in Review

In 20/20 hindsight, 2018 ended up a tough, volatile year for markets, with a first negative overall market index performance in many years. Perhaps not surprisingly then, it was a year of contrasts for the portfolio. We had our lowest calendar year performance (albeit positive) since inception (which has been an equity bull market until 2018), yet that was coupled with our 2nd highest outperformance vs the All Ords. A pleasing relative performance (although we can't eat relative performance), and pleasing to end up with a positive +7.46% result in a year when the All Ords dropped 3.53%, the Small Ords dropped 8.67%, the S&P 500 dropped 6.2% and the Nasdaq dropped 3.9%. To further illustrate 2018's volatility, the year also produced both our highest monthly return (+10.32%) and our lowest monthly return (-5.82%) within 2 months of each other.

So what can we learn from 2018, how did we end up with our +7.46% result? From a high level view, we started the year with a cash weighting of 20.94% and steadily increased that to end with a weighting of 32.2%, averaging 27.4%. We steadily increased our cash month on month, which contrasted 180 degrees with the previous year where we had let our equity weightings compound higher with a steadily decreasing cash weighting in 2017. We take no credit in terms of timing but did find it prudent to increase cash in what we thought was a later stage bull market. Obviously that decision contributed positively in what turned out to be a down year for equity markets.

On an individual asset level, the following holdings had a greater than +/- 1% effect on the year's performance, starting with the detractors:

Detractors (> 1.0% loss to performance):

ADA: -2.7%
Our previous largest holding Adacel dropped more than 74% over the course of 2018 after a shocking profit downgrade in November. Detailed thoughts on our experience can be found at https://tinyurl.com/y7tdcb9a but suffice to say we should have heeded some of the earlier warning signs more aggressively than we did following the loss of an FAA contract which indicated a break in their moat and in our thesis. At least the damage was mitigated as we had lightened the position several times and also exited immediately following the downgrade for our overall

investment in Adacel over the years to have been a profitable one, albeit not in 2018.

IRI: -1.2%
Another position that hit the portfolio following a downgrade was Integrated Research which dropped just shy of 55% in the year. The downgrade left a bit of a sour taste after substantial sales from the Chairman and after the company had responded to an ASX price query saying there was nothing to report about the price dropping from ~$4 to ~$3, only to downgrade shortly thereafter. As with Adacel, our saving grace was exiting the position immediately after the downgrade, saving ourselves another ~27% to the 2018 year-end closing price.

<u>Contributors (> 1.0% contribution to performance):</u>

APX +6.1%
Following on from APX contributing +8.7% to the portfolio in 2017, the shares rose over 54% in 2018 to contribute another +6.1% to the portfolio in 2018. Appen has gone from strength to strength following on from the previous year's acquisition of Leapforce and upgrading guidance throughout the year to where the business itself is arguably in a much stronger position with strong AI tailwinds fuelling the need for more data, more frequently. Despite trimming our position slightly a few times during the year due to portfolio weighting considerations (all bar one sale at prices less than the close of 2018), Appen remains our largest holding and we intend to continue to allow our holding to compound over time while holding through volatile periods, as we saw in 2018.

AUD-USD +2.2%
What was a 1.8% loss in 2017 turned into a 2.2% gain in 2018 as the currency fell ~9.7% during the year. We view our USD exposure as a long-term position where we are happy to have an exposure to the world's reserve currency where many of the world's best technology companies are based, with our plan being to readjust only at wide extremes of the AUD. During the volatile December period, the currency exposure provided a quasi-hedge to the portfolio, dampening downside volatility as the AUD fell as risk sentiment dropped.

PME +1.8%
Pro Medicus contributed another +1.8% towards our portfolio's performance following on from last year's +3.5% contribution. The company continued to perform well, with revenue, NPAT and margin

growth and winning new large contracts to validate our long-term thesis that they will continue to expand into a large total addressable market with plenty of runway ahead. We have yet to sell a single share of Pro Medicus and that approach has allowed the position to compound into our second-largest holding.

RMD +1.6%
Another of our long-held top 5 holdings, Resmed's share price appreciated almost 45% during the year, contributing +1.6% towards the portfolio's performance. The leader in sleep apnoea treatment devices seemed to overcome the market's initial scepticism towards its acquisition of Brightree which added cloud-based software/data to its capabilities. We have held our position almost since the fund's inception (to roughly triple our initial acquisition price), adding along the way.

VHT +1.6%
We opened our holding in Volpara in 2017, then added substantially in 2018, participating in the company's share placement in April 2018. The shares rose over 57% during the year, with the company on the way to their guidance of capturing ~9% of the US breast imaging market (up from ~3%) contributing +1.6% to our portfolio's performance. We did lighten some of the position near current levels but are happy to hold the remainder to let the position hopefully successfully compound over time.

Hedges +1.2%
Historically, our hedging (options plus shorts) has cost us on the order of ~1.5-2% per annum (the majority in option premiums) with 2018 the first year where hedging has contributed a positive result of > +1% to performance. Our hedging (and high cash-weighting) approach has been to use the buffer in market downturns to provide optionality to take advantage of these downturns (and the psychological temperament to do so), enabling us to put cash to work opportunistically. Obviously we would prefer to have our hedging expire unused as in previous years but given our low ability to time markets, we will continue with our approach.

So what lessons can we take from a 2018 which marked the fund's first year in which the equity market indices we follow all finished negative?

The first answer which comes to mind is to continue to follow our process which has been to attempt to not sell too early, and sit on our backside where possible to let our holdings in good quality growing companies compound. This showed with 3 of last year's top 5 holdings each contributing > 1% towards the year's performance (although 1 top 5 holding did show up on the > 1% loss side of the ledger).

The lesson from our losses seems to be to pay more heed to warning signs to try and ascertain whether our thesis for holding is still valid. Unfortunately this can be at odds with our primary motivation to ride through share price volatility to enable our holdings to compound over time, which does remain an imprecise judgement call. One lesson which did help was to aggressively jettison holdings in companies when we thought a downgrade announcement did break our thesis or confidence in management.

Finally, we look forward to 2019, optimistic about our current holdings and looking forward to discovering our next long-term growth compounders after a last couple months of 2018 concentrating on portfolio hedging/risk management.