February 2019 Monthly Report

Returns 31-Dec-12 to 28-Feb-19

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	185.66%	74.23%	111.43%	47.05%	138.62%
Inception per annum	18.56%	9.55%	9.01%	6.54%	12.02%
CY2019 (ytd)	16.42%	3.99%	12.43%	5.56%	10.86%
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	11.78%	6.05%	5.73%	6.78%	5.00%
3m	15.38%	9.79%	5.59%	8.01%	7.37%
6m	10.14%	-0.68%	10.82%	-3.06%	13.20%
1y	20.29%	6.56%	13.73%	3.48%	16.81%
2y pa	22.46%	8.68%	13.77%	11.81%	10.65%
3y pa	19.41%	12.74%	6.67%	13.44%	5.97%
5y pa	18.92%	7.39%	11.54%	7.73%	11.19%
Sharpe Ratio	1.40	0.69	2.03x	0.38	3.65x
Sortino Ratio	2.81	1.08	2.59x	0.58	4.82x
Annualised standard deviation	11.27%	11.15%		13.46%	
Highest monthly return	11.78%	7.00%		9.81%	
Largest monthly loss	-5.82%	-7.30%		-9.60%	
Largest drawdown	-10.28%	-12.23%		-17.69%	
% positive months	72.97%	63.51%		58.11%	

The V-shaped rebound off the late 2018 lows continued apace in February with US indices posting gains around 3%+ for the S&P 500 and Nasdaq, while in Australia the All Ords and the Small Ords rallied 6.05% and 6.78%. We are obviously very happy to have set a new highest ever monthly return of +11.78% to exceed September's high water mark for the portfolio. Especially so considering we entered February with a net exposure of only 56.6% (whereas we had a 67.2% net exposure entering our previous best month of +10.32% in August 2018).

Earnings season was the major catalyst for our February returns (as it was at the last reporting season in August) with our highest weighted holdings again performing very well.

Our largest holding Appen increased its share price +46.7% for the month to an over 20% weighting in the portfolio, despite our (ill-advised in hindsight) decision to trim a small amount early in the month. The leading provider of datasets for machine learning and AI announced great results for their full year with revenue up 119%, underlying EBITDA up 153% (which was ~12.3% higher than the midpoint of their previous upgrade in November) with increased margins and underlying NPAT up 148%. Management also provided 2019 guidance of +19%-26% underlying EBITDA growth at 74c AUD after investing Leapforce efficiency gains of ~$6m back into the business. This implies guidance growth would otherwise have been +27.6%-34.6% at an AUD 3c above current spot.

Of interest the aforementioned Leapforce efficiency gains will be invested into technology (i.e. investing in their moat). Increased functionality in crowd management, annotation tools to use AI to improve efficiency and quality (to handle more data more quickly), and especially interesting, the development of self-serve capabilities in a client workspace.

At current prices, APX trades on a rich ~high 40s to 50 PE multiple using forward guidance, meaning the company has to continue its high growth trajectory to justify today's share price. Throughout its listed history, Appen's lowest EPS growth has been just slightly below 25% and in fact has compounded and accelerated at much higher rates. On a simplistic view, using that lowest 25% growth, that multiple drops to ~20 in 4 years time. On a long-term view with a large and growing TAM (total addressable market) for data labelling (estimated at $17-$19b by 2025 by McKinsey), with more data needing to be refreshed more often, we remain confident that we will continue to see Appen grow and that management's historical conservative guidance upgrades will continue.

Our second largest holding, Pro Medicus, also reported great results with the shares adding 13.5% for the month (and continuing much higher post month-end). Half-year revenue was up almost 60%, EBIT margins increased and underlying NPAT rose almost 80%. The numbers are indicative of management continuing to execute well, with previously announced deals going onstream and continuing to sign new deals including the previously mentioned Partners Health largest ever deal in

PME's history. The results did include a capital sale in Germany which may impute some lumpiness into results but the growth trend remains impressive looking through or "normalising" capital sales over time.

As with APX, PME sports an even higher PE multiple in the neighbourhood of ~80 on a forward basis on our numbers. PME has recurring, multi-year contracted revenues which should support a higher valuation but again growth is key to justifying the current price. We remain confident that Pro Medicus has a long runway ahead and is in pole position to continue to sign more deals in the large TAM US health space.

Other notable positive contributors during the month included RMD, rebounding somewhat from the January post-results selloff as well as positive performances from EVS, NAN and VGL from outside our top 5 holdings. As well our holdings in a basket of US-listed enterprise software companies contributed ~+1.3% to performance for the month.

Pleasingly, on the negative side, our shorts and hedges only cost the portfolio ~0.6% in performance for February in a month where equities rose so strongly. We are more than happy for our hedging to remain unused and to pay a small performance cost as that should indicate positive performance overall. As such we will continue to maintain and replenish our hedging going forward as we realise the market can turn quickly as it did late last year.

Portfolio Holdings:

Cash:	30.0% (AUD and USD)
Non-AUD exposure:	19.2%
Longs:	75.7%
Shorts:	-7.1%
Hedge delta:	-6.2%
Net exposure:	62.4%
Top 5 equities (alphabetical):	AAPL, APX, PME, RMD, VGL

Our short position decreased (less short) around 1.3% for the month as we took profit on one position and as the portfolio itself has grown with the month's positive performance. Towards the end of the month we added more downside option protection as the market moved higher. Cash is back down to 30% both as a function of growth in the equity side of the portfolio as well as putting some to work in February. AMZN drops out of the top 5 to be replaced by VGL, a NZ company providing technology solutions to the global film industry and exhibiting long-term revenue and profit growth with a good percentage of recurring revenue. We have owned shares since 2017 and following our preferred approach have allowed the position to grow and added as the business performs (as we did again following their recent results).