



March 2019 Monthly Report

Returns 31-Dec-12 to 31-Mar-19

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	195.83%	75.46%	120.37%	46.88%	148.95%
Inception per annum	18.95%	9.41%	9.54%	6.34%	12.61%
CY2019 (ytd)	20.57%	11.06%	9.50%	12.59%	7.98%
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	3.56%	0.70%	2.86%	-0.12%	3.67%
3m	20.57%	11.06%	9.50%	12.59%	7.98%
6m	13.84%	1.09%	12.75%	-2.83%	16.67%
1y	29.21%	11.25%	17.96%	5.78%	23.43%
2y pa	22.11%	7.38%	14.73%	10.29%	11.82%
3y pa	19.31%	11.27%	8.04%	11.40%	7.91%
5y pa	19.99%	7.48%	12.51%	7.96%	12.03%
Sharpe Ratio	1.43	0.69	2.07x	0.38	3.79x
Sortino Ratio	2.89	1.09	2.65x	0.57	5.03x
Annualised standard deviation	11.23%	11.07%		13.37%	
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	73.33%	64.00%		57.33%	

Equity markets continued their 2019 March higher with US indices posting the best first calendar quarter for many years with the S&P 500 up another +1.8% and the Nasdaq up +2.6% for the month of March. In Australia the All Ords was also positive, up +0.70% for the month while the Small Ords had a small negative month. Again our portfolio managed to perform well, outpacing all of the above indices with a +3.56% gain off a net 62.4% long equities exposure coming into March.

March's positive performance came about despite a negative month for our largest holding Appen which came off almost 5% after a discounted capital raise to fund their acquisition of Figure Eight (more below). Pleasingly, other positions within the portfolio outside of our biggest holdings stepped up with positive contributions.

The biggest contribution for the month came from Envirosuite (EVS) which rose almost +74% to join our top 5 holdings. The share price has been rising as the company looks increasingly likely to meet or exceed FY2019 guidance of +100% ARR growth and the announcement of Tata Steel in the UK adopting their platform for their Port Talbot operation in Wales; a new significant global customer in a new sector (steel manufacturing) for EVS. We have been a holder of EVS since participating in their capital raise in August last year. A pity (perhaps easier said in hindsight) that we did not add to the position as the company performed, which we have done successfully with other holdings. (Note to the portfolio manager to do so in future).

Performing almost as well in March was our basket of US-listed enterprise software companies which added ~+1.15% to performance for the month. Together the basket makes up ~10% of the portfolio weighting, up from ~5% when we started putting it together in the middle of 2018. We have taken a basket approach with around half a dozen very high growth (and very high valuation), mostly SaaS companies to gain exposure to what looks like a paradigm shift into the cloud which has a long way to run. These companies hold dominant positions in their niche, providing the “picks and shovels” to enable this transition.

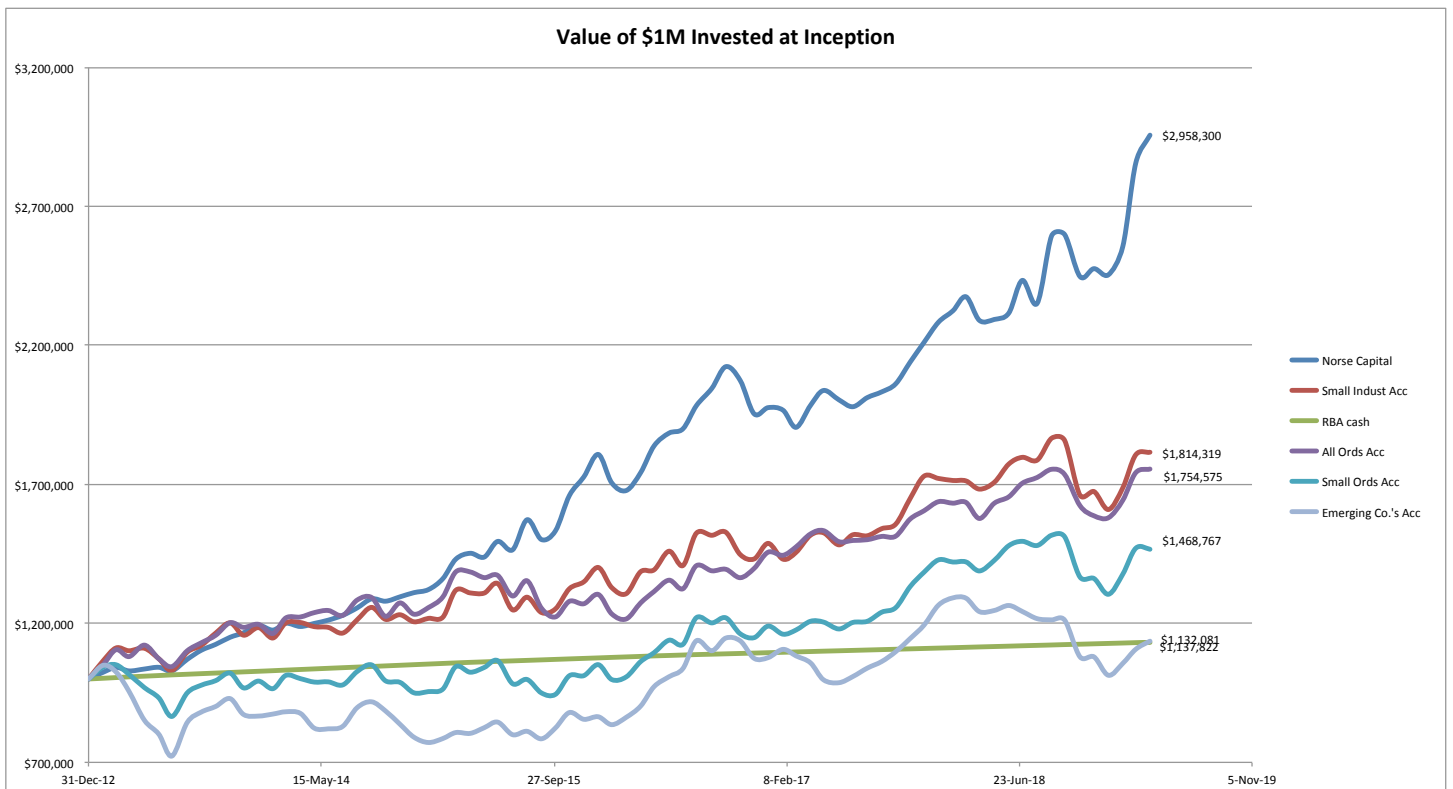
As mentioned previously, the biggest drag on March’s performance came from our biggest holding, Appen which raised ~\$285m at \$21.50/share to fund the purchase of Figure Eight, a leading machine learning software platform, paying US\$175m upfront (~5.7x FY18 revenue) and potentially up to an additional US\$125m (expected US\$60-\$80m, ~5.1-5.4x incremental FY19 revenue). From a strategic point of view, the acquisition makes sense: (i) immediately adding a SaaS recurring revenue platform, data as a (self) service; revenue of a higher quality (and higher valuation multiple) vs having to continually win new projects, (ii) leapfrogs what Appen were going to spend organically anyway over the next several years, and (iii) goes a way towards diversifying the customer base, one of the previous criticisms of Appen’s business. The strategic pros come with some short term valuation concerns, the deal being EPS negative currently (albeit with revenue growing > 50% CAGR) and with some integration risk, although with a fair amount of earnout incentives for Figure Eight. The acquisition shows Appen investing to become the dominant platform in AI/ML data provision; the TAM is large and in our opinion the AI wave has a long way to run.

Our shorts and hedges cost the portfolio \sim -0.5% in performance for March.

Portfolio Holdings:

Cash: 28.7% (AUD and USD)
Non-AUD exposure: 20.0%
Longs: 76.9%
Shorts: -7.0%
Hedge delta: -5.1%
Net exposure: 64.8%
Top 5 equities (alphabetical): AAPL, APX, EVS, PME, RMD

Despite adding a bit more downside option protection, our hedge delta has decreased as the market moved higher. We will look to add some more as our existing protection moves further out of the money. As mentioned, EVS joins the top 5 with its good performance in March, displacing VGL. Positions 5-8 are of roughly similar size, jockeying for placement in the top 5 as their share prices fluctuate.



Performance/Risk Ratios

