May 2019 Monthly Report

Returns 31-Dec-12 to 31-May-19

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	233.19%	82.92%	150.27%	51.00%	182.19%
Inception per annum	20.63%	9.87%	10.76%	6.63%	14.00%
CY2019 (ytd)	35.79%	15.79%	20.01%	15.75%	20.04%
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	3.37%	1.67%	1.69%	-1.25%	4.62%
3m	16.64%	4.99%	11.65%	2.69%	13.95%
6m	34.58%	15.27%	19.31%	10.91%	23.67%
1y	43.87%	10.52%	33.35%	2.06%	41.81%
2y pa	28.94%	10.65%	18.29%	13.13%	15.81%
3y pa	20.93%	10.51%	10.41%	9.84%	11.08%
5y pa	22.40%	7.97%	14.43%	8.81%	13.59%
Sharpe Ratio	1.53	0.74	2.07x	0.40	3.81x
Sortino Ratio	3.19	1.16	2.74x	0.61	5.21x
Annualised standard deviation	11.48%	10.95%		13.29%	
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	74.03%	64.94%		57.14%	

2019's string of ever positive monthly performance in the equity markets finally came to an end in the month of May, kicked off by the threat of a trade war between the US and China with the added potential of it spreading to Mexico. The threat of tariffs now seems to be a hammer in search of potential nails with the equity markets interpreting the new environment as a threat to global growth.

As a result, US markets ended the month lower with the S&P500 down by -6.6% and the Nasdaq dropping -7.9%. The All Ords bucked the lead from the US, rallying +1.67% for the month in the wake of the surprise coalition election victory with the banks (among others) rallying as the market took out the impact of several Labor party policies that had been previously priced in.

After spending most of the month in the red, our portfolio managed to end the month up +3.37% to extend the current positive monthly performance streak to 5 months. Our holdings have performed well in 2019 but we remain cognisant that current performance has raised the bar for future gains and expectations of continued positive months without drawdowns could well prove unrealistic, especially as volatility seems to have returned.

At a holdings level, there was a decent spread of contributors and detractors to the portfolio, probably to be expected with the return of volatility.

The biggest positive contributor for the month came from our shorts and hedges (including our quasi-hedge short AUD position), contributing ~+1.3% for May. We paid to roll up some of our well out of the money protection prior to and early on during the tariff tweets, bringing strikes closer to market, as well as opportunistically adding a small amount of additional hedging. We did also profitably take back some shorts, although much too early unfortunately.

Other notable positive contributors for the month included PME (up +11.2%), no new announcements but an investor presentation early in the month and the stock reaching an all-time high before pulling back. Also EML (up +33.7%), a position we initiated in early 2018, buying on the way down and back up. EML announced an acquisition of Flex-e-Card and followed up with another announcement of a multi-year contract with Smartgroup. This after a previous announcement late April of a payments solution agreement with bet365 in the US.

Our largest holding APX also hit a new all-time high leading into their AGM, although pulling back to finish the month up +2.8%. APX upgraded guidance at the AGM and demonstrated some of the impressive video annotation features they now have with their acquisition of Figure 8. Suffice to say we still see a long runway ahead in the AI data annotation space for Appen; we are long term holders while remaining prepared for potential volatility in the short term share price.

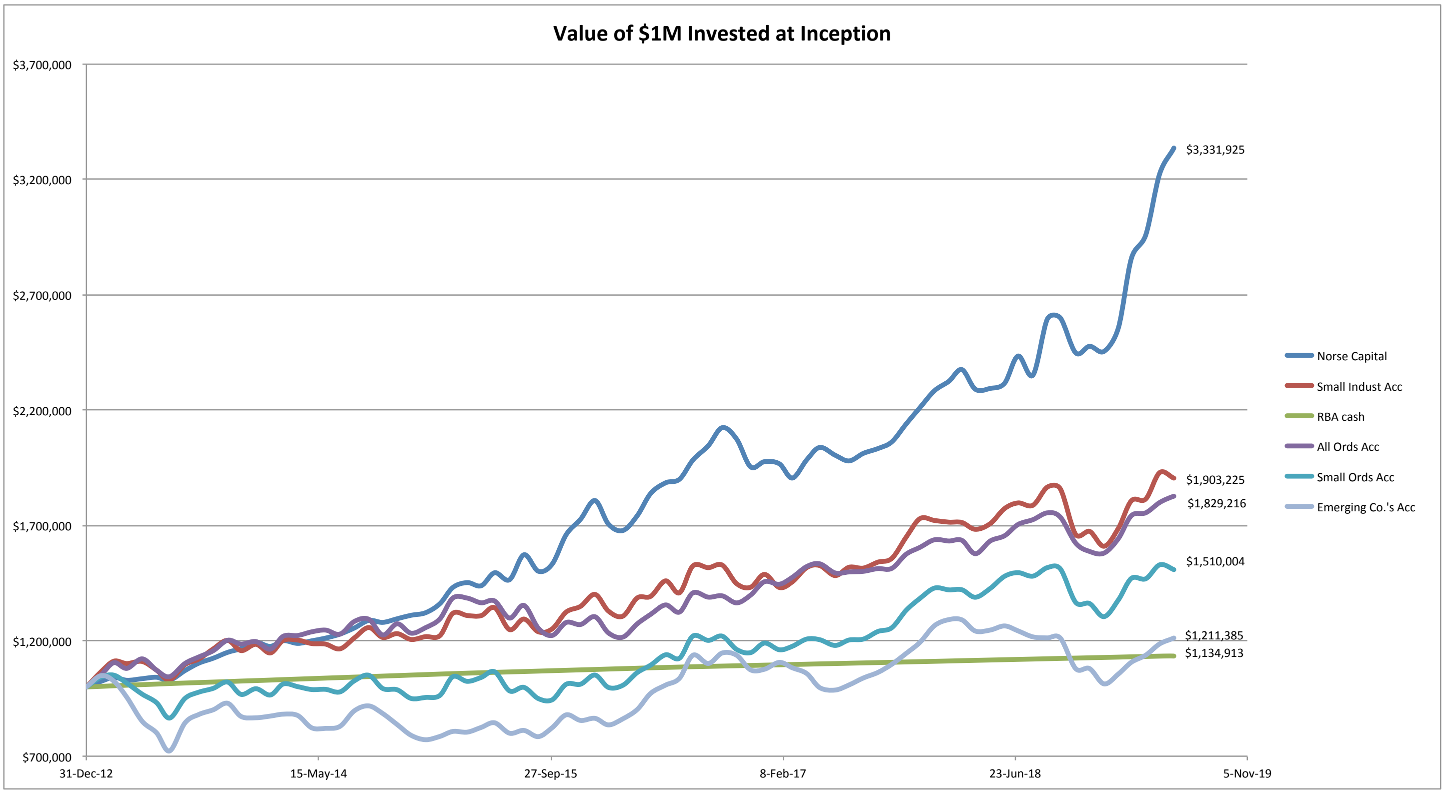
Detractors for the month included EVS, down -20.6% on a sales update that showed a gain of ~$780k ARR during the quarter but also included a loss of ~$450k of previously included ARR, putting their previous doubling of ARR guidance for FY2019 at risk. Other detractors included AAPL and AMZN, down -12.8% and -7.9% respectively as US-listed tech shares gave up ground amidst tariff threats (especially AAPL) and signs of increased regulatory scrutiny.

<u>Portfolio Holdings:</u>

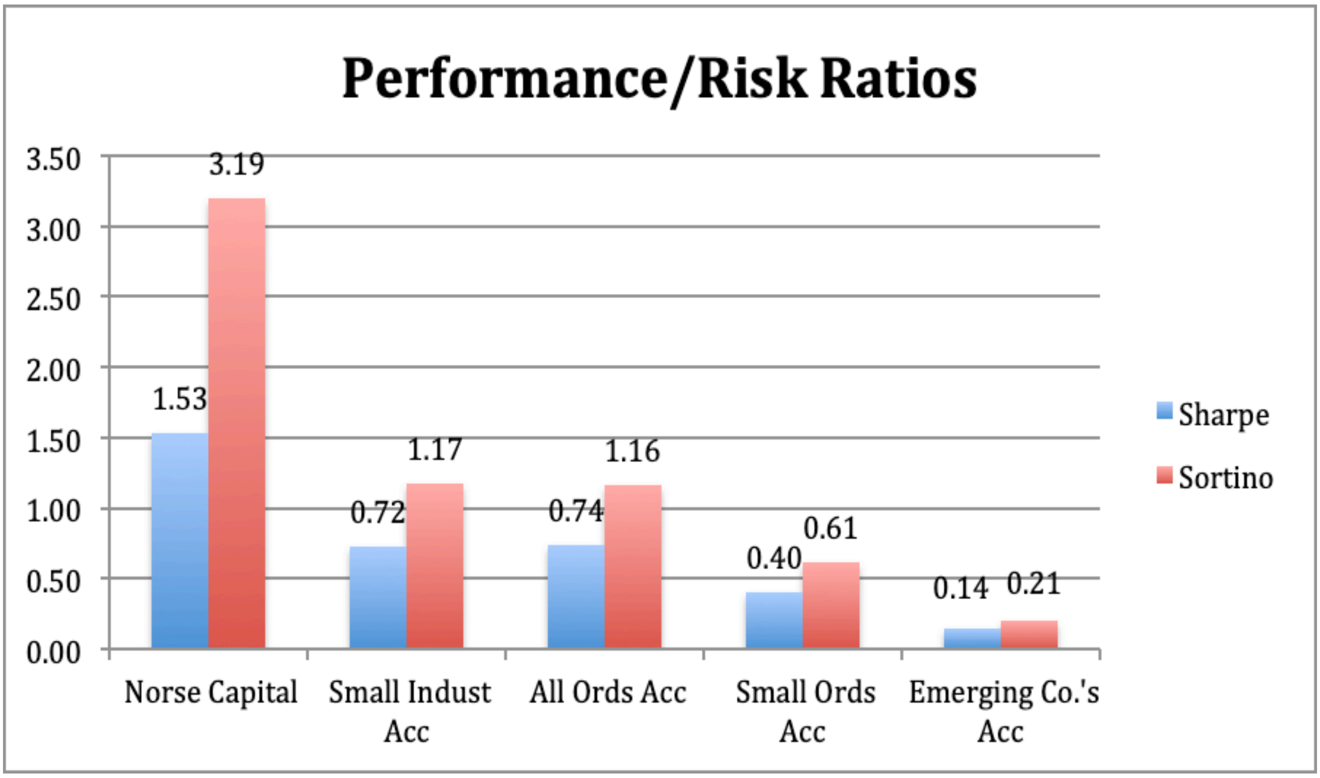
Cash:	23.6% (AUD and USD)
Non-AUD exposure:	19.3%
Longs:	80.8%
Shorts:	-5.9%
Hedge delta:	-13.6%
Net exposure:	61.4%
Top 5 equities (alphabetical):	APX, PME, RMD, VGL, VHT

Our net exposure is down towards ~61.4% currently (or ~57.5% at month-end), despite an increase in longs and a decrease in shorts and cash, thanks to a much higher hedge delta. As mentioned previously we rolled some protection closer to market as well as putting on additional protection, including in some high PE cloud/software ETFs. We intend to continue to build up our hedging slowly and opportunistically. We could do better on the difficult process of taking profit on our shorts and hedging during downturns; a balancing act of monetising protection vs preparing for a deeper downturn.

Both AAPL and AMZN have dropped off our top 5 positions as their share prices fell to be replaced by VGL (+13.2% for the month) and VHT as we participated in the just-announced capital raise.



Value of $1M Invested at Inception
$3,700,000
$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
$3,331,925
$1,903,225
$1,829,216
$1,510,004
$1,211,385
$1,134,913
Norse Capital
Small Indust Acc
RBA cash
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc



Performance/Risk Ratios
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
1.53
3.19
0.72
1.17
0.74
1.16
0.40
0.61
0.14
0.21
Norse Capital
Small Indust Acc
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino