NORSE CAPITAL

June 2019 Monthly Report

Returns 31-Dec-12 to 30-Jun-19

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	247.88%	89.20%	158.68%	52.38%	195.49%
Inception per annum	21.15%	10.31%	10.84%	6.70%	14.45%
CY2019 (ytd)	41.78%	19.76%	22.02%	16.81%	24.97%
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	4.41%	3.43%	0.98%	0.92%	3.49%
3m	17.59%	7.83%	9.76%	3.75%	13.84%
6m	41.78%	19.76%	22.02%	16.81%	24.97%
1y	42.94%	11.04%	31.91%	1.92%	41.02%
2y pa	32.58%	12.38%	20.20%	12.53%	20.04%
3y pa	22.34%	12.62%	9.72%	10.66%	11.68%
5y pa	23.12%	9.01%	14.11%	9.26%	13.86%
Sharpe Ratio	1.57	0.78	2.02x	0.41	3.85x
Sortino Ratio	3.29	1.23	2.68x	0.62	5.29x
Annualised standard deviation	11.46%	10.93%		13.20%	
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	74.36%	65.38%		57.69%	

May’s US equity market correction took off less than 7% (-6.84% using the S&P500) from the prior closing high to the closing low and lasted just over a month before bouncing with the Fed calming the market with promises of rate cuts if necessary to protect the economy. Already low interest rates went even lower and in this environment, it seems that **T**here **I**s **N**o **A**lternative as equity indices have rebounded to all time-highs (or close to from an ASX200 price index perspective).

Our portfolio joined in the rally, ending the month up +4.41% to extend the current positive monthly performance streak to 6 months and take the fiscal year return to +42.94%. (Given the portfolio inception was at the beginning of a calendar year and due to personal preference, we will save our annual commentary for the end of the calendar year as we have done historically). Again, I would have to reiterate that we have benefitted greatly from the juxtaposition of our style of investing coinciding with an era of ultra low (and trending lower) interest rates leading to share price outperformance in the high growth/technology segment of the market to which we fortunately have a large portfolio weighting. We are very happy to have participated in this wave but remain cognisant to keep future expectations in check.

At a holdings level, the biggest positive contributor for the month came from our largest position APX, notwithstanding trimming ~8% of our holding for portfolio rebalancing reasons. APX rose +7.5% for the month, despite the sale of some shares by the CEO (partly to satisfy tax obligations which makes sense), by one of the directors (which he has done historically during the post-results window) and partly offset by a purchase of shares by the founder of Figure Eight.

Not coincidentally, our second-largest holding PME was the second biggest contributor for the month, also despite trimming a similar ~8% amount (our first ever sale of PME), again purely for portfolio rebalancing reasons. The shares were up +11.3% on the month, setting a new all-time high at one point as the company was added to the S&P/ASX All Australian 200 Index.

The other good contributor to June's portfolio performance came from our basket of US-listed enterprise software companies which would be our 3rd-largest holding if reported on a combined basis. The basket currently represents ~10.4% of the portfolio and added just under +1% to the portfolio for the month. A notable performer within the basket was Alteryx at ~+25.6% during the month with the acquisition of a related competitor Tableau by Salesforce at a decent premium to the market. Also of interest were the positive implications for several of our portfolio holdings in the confident results and guidance put out by the likes of ADBE and ORCL which show no spending slowdown in the enterprise software space so far.

Unsurprisingly, the biggest detractor for the month came from our shorts and hedges which cost the portfolio -1.43% in June. Over time we have spent a significant amount on our hedge book and in 20/20 hindsight from a purely numerical analysis, we would have been much better off not hedging at all. However from my own perspective, I would argue that the hedge book has enabled us to stay long at a higher exposure level and for a longer period of time than would otherwise have been the case. We have little belief in our ability to time the market and our approach has been to try to maintain our long exposure and allow our high-quality companies to keep compounding; our hedge book has been a crucial tool to enable us to do that.

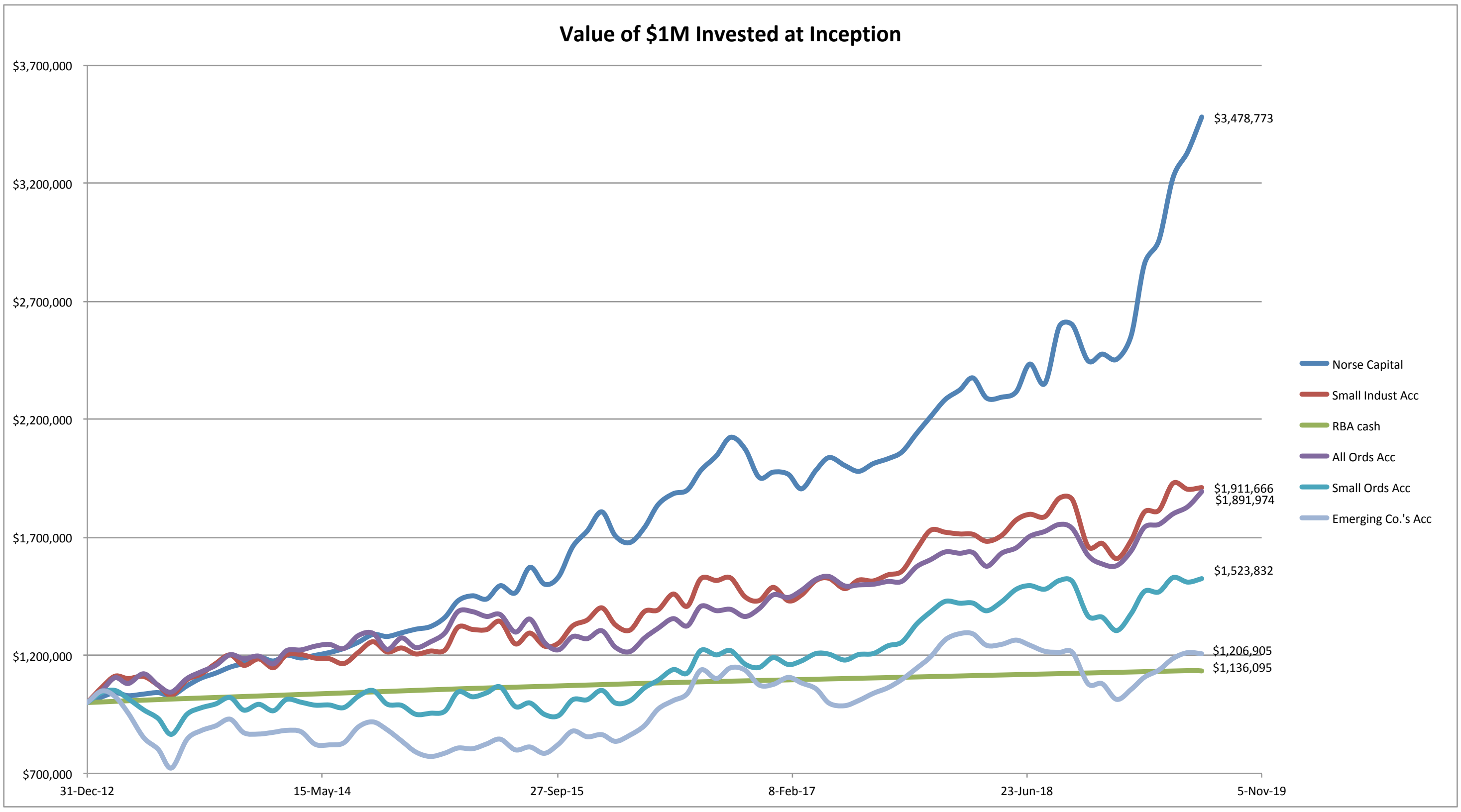
<u>Portfolio Holdings:</u>

Cash:	24.0% (AUD and USD)
Non-AUD exposure:	19.2%
Longs:	77.5%
Shorts:	-4.5%
Hedge delta:	-7.6%
Net exposure:	65.5%
Top 5 equities (alphabetical):	APX, PME, RMD, VGL, VHT

Some changes in the mix of cash, longs/shorts and hedge deltas as we have started swapping out some of the shares in our US-listed basket for long-term, deep in-the-money call options. This maintains our upside exposure (~85-90% currently, moving to 100% if the shares continue to appreciate) while limiting our downside with strikes ~40% below current market and taking ~50% of the cash out of the positions. Basically a form of partial disaster protection in the event of a big downturn (which we obviously have to pay for over time). A pity we cannot do the same for our ASX positions which do not have liquid (or any) option markets.

Despite this and despite adding some hedging by replacing some expired options with new ones, the positive portfolio performance coupled with positive option gamma has increased our net exposure to 65.5% from last month’s 61.4%.

No change to the top 5 holdings this month although AAPL’s June performance has it knocking on the door to get back in.


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
$3,478,773
$1,911,666
$1,891,974
$1,523,832
$1,206,905
$1,136,095
Norse Capital
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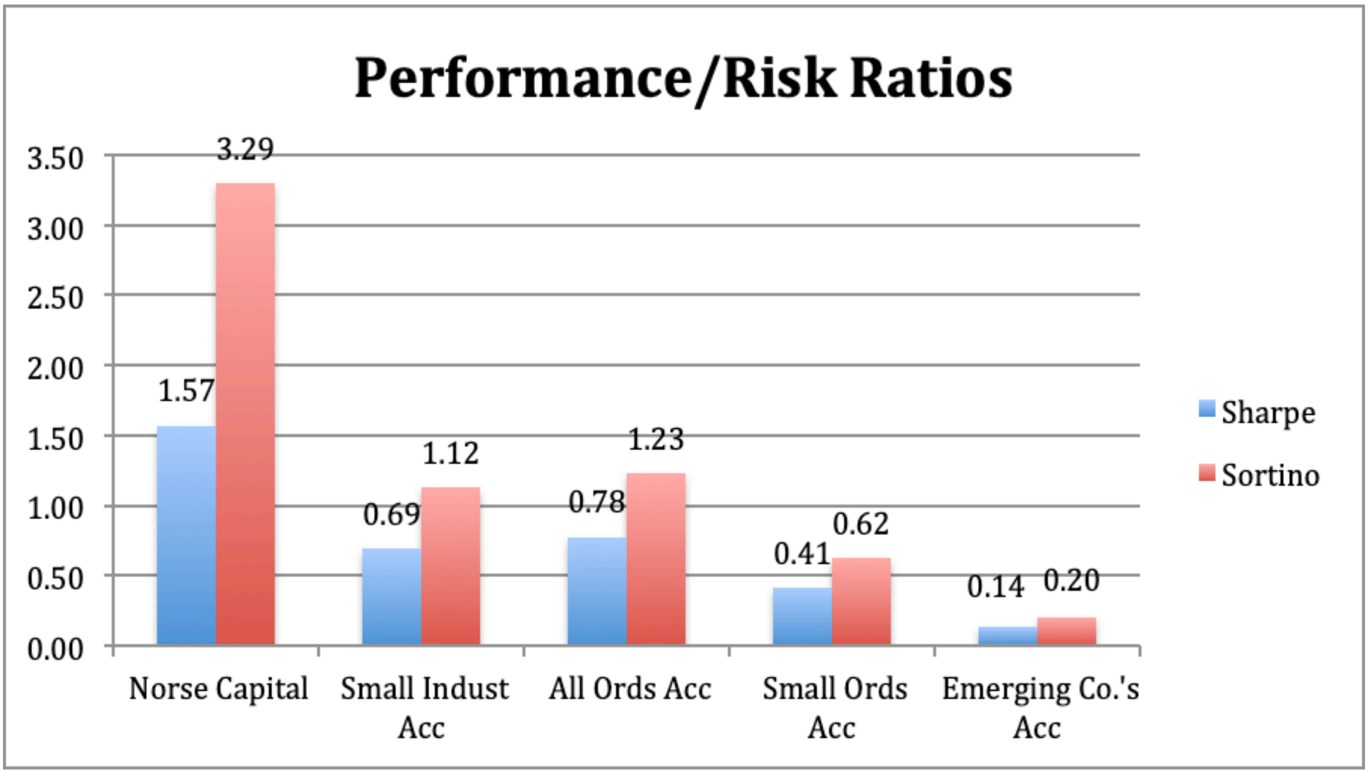
RBA cash
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc


Performance/Risk Ratios
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
1.57
3.29
0.69
1.12
0.78
1.23
0.41
0.62
0.14
0.20
Norse Capital
Small Indust Acc
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino