



## August 2019 Monthly Report

Returns 31-Dec-12 to 31-Aug-19

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	263.66%	90.48%	173.18%	53.13%	210.53%
Inception per annum	21.36%	10.15%	11.22%	6.60%	14.76%
CY2019 (ytd)	48.21%	20.57%	27.64%	17.38%	30.83%
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	-1.23%	-2.22%	0.98%	-3.85%	2.62%
3m	9.14%	4.13%	5.01%	1.41%	7.74%
6m	27.31%	9.32%	17.98%	4.14%	23.17%
1y	40.21%	8.58%	31.63%	0.95%	39.27%
2y pa	33.76%	12.21%	21.55%	11.12%	22.64%
3y pa	21.15%	11.10%	10.05%	8.41%	12.74%
5y pa	23.05%	8.05%	15.00%	7.82%	15.23%
Sharpe Ratio	1.58	0.77	2.06x	0.40	3.94x
Sortino Ratio	3.36	1.22	2.76x	0.61	5.47x
Annualised standard deviation	11.49%	10.89%		13.24%	
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	73.75%	65.00%		57.50%	

As mentioned in our previous recap, equity markets got off to a rocky start in August on the back of increased trade tensions following the imposition of additional tit for tat trade tariffs from both the US and China. At the time of penning our July report in early August at the depths of the pullback, our portfolio was down over -8%. That proved to be our nadir for the month with markets in general recovering somewhat and reporting season giving our portfolio holdings a better look than at that particular point in time.

In the event we ended August with a -1.23% result to end our positive monthly performance streak at 7 months, one shy of our record 8 month streak in late 2017/early 2018. Given where we started the month, we are very happy to have clawed back most of the losses and to finish ahead of the All Ords (-2.22%), Small Ords (-3.85%), S&P 500 (-2.3%) and Nasdaq Composite (-3.2%) monthly returns.

We do need to keep in mind though that August's volatility has highlighted the potential risks in (arguably) late cycle equity markets and not to expect the extraordinarily smooth positive returns that characterised the first half of CY2019. We remain focused on the long-term potential of our company holdings while cognisant of potential shorter-term volatility.

At a company specific level, the biggest positive contribution for August came from Pro Medicus which added another +19.7% in August (on top of a +21% rise in July). Another set of excellent results with profit up over +91%; increased transaction volumes and new client implementations driving that revenue growth were a highlight. PME continues to confirm the thesis of growth and the number one position in its key US market with upside optionality called out by the CEO in archiving which could be worth 30-40% of the imaging business and the potential for AI applied to imaging. We trimmed some more of our position to take our exposure to 60% of our original stake, regrettably the vast majority at (much) lower prices than today's. Unfortunately our software update to Crystal Ball v 2.0 has been stuck mid-download.

Another positive contributor and joining our top 5 positions was EML Payments which we have mentioned once previously in passing. We have held shares in EML since early 2018 and added opportunistically as the share price declined towards the low \$1s and again on the way back up. We added to the position once more immediately following results as the business continues to vindicate the thesis. Revenue was up +37%, EBITDA +40% to continue an impressive 5y EBITDA CAGR of +82%, showing growth and leadership in their verticals and with upside optionality from the US gaming market.

Also of note on the positive ledger was Nanosonics whose shares rose +21.1% on the month (or over +30% on results day). A pity our holding is only small, having sold almost 60% of the position at much lower levels on valuation. Another lesson to add to the long-term holding ledger.

On the negative side, our largest holding Appen declined -15.6% in August. Results for the half year looked decent with revenue up +60% and underlying EBITDA up +81%, assisted by currency tailwinds and a substantial positive margin increase. Figure 8's results were somewhat disappointing with ARR guidance lowered (countered by an implied lower deferred earnout payment) but despite this APX still managed to upgrade guidance to the "upper end" of their previously announced \$85-\$90m EBITDA full year at 74c AUD. The market was probably expecting a bigger upgrade; we remain positive that our thesis is still well and truly intact, AI/ML will require more and more training data in the years to come and APX is a global leader in that space. We did trim some of our position in August, taking our exposure under 13% of the portfolio.

Also disappointing on the negative side was Vista Group with the shares down -36.2% for the month on disappointing first half results. Substantially higher costs coupled with top line growth below our expectations conspired to clobber the bottom line and the share price. The company announced that it "has embarked on a transformational investment to migrate... to a pure SaaS future." We trimmed our position ever so slightly following results but continue to hold; at the current (much reduced price) we have a business that dominates market share in the global cinema software business despite an old style software distribution method which they are aiming to address. We shall see if the decision to hold proves wise in the fullness of time.

Hedging and shorting (including our short AUD position) earned us ~+0.6% for the month.

### **Portfolio Holdings:**

Cash:	28.8% (AUD and USD)
Non-AUD exposure:	19.9%
Longs:	68.3%
Shorts:	-3.9%
Hedge delta:	-7.0%
Net exposure:	57.5%
Top 5 equities (alphabetical):	APX, EML, PME, RMD, VHT

As mentioned, we trimmed some of our longs slightly although our net exposure is higher than the previous report as that was written at the depths of the August lows so our hedge delta is only short -7% compared

to -11% at the time. VGL dropped out of our top 5 on the share price decline and some small sales while EML joined as we added at higher prices following their report.

