



September 2019 Monthly Report

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

| | Norse Capital | All Ords Accum | Outperformance | Small Ords Accum | Outperformance |
|-------------------------------|---------------|----------------|----------------|------------------|----------------|
| Inception | 243.92% | 94.53% | 149.38% | 57.13% | 186.79% |
| Inception per annum | 20.08% | 10.49% | 9.59% | 7.01% | 13.07% |
| CY2019 (ytd) | 40.17% | 23.14% | 17.03% | 20.45% | 19.72% |
| 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 | -5.43% | 2.13% | -7.56% | 2.61% | -8.04% |
| 3m | -1.14% | 2.82% | -3.96% | 3.11% | -4.25% |
| 6m | 16.25% | 10.87% | 5.38% | 6.98% | 9.28% |
| 1y | 32.34% | 12.08% | 20.26% | 3.95% | 28.40% |
| 2y pa | 29.16% | 13.37% | 15.79% | 11.83% | 17.33% |
| 3y pa | 17.44% | 11.73% | 5.70% | 8.80% | 8.64% |
| 5y pa | 21.85% | 9.68% | 12.16% | 9.60% | 12.25% |
| Sharpe Ratio | 1.46 | 0.79 | 1.85x | 0.43 | 3.42x |
| Sortino Ratio | 2.97 | 1.26 | 2.36x | 0.65 | 4.54x |
| Annualised standard deviation | 11.74% | 10.83% | | 13.18% | |
| 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 | 72.84% | 65.43% | | 58.02% | |

Apologies for the late report this month due to travelling over the month-end period so will keep this report short.

On the surface the month seemed relatively benign with both the All Ords and Small Ords up over 2%, the S&P500 up 3.1% and even the Nasdaq Composite up 0.5%. However this masked the ructions beneath with a large rotation out of high growth and momentum equities into traditional value and cyclical names.

On a portfolio level this served up almost a perfect storm to hit our largest exposures on the long side with little benefit (and in fact a small loss) from our shorts and hedges. We ended the month down -5.43% for our 4th largest monthly loss on an absolute basis while on a relative basis it was the 2nd largest monthly loss vs the All Ords and the largest loss vs the Small Ords.

The 3 main detractors for September in order were PME down 24.4%, APX down 18.3% and our US-listed enterprise software basket with individual stocks in the basket down roughly on the order of 20% to 30%. No real specific news; the aforementioned rotation cashing out profits from some of the higher performing, higher priced shares.

Stepping back, the correction should not be a surprise. We have had a long and profitable sequence of market conditions favourable to our portfolio and to expect a straight-line upwards is unrealistic. We have no ability to call the bottom but price pull-backs are healthy and we are logically more confident of our holdings at these lower prices and expect the businesses to perform well in aggregate.

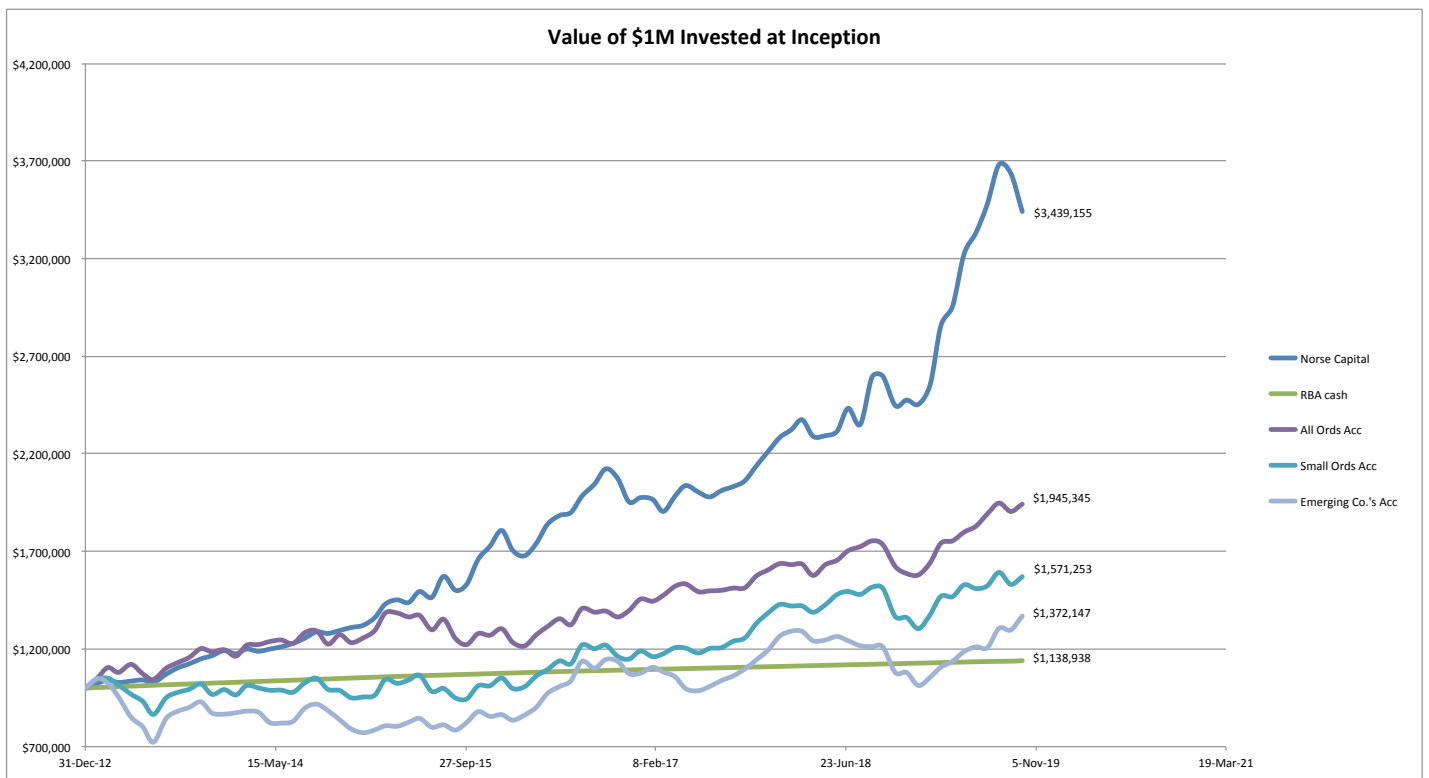
Also, given the nature of the rotation, our market hedges didn't provide much protection on the downside as the main market indices actually traded higher on the month. Nor did our shorts which are predominantly in cyclically exposed industries. However we did profit from our stock replacement program where we swapped out most of our enterprise software basket equities for long-term call options; that cushioned some of the downside and that protection is closer to the money now. The main safety net in September was our cash position.

On the positive side of the ledger, the best performance of the month came from our holding in EVS, up over 134% in September on the back of an announcement of a strategic placement to Mr Zhigang Zhang who has been involved in senior roles in the environmental protection industry in China. The sizable exclusive placement was done at a substantial discount to market at 8c per share – not liking the dilution, we unfortunately took profits on most of the position at much lower than current prices. EVS has subsequently raised more capital, this time at 28c or a 3.5 times higher share price barely a month later with not a sniff for existing shareholders.

Portfolio Holdings:

| | |
|--------------------------------|--------------------------|
| Cash: | 31.1% (AUD and USD) |
| Non-AUD exposure: | 19.2% |
| Longs: | 68.9% |
| Shorts: | -4.9% |
| Hedge delta: | -4.5% |
| Net exposure: | 59.5% |
| Top 5 equities (alphabetical): | AAPL, APX, EML, PME, RMD |

Our cash position is a bit higher as we trimmed some positions slightly in early to mid September plus the month's negative performance has pared back the equity weighting within the portfolio. A strong performance from AAPL has seen it rejoin our top 5 holdings.



Performance/Risk Ratios

