February 2020 Monthly Report

Returns 31-Dec-12 to 29-Feb-20

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	248.76%	88.60%	160.16%	49.45%	199.30%
Inception per annum	19.04%	9.26%	9.79%	5.77%	13.27%
CY2020 (ytd)	-0.91%	-3.77%	2.86%	-5.60%	4.69%
CY2019	43.44%	24.06%	19.38%	21.36%	22.08%
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	-7.88%	-8.08%	0.20%	-8.68%	0.80%
3m	-3.79%	-5.59%	1.81%	-5.87%	2.08%
6m	-4.10%	-0.99%	-3.11%	-2.40%	-1.70%
1y	22.09%	8.24%	13.84%	1.64%	20.45%
2y pa	21.15%	7.39%	13.77%	2.55%	18.60%
3y pa	22.31%	8.53%	13.78%	8.30%	14.01%
5y pa	19.48%	6.36%	13.12%	7.42%	12.06%
7y pa	18.83%	7.93%	10.90%	5.15%	13.67%
Sharpe Ratio	1.33	0.68	1.95x	0.35	3.82x
Sortino Ratio	2.55	1.05	2.44x	0.52	4.94x
Annualised standard deviation	12.35%	11.21%		13.31%	
Highest monthly return	11.78%	7.00%		9.81%	
Largest monthly loss	-7.88%	-8.08%		-9.60%	
Largest drawdown	-10.28%	-12.23%		-17.69%	
% positive months	72.09%	63.95%		56.98%	

As no doubt everyone would be aware, what would normally have been an earnings release news month turned swiftly into a corona virus selloff in global equity markets. All time highs in indices only the week prior turned into a -8.08% month for the All Ords, -8.68% for the Small Ords, -8.4% for the S&P 500 and -6.4% for the Nasdaq. Our portfolio was not immune, slumping -7.78% and posting a new all-time largest monthly loss.

Our “biggest loser” of the month came courtesy of EML, previously our 2nd largest holding, now in 3rd place following a 31.2% lightening in February on the weight scales. EML released results showing good growth metrics with EBITDA up 42% (excluding acquisition costs) and NPATA up 70%. Cash conversion did come in lower although management has guided for that to return to historical levels at the next half. However the market chose to focus on regulatory uncertainties regarding the timing of the PFS acquisition and sold the shares down; perhaps unsurprising with 20/20 hindsight given the steep runup leading into results. In our view the longer term thesis remains intact (corona virus notwithstanding in the shorter term) with a substantial discount to previous prices.

Next in our line to the woodshed out back was our largest holding APX which fell 18.3% in the month. APX released results that to our eyes looked very good. As has been the case throughout our holding period, APX once again beat their guidance with revenue up 47%, underlying EBITDA up 42% and underlying NPAT up 32% (excluding acquisition and other adjustments). More importantly Figure 8 rebounded with year-end ARR of $33.7m to address the main market concern post last year’s acquisition. The company once again guided for further EBITDA growth ($125-$130m vs $101m underlying in 2019 at 70c AUD) which given previous years should be conservative.

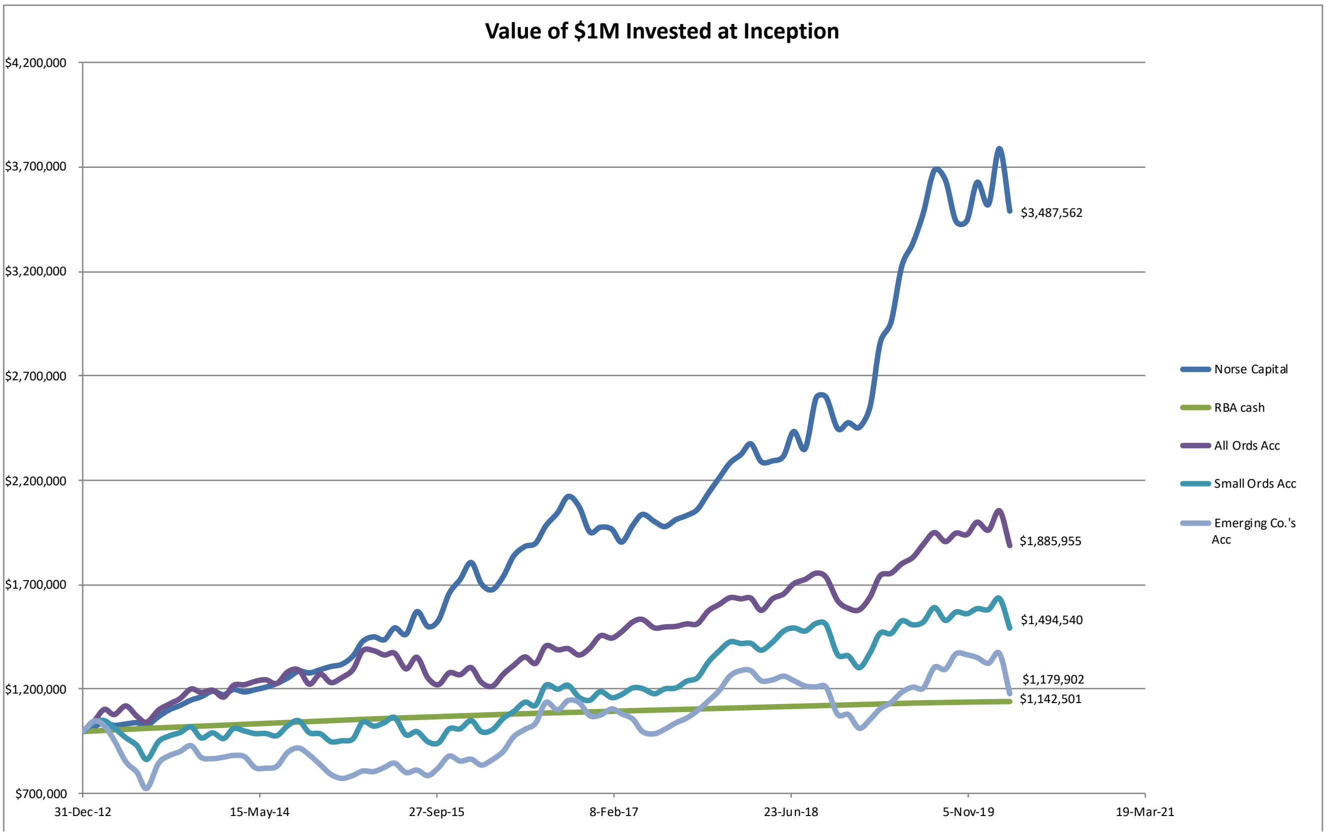
Not wanting to be left out of the bloodbath party, our now 2nd largest holding PME shed 16% for the month. The market seemed unimpressed with PME’s headline revenue growth of 15.7% and NPAT up 32.7%, not looking through the previous period’s one-off capital sale in Germany, even with management’s previous indication to expect a stronger 2H and comments about a very strong pipeline.

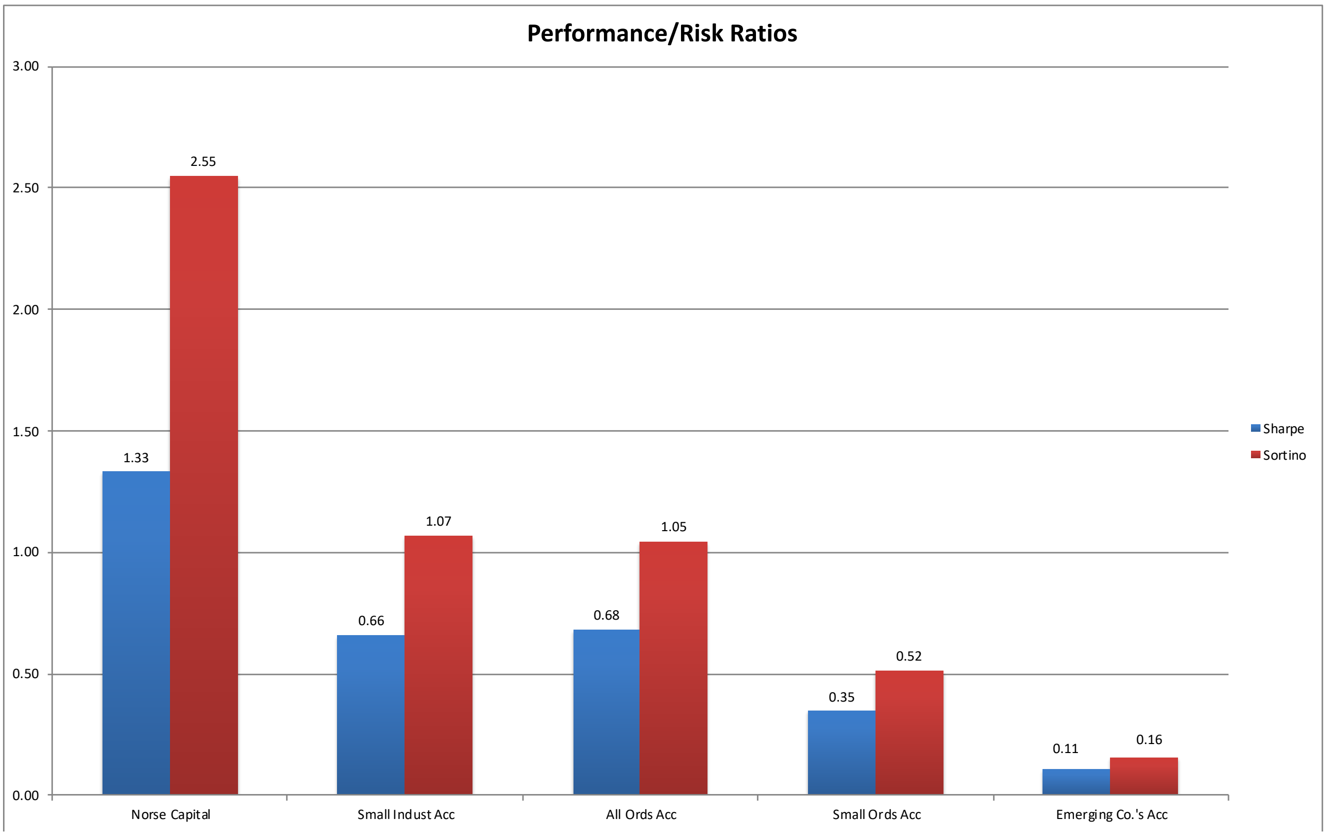
As mentioned, regardless of results, the market is now focusing on the corona virus for the immediate and indeterminate future. Not surprisingly then our hedging strategy was really the only positive component of any substance in February. Shorts and option hedging added just shy of 2% back to performance; with the lower AUD bumping that up to just shy of 2.5%, allowing us the token fleeting satisfaction (not) of performing slightly better than our benchmark All Ords and Small Ords indices. (Basically our portfolio and the indices all got taken to the corona virus woodshed out back and we got to see the indices shot first before it was our turn).

<u>Portfolio Holdings:</u>

Cash:	24.5% (AUD and USD)
Non-AUD exposure:	24.1%
Longs:	68.3%
Shorts:	-3.1%
Options delta:	-3.5%
Net exposure:	61.7%
Top 5 equities (alphabetical):	AYX, APX, EML, PME, RMD

AYX (just) edged out AAPL for a top 5 position given the latter's fall in February. Interestingly, our US enterprise software basket held up relatively ok given the market carnage. Unsurprisingly, our cash position is now almost 3% higher; that together with our hedging managed to mitigate the month's losses where just about all our high growth holdings got hit. Option delta has turned negative with the short delta on the puts now outweighing the long delta from our long-dated in-the-money calls (on most of our US enterprise software holdings). Our exposure is now ~13.4% lower than last month and dipped under 60% near the lows last week. We still have positive gamma but some of that will dissipate lower due to the nature of put spreads. We have bought back some small positions at these lower levels against our hedging but have been more inclined to add 1:2 ratio call spreads (buying a nearer strike call and selling twice the amount of higher strike calls) at near zero-cost given the high volatility levels, whereby we would participate in initial rallies higher but would end up shorter again (and give back that initial profit) if the market were to go back to previous highs (at which point our holdings would hopefully be much higher too).


Value of $1M Invested at Inception
$4,200,000
$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
19-Mar-21
$3,487,562
$1,885,955
$1,494,540
$1,179,902
$1,142,501
Norse Capital
RBA cash
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc


Performance/Risk Ratios
3.00
2.50
2.00
1.50
1.00
0.50
0.00
2.55
1.33
1.07
0.66
1.05
0.68
0.52
0.35
0.16
0.11
Norse Capital
Small Indust Acc
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino