NORSE CAPITAL

March 2020 Monthly Report

Returns 31-Dec-12 to 31-Mar-20

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	225.43%	49.10%	176.33%	16.01%	209.42%
Inception per annum	17.67%	5.66%	12.01%	2.07%	15.60%
CY2020 (ytd)	-7.54%	-23.92%	16.39%	-26.72%	19.19%
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	-6.69%	-20.94%	14.25%	-22.38%	15.69%
3m	-7.54%	-23.92%	16.39%	-26.72%	19.19%
6m	-5.38%	-23.36%	17.98%	-26.17%	20.79%
1y	10.00%	-15.02%	25.03%	-21.02%	31.02%
2y pa	19.13%	-2.76%	21.89%	-8.56%	27.70%
3y pa	17.92%	-0.68%	18.59%	-1.33%	19.24%
5y pa	17.49%	1.49%	16.01%	2.52%	14.97%
7y pa	17.84%	4.70%	13.14%	1.91%	15.93%
Sharpe Ratio	1.21	0.34	3.57x	0.09	12.78x
Sortino Ratio	2.23	0.44	5.08x	0.12	18.23x
Annualised standard deviation	12.65%	13.76%		15.73%	
Highest monthly return	11.78%	7.00%		9.81%	
Largest monthly loss	-7.88%	-20.94%		-22.38%	
Largest drawdown	-14.04%	-27.33%		-29.11%	
% positive months	71.26%	63.22%		56.32%	

Well what can I say that hasn't already been said? The Covid-19 pandemic and associated lockdowns around the world plus a sprinkling of an oil war sparked off by Russia and Saudi Arabia served to crater global asset markets. By the end of March 2020 we had witnessed the fastest ever drop from all-time highs into a bear market (losses > 20%) with closing peak to trough drops (so far) of almost 34% for the S&P 500 and over 37% for the All Ords within ~23 trading days. This was then followed by a 3-4 day rise into month/quarter end of ~+17.5% and almost +16% respectively (again on a closing basis). Volatility was king and probably looks like remaining so for the immediate future. Out of the wash, our portfolio managed so far to not set a new all-time monthly return low (after setting one the previous month), coming in at -6.69% (thanks substantially to an almost +4% result from our shorts, hedging and short AUD- USD positions) while recording our biggest ever monthly outperformance vs the All Ords at +14.25% and vs the Small Ords at +15.69%. All three (our portfolio and the 2 benchmarks of the All Ords and Small Ords) did set a new largest drawdown record for our observation period.

Instead of the usual format, I will try to paint a picture of my thought process and strategy during the month. From the start, I wish I could claim some sort of prescience or insight from studying the outbreak of the coronavirus from Wuhan and its spread globally to have been proactive in positioning the portfolio for the resultant market carnage. Unfortunately, my ingrained default position of moving slowly prevailed. Rather it was our existing cash and hedging positions going into the crisis that saved our bacon. From a net exposure of ~+75% at end-January our positive options gamma and cash balance took us to ~+62% at end-February going into the teeth of the downturn.

Despite being slow initially, the sloth awakened to set about culling less confident positions to concentrate on our favourites. With the market in turmoil there's no place for "iffy-confidence" positions, aka "if you're going to panic, panic early". We reduced the ASX portion of the portfolio from 16 positions down to 12. With little liquidity, it took a while to sell out of our remaining VGL position (lucky we had already started reducing further in January), reasoning that business from theatre chains will prove difficult with the global lockdown. A good decision in hindsight as our lowest sale price was almost double the current price. We also exited our AD8 position entirely having not been entirely impressed with their results and thinking the immediate future of sales into the likes of stadiums and other large installations could be bleak. Again a fortunate result with the sale price more than 50% above current market.

Not all the sales were sunshine and roses; it was a stressful month and it was difficult to stop concerns about keeping the family safe, relocating IT hardware from the office to home and attempting to buy hoarded household staples like toilet-paper, from bleeding into emotional investment decisions. We gave up on our one gold position in EVN which was supposed to be portfolio ballast in turbulence yet which dropped precipitously like everything else (and which is now ~15% higher than our sale price). And we also got whipsawed by PPH, selling out then buying back a third after their update showing increased demand so far during the lockdowns.

On the other side of the ledger, we did take the opportunity to add to existing positions in APX (twice) and in RUL plus also initiated positions in XRO and MA (also twice). We have never previously held XRO nor MA and would look to build up these initial positions should their share prices decline further.

The other thing we did do was add more short-dated put spreads on the way down. Despite record high levels in implied volatility, the realised volatility in the month exceeded even those record levels so that almost all of our put spreads ended up fully in the money to give us extra cash. In addition, our near zero-cost purchase of upside ratio call spreads near the end of February helped us refrain from net buying the dip against the market drop. The net result of all these transactions plus further positive gamma on the way down leaves us ~43% net long currently. (To give an idea of the gamma, at the depths of March, the portfolio was net long ~+35% and on the rebound highs ~+50% before adding more put spreads and eliminating one more position).

From here, uncertainty reigns. I have no real confidence in forecasting the short-term (measured in months). Outcomes could conceivably include finding an effective treatment for Covid-19 in the near-term and a resultant strong V-shaped market rally on one extreme, all the way to much longer and multiple required global lockdowns with concomitant economic damage that takes years to recover from. For what it's worth, I am an optimist and will look to deploy our cash reserves (albeit slowly) should further downturns ensue.

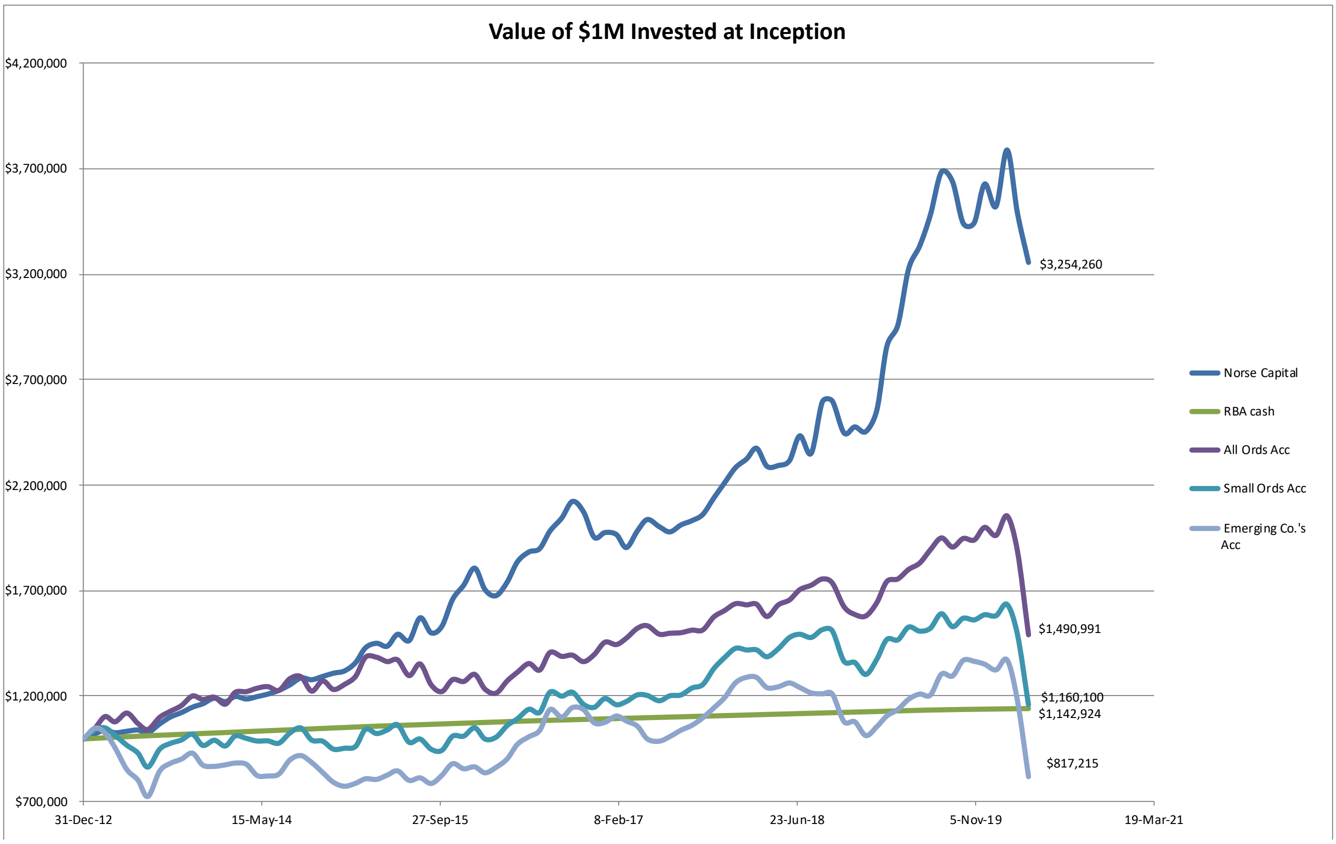
Portfolio Holdings:

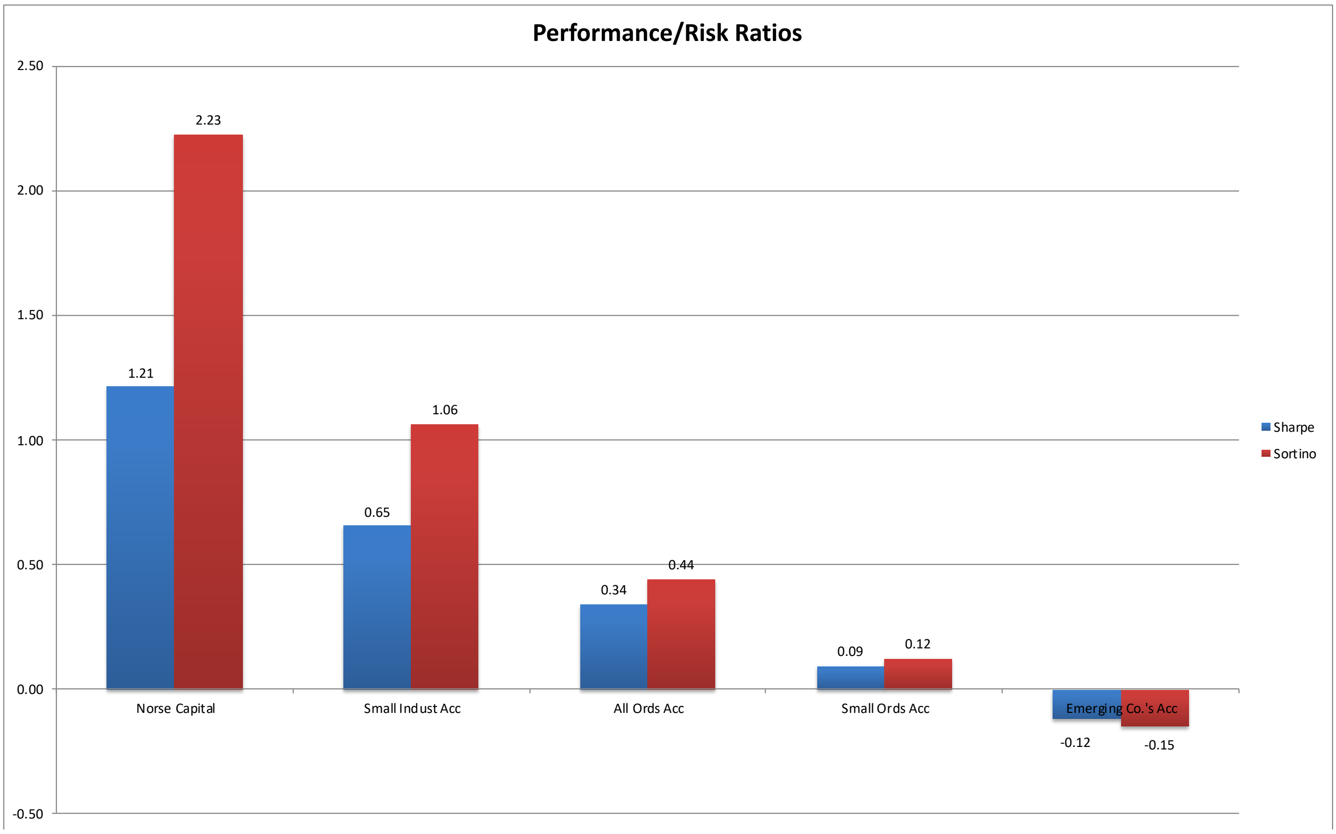
Cash:	29.0% (AUD and USD)
Non-AUD exposure:	26.2%
Longs:	62.7%
Shorts:	-4.3%
Options delta:	-15.7%
Net exposure:	42.7%
Top 5 equities (alphabetical):	AAPL, APX, EML, PME, RMD

Some rearrangement in the top 5 holdings, all as a result of market moves in March. AAPL, APX and PME fell “only” between -3.6% to -7% while RMD actually ended up +1.0% for the month as they updated that they are “…looking to double or triple the output of ventilators, and scale up ventilation mask production more than tenfold." EML meanwhile dropped ~-36.5% as their looming acquisition of PFS was scheduled to leave them with a chunk of debt on the balance sheet. However, kudos to management, they renegotiated the deal, leaving them with >$100m of cash on hand, removing a big risk from the thesis. Our enterprise software basket took a hit with our 2 biggest holdings there (AYX and TTD) dropping on the order of ~-32%. The majority of our holdings here are in the form of long-dated call options which with the drop are hovering near their strike prices, meaning we have positive gamma from here in both directions.

Of note is the -15.7% option delta (from -3.5% at the end of February). Approximately 80% of our hedges are outright puts, the majority now well in the money (basically outright shorts) with expiries ranging from May through December. The other 20% with the most positive gamma expire this month, leaving us with a decision to make, what to do with the monetised cash proceeds. Given the range of uncertainties mentioned above, we are content for now with our current ~43% net long position. Should the market rally from here, we will underperform our benchmarks on the way back up (but with a significant head start) while conversely we will outperform but still lose if the market drops back down. (As an example we were down ~-11.5% while outperforming the All Ords by ~ 18.5%) at the depths of March albeit with a much lower AUD at that time).

Watch out on the next page, some steep double black diamond ski runs in the chart below:


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
$3,254,260
$1,490,991
$1,160,100
$1,142,924
$817,215
Norse Capital
RBA cash
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc


Performance/Risk Ratios
2.50
2.00
1.50
1.00
0.50
0.00
-0.50
1.21
2.23
0.65
1.06
0.34
0.44
0.09
0.12
-0.12
-0.15
Norse Capital
Small Indust Acc
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino