April 2020 Monthly Report

Returns 31-Dec-12 to 30-Apr-20

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	258.24%	63.33%	194.91%	32.57%	225.67%
Inception per annum	19.00%	6.92%	12.09%	3.92%	15.08%
CY2020 (ytd)	1.79%	-16.66%	18.45%	-16.26%	18.05%
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	10.08%	9.54%	0.54%	14.27%	-4.19%
3m	-5.38%	-20.39%	15.02%	-19.00%	13.62%
6m	4.08%	-15.73%	19.81%	-15.20%	19.29%
1y	11.14%	-9.22%	20.36%	-13.31%	24.44%
2y pa	24.95%	0.03%	24.92%	-3.60%	28.55%
3y pa	20.63%	2.12%	18.51%	3.24%	17.39%
5y pa	20.00%	3.66%	16.34%	4.94%	15.06%
7y pa	19.38%	5.51%	13.87%	4.58%	14.80%
Sharpe Ratio	1.27	0.42	3.03x	0.21	6.14x
Sortino Ratio	2.41	0.56	4.33x	0.28	8.58x
Annualised standard deviation	12.98%	14.08%		16.47%	
Highest monthly return	11.78%	9.54%		14.27%	
Largest monthly loss	-7.88%	-20.94%		-22.38%	
Largest drawdown	-14.04%	-27.33%		-29.11%	
% positive months	71.59%	63.64%		56.82%	

Once again volatility reigned supreme although this time to the upside as equity markets spiked higher following the depths of March's swoon. Central bank bazookas and news of soon-to-be-reopening economies along with some potential positive treatment news from a Gilead drug trial helped equities shoot higher with the All Ords tacking on just over +9.5% and the Small Ords spiking over +14% higher; in the US the S&P

500 added +12.75% and the Nasdaq +15.4%. Against that backdrop we managed to add just over +10% to the portfolio for April, less than the Small Ords and the US indices but slightly better than the All Ords. Pleasingly this was despite starting the month at just shy of only ~+43% net long and takes our calendar year return back into positive territory for now. Happy to take that in this environment.

Our holdings of companies exposed to digital transformation in an increasingly bifurcated Covid economy helped fuel returns during the month. Amongst notable contributors, APX rose +31.2%, PME +34.6%, EML +22.2%, TTD +51.6% and SHOP +51.7%. Against this, our shorts and hedges cost the portfolio -3.13% for the month and the big jump in the AUD cost another -1.61%. Obviously in hindsight we should have closed out more shorts and bought much more than our timid purchases during the depths of March but absent our crystal ball which is still on Amazon.com backorder, discretion ruled the day.

As usual, I have no real confidence in forecasting short-term returns and in this environment the potential outcomes remain extremely wide. I remain comfortable with the make-up of our portfolio to cater for these possibilities while keeping an optimistic long-term focus and continuing with a long-bias outlook and adding to our favourites should opportunities present themselves.

Following recent questions about our shorts and hedges, this month I'll attempt to give an insight under the hood into the nitty gritty of that side of the portfolio; even though most of our historical performance has been driven by the long side, our shorts and hedging hopefully enable us to stay focused psychologically and potentially even thrive in downturns:

1) For outright shorts which tend to be shorter-term focused, adopting a basket approach and keeping individual positions small, typically at around ~1% each so that no single position can blow up too badly. (Witness the APT weekend spike as an example). Most of the positions are put on more as portfolio hedges rather than outright short bets, often favouring pair trades. For example, we have shorted PANW (old-school firewall technology) against longs in CRWD and ZS (new disruptors in the security space). Similarly, we've shorted IBM and SAP against our long mega-cap technology holdings. In the past we shorted SEAS and SIX (lower tier theme park operators) against our long DIS position. These pair trades enable us to actually go longer our preferred exposures while keeping our outright risk lower. (Assuming we get it right).

To a lesser degree, we have also shorted some names on outright bearish views. A current example would be WYNN, a casino operator where we think the medium term business model will be challenged by social distancing and whether enough customers will actually travel to their casinos in Las Vegas and Macau in the short to medium term, even after restrictions are lifted.

2) On the options side, we tend to focus on index hedges, regularly buying put options (insurance) on indices like the ASX 200 or US-listed ETFs like SPY (S&P 500 ETF) or QQQ (Nasdaq 100 ETF) which give us the right to sell the ASX 200, the S&P 500 or the Nasdaq 100 if it goes below our insurance strike price. Although they cost money (and returns) in rising markets, you have to pay your insurance regularly in advance as it would be much more difficult to jump after a fire has started. We try to buy outright puts when volatility is cheap and will resort to put spreads (which offer insurance for only part of the way down) when it's more expensive. We have also replaced some of our enterprise software stock positions with long-dated call options which take cash out of the market and limit the downside risk in these holdings. Our options delta reported in the Portfolio Holdings section below represents the sum of how long or short all the options positions in the portfolio are at that point in time, akin to how short those index ETFs we are and how long those enterprise software stocks we are. For example, at the depths of March's correction, all our put options were well in the money, meaning the market price was much less than the strike (or insurance price) on our puts so we were approaching 100% short the quantity of index ETFs we'd bought puts on. Similarly, the market price for the enterprise software stocks were much lower and closer to or below the strike prices at which we had the right to buy those stocks meaning we were decreasing the % long of those stocks on which we'd bought calls. The sum of all those deltas plus our stocks had the portfolio at ~+43% long back in March. Given the big rise in markets in April, the index short % has become smaller and the enterprise software long % has become longer to have us at a net almost ~+63% long now. If it seems like a free lunch to be longer when the market is up and shorter when the market is down, the answer is no, there is no free lunch – we paid insurance premiums for the privilege and if the market sits and goes nowhere, those premiums plus the mark to market gains on the options will fritter away.

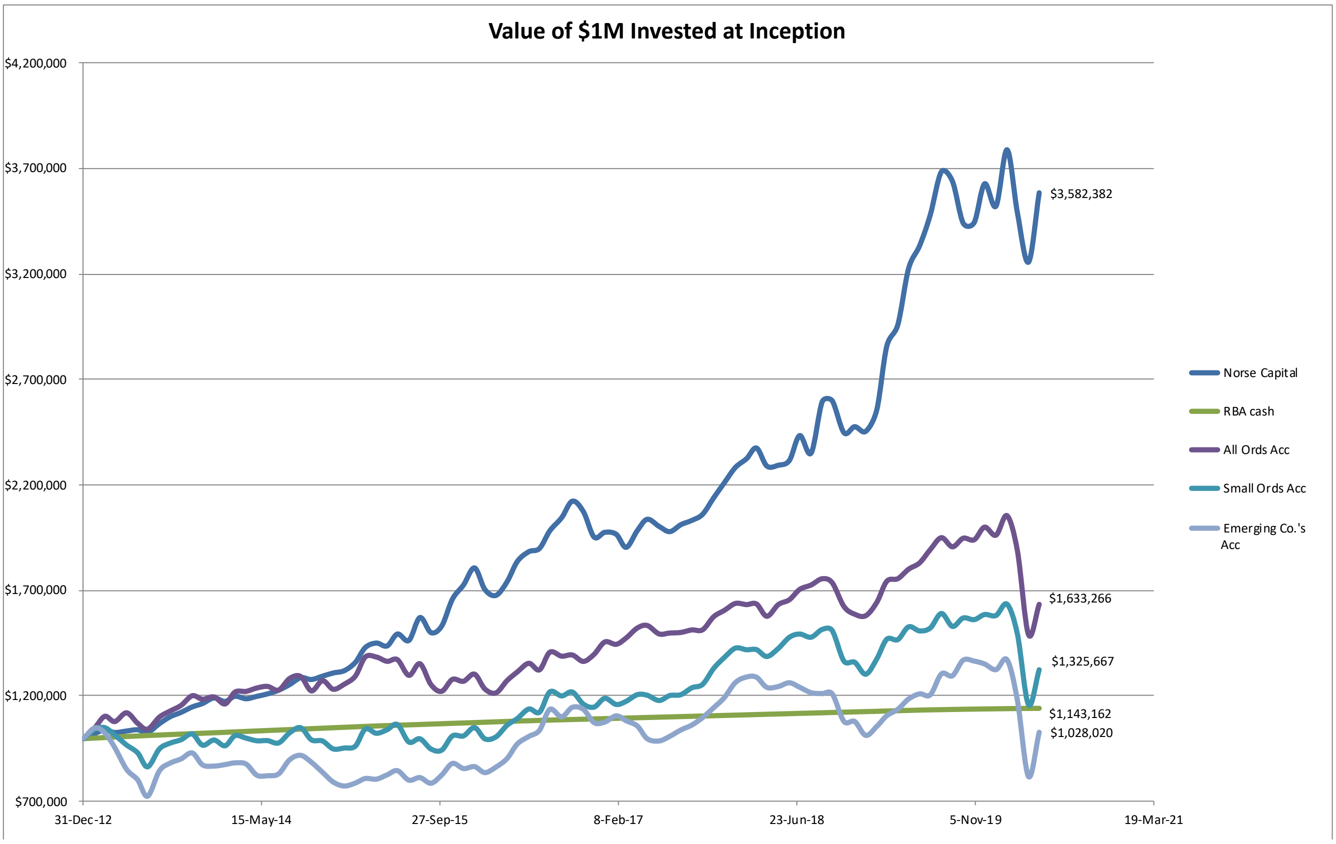
Hopefully my attempt to do an Options 101 in one paragraph hasn't totally failed and left readers more confused than previously!

<u>Portfolio Holdings:</u>

Cash:	31.4% (AUD and USD)
Non-AUD exposure:	23.8%
Longs:	66.5%
Shorts:	-8.2%
Options delta:	4.3%
Net exposure:	62.6%
Top 5 equities (alphabetical):	AAPL, APX, EML, PME, RMD

Stability this month in the top 5 holdings. The biggest swing is in our options delta which swung from -15.7% a month ago to +4.3% today, a huge >+20% swing, responsible for our net exposure jumping from +42.7% to +62.6%. See discussion point (2) above on options for an explanation of how the mechanics of this works. Suffice to say the index ETFs jumped on the order of ~+12-15% thereby decreasing our shorts via index put options, while (as mentioned previously) the stocks in our enterprise software basket jumped in some cases > +50% to increase the longs from our call options.

About a quarter or so of our hedging options either expired in April or are due to expire this month and next. (i.e. some of our insurance is running out). Given the extreme levels of implied volatility, options are super expensive currently so we will try to be opportunistic and/or implement cheaper strategies while this remains the case. Thankfully a good part of our insurance takes us towards the end of Q3 and Q4 of this calendar year.



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
$3,582,382
$1,633,266
$1,325,667
$1,143,162
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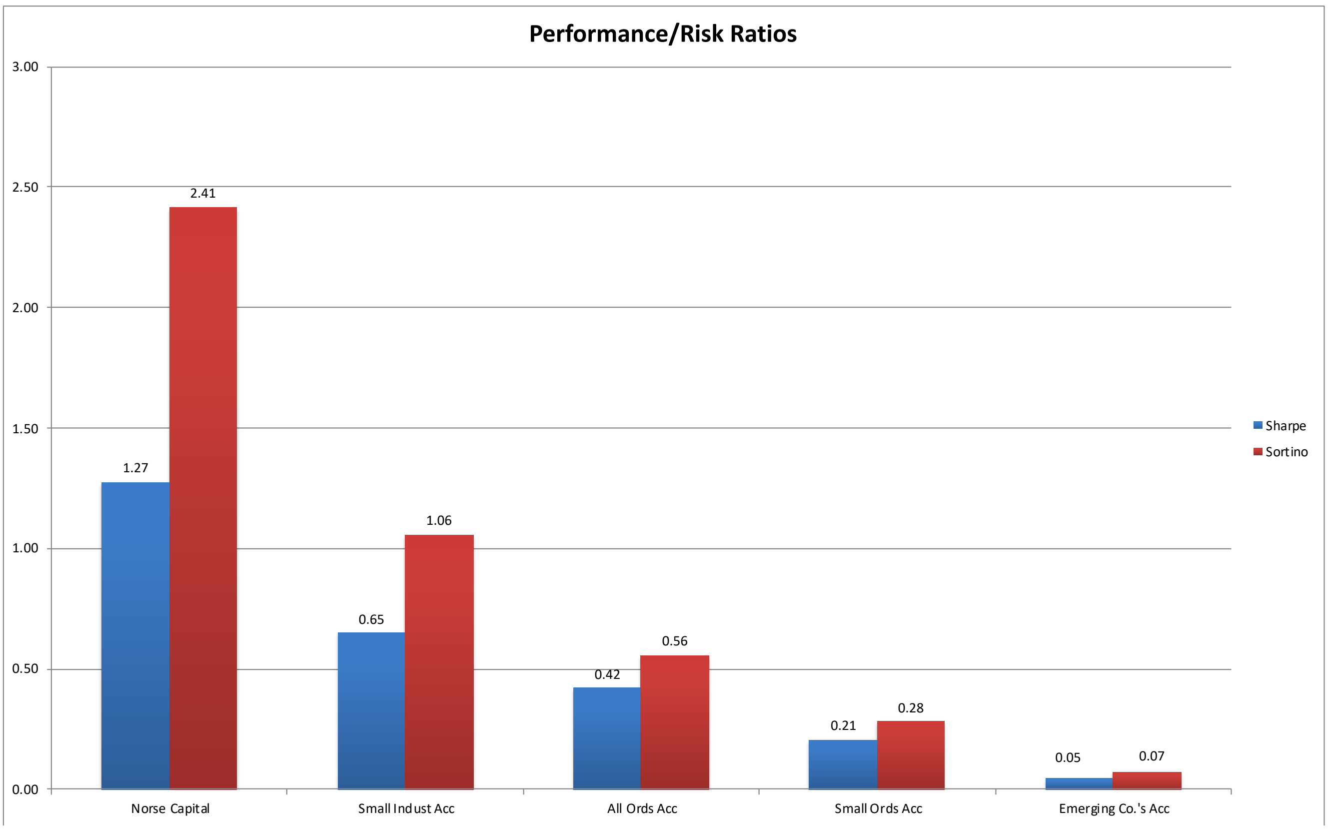
Norse Capital
RBA cash
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc



Performance/Risk Ratios
3.00
2.50
2.00
1.50
1.00
0.50
0.00
1.27
2.41
0.65
1.06
0.42
0.56
0.21
0.28
0.05
0.07
Norse Capital
Small Indust Acc
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino