May 2020 Monthly Report

Returns 31-Dec-12 to 31-May-20

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	289.38%	71.55%	217.83%	46.60%	242.78%
Inception per annum	20.11%	7.55%	12.56%	5.29%	14.82%
CY2020 (ytd)	10.64%	-12.47%	23.10%	-7.40%	18.04%
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	8.69%	5.04%	3.66%	10.59%	-1.89%
3m	11.65%	-9.04%	20.68%	-1.91%	13.56%
6m	7.42%	-14.12%	21.54%	-7.66%	15.08%
1y	16.86%	-6.21%	23.08%	-2.91%	19.78%
2y pa	29.62%	1.81%	27.81%	-0.46%	30.08%
3y pa	24.76%	4.71%	20.04%	7.50%	17.26%
5y pa	21.05%	4.55%	16.50%	6.57%	14.48%
7y pa	20.71%	6.93%	13.77%	6.68%	14.02%
Sharpe Ratio	1.33	0.46	2.87x	0.29	4.65x
Sortino Ratio	2.57	0.62	4.16x	0.40	6.47x
Annualised standard deviation	13.17%	14.09%		16.80%	
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	71.91%	64.04%		57.30%	

Continued bullishness in equity markets prevailed for the second month in a row since hitting the (so far at least) coronavirus nadir towards the end of March. The markets have started looking through the doom and gloom of lockdowns and associated economic hardships to price in a strong rebound, with the S&P 500 up +4.5% for the month and the Nasdaq up +6.8% while in Australia the All Ords tacked on +5.04% and the Small Ords a strong +10.59%. Our portfolio also continued last month's rebound adding +8.69% to set a new highwater mark only two months after recording our worst ever drawdown from previous highs.

One can argue about the merits of the strength of the equity market rebound to date vs the hardships in the real economy and whether the markets are too optimistic or not about the future shape of the recovery. What we can say though, is that what we are witnessing with many of our portfolio holdings has been a huge tailwind of digital transformation in a world where companies have employees working from home and conducting business remotely and consumers are shopping and being entertained online. We have long held the thesis that digital transformation will become an essential part of the commercial landscape and our holdings reflect that belief; what has changed with the pandemic has been a rapid acceleration of that thesis. Countless US earnings season conference calls reinforced that theme. From Microsoft's call - "…we have seen two years' worth of digital transformation in two months." From Shopify's CTO on Twitter - "…our platform is now handling Black Friday level traffic every day!" From Twilio's call – "Digital transformation projects that could have taken years such as transitioning from an on-trend contact center to the cloud instead took a weekend." While the eventual end of the pandemic could quite possibly see some pullback from the very high pandemic-specific growth rates, we believe that many of the digital transformation changes are here to stay and have really been brought way forward in time.

Not surprisingly then, the biggest positive contribution to performance in May came from our basket of US-listed enterprise software stocks which contributed >+3% to those returns (net of shorts and hedging in that space), with almost all holdings up double-digits, some as high as +58% (for DDOG) and +76% (for TWLO) and many hitting all-time highs. Our basket now makes up ~15.6% of the portfolio (or ~17.6% longs and ~2% shorts). In fact, a strong argument could be made that we should have had a much bigger weighting in the individual holdings rather than taken a basket approach. (In fact, our sister company Hindsight Capital LLC did precisely that).

Our largest holding Appen also hit a new all-time high during the month, finishing up +27.2% in May as they hosted a virtual investor technology day and their AGM. Although Appen may not have had company-specific benefits from the coronavirus, their business is relatively immune to the pandemic with a work-from home crowd and contracts with the biggest technology companies in the world. Sector-wise, the AI and ML tailwinds remain at their back.

A notable contribution also from EML, up +29.5% as they gave a positive business update to the market. Although their Gift & Incentive vertical has slowed with continued mall closures, with the PFS acquisition that vertical now only represents 37% of revenue (compared to 65% in 1H20). Meanwhile their GPR vertical continued to show growth (both organic and in PFS) and PFS was buoyed by growth in government programs to offset lower volumes elsewhere. EML too is another example of a company that stands to benefit with the long-term transition to digital payments only being accelerated by the pandemic.

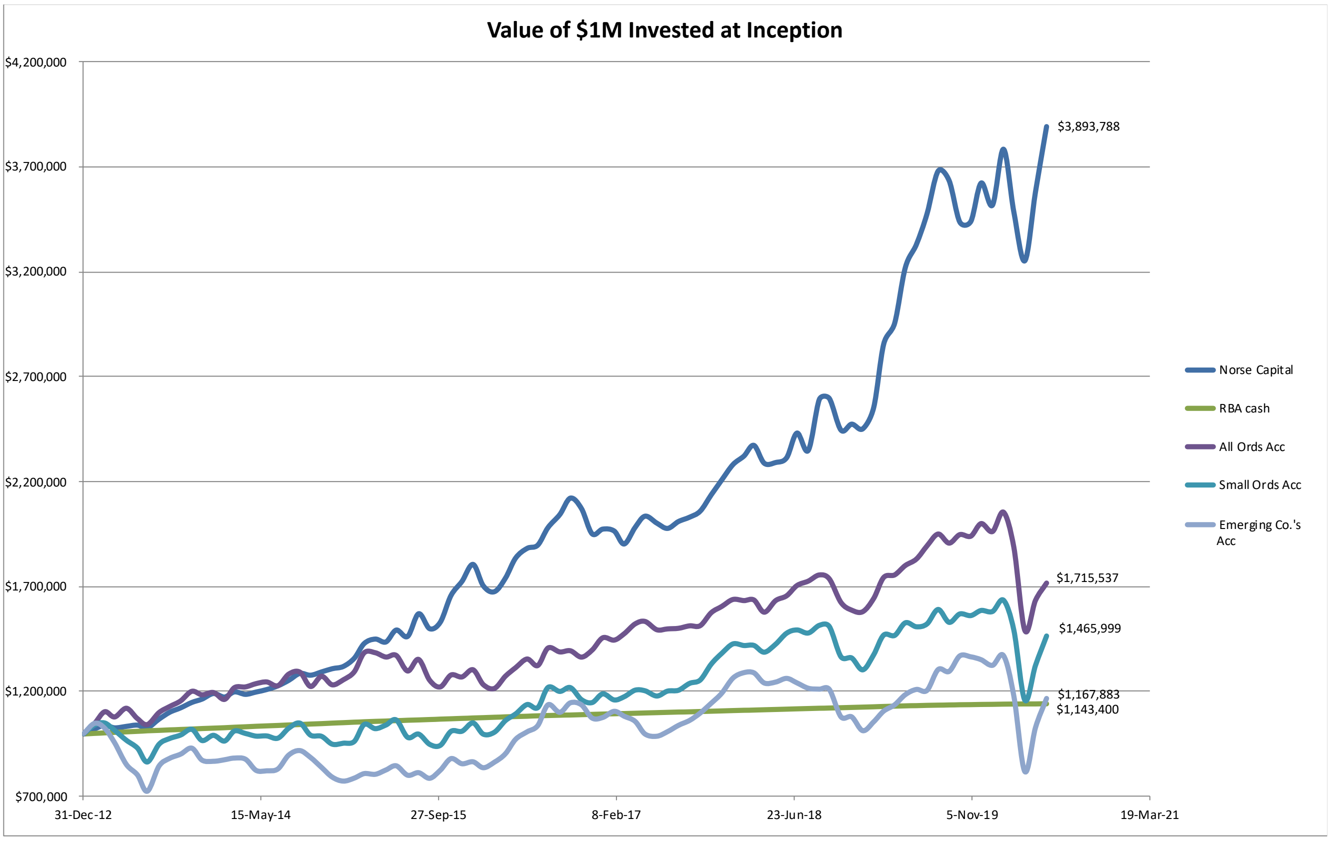
On the negative side, our shorts and hedging cost the portfolio ~-1.32% and the AUD another ~-0.62% or just shy of ~-2% together.

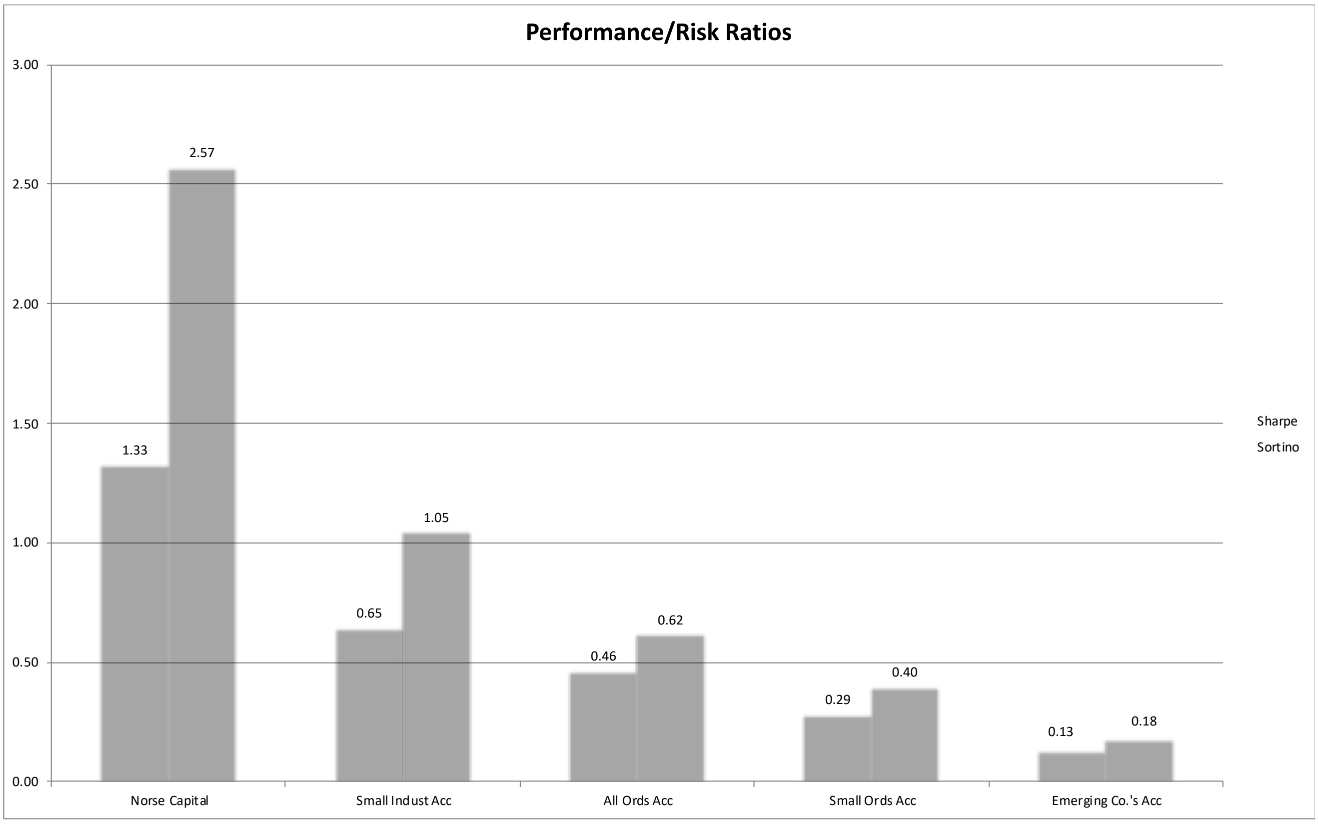
Portfolio Holdings:

Cash:	29.9% (AUD and USD)
Non-AUD exposure:	24.4%
Longs:	65.5%
Shorts:	-4.6%
Options delta:	11.7%
Net exposure:	72.6%
Top 5 equities (alphabetical):	AAPL, APX, EML, PME, RMD

The same top 5 holdings although AYX only just missed out re-joining. Our options delta has swung even more positive as our hedges go further out of the money as the markets rise but even more so as our long calls on enterprise software names approach 100% delta (just about equivalent to owning the stocks outright) as those stocks moved quite a bit higher in May.

We are once again faced with the good problem that much of our hedging has moved out of the money, biasing us to gradually replenish that hedging going forwards. Unfortunately, options volatility remains much higher than pre-pandemic levels so we will have to try to be creative and/or opportunistic.


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
$3,893,788
$1,715,537
$1,465,999
$1,167,883
$1,143,400
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
1.33
2.57
0.65
1.05
0.46
0.62
0.29
0.40
0.13
0.18
Norse Capital
Small Indust Acc
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino