# August 2020 Monthly Report

Returns 31-Dec-12 to 31-Aug-20

| | Norse Capital | All Ords Accum | Outperformance | Small Ords Accum | Outperformance |
|---|---|---|---|---|---|
| Inception | 318.08% | 83.80% | 234.29% | 56.29% | 261.79% |
| Inception per annum | 20.50% | 8.26% | 12.24% | 5.99% | 14.51% |
| CY2020 (ytd) | 18.79% | -6.22% | 25.01% | -1.28% | 20.07% |
| 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 | 1.31% | 3.71% | -2.39% | 7.24% | -5.92% |
| 3m | 7.37% | 7.14% | 0.24% | 6.61% | 0.76% |
| 6m | 19.88% | -2.54% | 22.42% | 4.58% | 15.30% |
| 1y | 14.96% | -3.51% | 18.47% | 2.07% | 12.90% |
| 2y pa | 26.92% | 2.36% | 24.57% | 1.50% | 25.42% |
| 3y pa | 27.15% | 6.70% | 20.45% | 8.01% | 19.14% |
| 5y pa | 22.70% | 7.93% | 14.78% | 10.47% | 12.24% |
| 7y pa | 20.94% | 7.19% | 13.75% | 6.93% | 14.01% |
| Sharpe Ratio | 1.37 | 0.52 | 2.64x | 0.33 | 4.17x |
| Sortino Ratio | 2.67 | 0.70 | 3.84x | 0.46 | 5.77x |
| Annualised standard deviation | 13.01% | 13.91% | | 16.72% | |
| 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 | 72.83% | 65.22% | | 57.61% | |

August saw a continuation in the equity bull market run with indices in the US taking out pre-coronavirus highs to see the S&P 500 add +5% and the Nasdaq +9.6% while in Australia the All Ords accumulation index tacked on +3.71% and the Small Ords accumulation index +7.24%. Unfortunately our portfolio lagged this month, up +1.31%. As will be discussed below, earnings results for our portfolio holdings showed a bifurcation between those companies with products or services deemed essential to their customers continued operation and those companies whose customers could delay increasing spending during the uncertainty wrought by Covid-19. Our exposure to companies in both camps served to almost net out the portfolio's monthly performance, resulting in just a small positive return.

The biggest detractor on the month was our former top-5 holding AYX whose shares dropped just over -31% on the month after reporting quarterly earnings. Revenue grew ~+17% and management guided for full year revenue growth of +10-11% and ARR growth of +30%. So still projected growth but a significant deceleration from consistent growth in the ~60% range which even accelerated to ~+75% in their last quarterly report prior to the pandemic outbreak. Tighter customer budgets resulted in lengthening sales cycles and likely smaller deals with AYX providing adoption licences at smaller sizes and contract lengths in response. We really should have taken some of the position off prior to results (20/20 hindsight) given the warnings in the previous quarterly about slowing sales momentum in the first coronavirus hit quarter, especially with the significant runup in share price. We did trim a little and given half our position is via long-dated calls, our exposure has automatically dropped to just under 3%. However we do remain positive in the medium to long-term; a high quality business with a net expansion rate of 126%, gross margins above 90% (!) and a high RoI product in a growing data science and analytics field. Their accounting revenue recognition methodology which hurt this quarter should prove a tailwind on any post-coronavirus recovery.

Next in line to detract from performance was the continued rise in the AUD, up +3.25% in August to cost the portfolio just under -1%. Seemingly low rates forever as the Fed announced they would tolerate inflation above their 2-3% target range conspired to drag the USD lower which has been evident in assets like gold and (unfortunately) the AUD.

RMD was also a negative on the month with the shares down -13.9%, posting FY revenue growth of +13% and non-GAAP operating profit +24%. The Covid-induced boost from respirators has receded but CPAP device sales have yet to recover from the Covid slowdown.

On the positive side of the ledger, AAPL continued its upward trajectory following the end of last month's big earnings beat, adding +21.4% in August (on top of July's +16.5%) and seemingly aided by the decision to split the stock 4:1, even though that should have no fundamental effect on the business. AAPL is now the first US$2t company and has leapfrogged into 3rd place in our portfolio.

A positive contribution also from RUL, up +21.2%. Although total revenue was only up small, Total Contract Value (TCV) was up +235% resulting in FY20 subscription revenue up +317% to offset losses under the old perpetual licence model. The market has started to look through the headline revenue number and we look forward to further confirmation of the company's long term growth potential.

Results too from our largest holding APX. Although APX was largely unchanged on the month (down -2.6%), the shares rallied hard into earnings up above $43 where we trimmed a tiny amount pre earnings. HY revenue grew +25% and underlying EBITDA +6% while FY EBITDA guidance was maintained at $125-$130m @ 70c AUD. The non-upgrade to guidance and the implied strong 2H:1H skew required to meet it had the shares retracing all of its gains post results. I normally dislike management relying on a 2H vs 1H skew to justify continued optimism; however Appen did highlight this would be the case way back in February, long before the 1H results. They increased spending on S&M, China, engineering and the government market which was what took their EBITDA growth down from +35% to +6%. Management is obviously positive on the RoI to spend to capture the opportunity which I would agree with given my view on continued AI/machine learning tailwinds. Committed revenue now stands at 12% of the total with ACV now at US$103m, up from zero in 2018 and including US$80m from one customer entered into during the half.

PME, our 2nd largest holding, was up +8.5% for the month but that also masks some large movements around results. FY underlying revenue grew +24% and underlying profit increased +33% (although was down sequentially from the prior half). The market initially took the shares down over -7% on the results but since the coronavirus nadir, transaction volume has retraced to > 90% of prior levels and management reiterated that their pipeline remains the strongest it has ever been.

Shorts and hedging were only a tiny cost to the portfolio this month, surprising for a month where the indices did so well.

Wrapping up, the bifurcation theme for our portfolio holdings this month has particular relevance for our portfolio performance going forwards into next year: (1) whether we (hopefully) see a vaccine towards the end of this year/early next year or (2) whether we have to live with the virus without the benefit of a vaccine or treatment for longer. We have holdings in both camps; should the world open up, we are optimistic on our holdings like AYX which should see customer spend return. PME, RMD, NAN and VHT should do well as hospitals and health care spending comes back. DIS as parks reopen. On the other hand, our other enterprise software basket holdings like ZM (which reported huge numbers post our 31-Aug close), SHOP, DDOG and TWLO should continue to do well in a pandemic, work/shop/stay-at-home world.

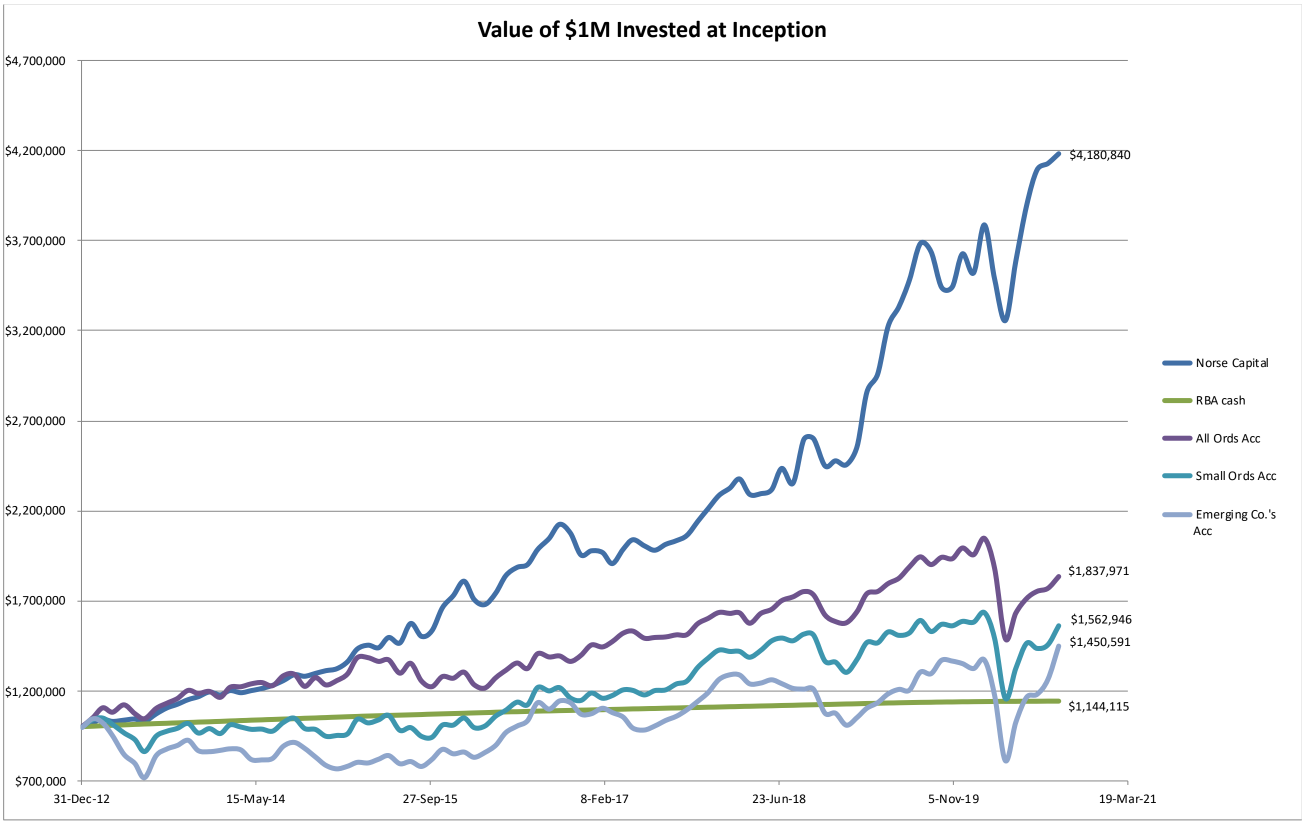
Ultimately though, regardless of the path out, we are optimistic about the longer-term outlook of all our holdings.

**<u>Portfolio Holdings:</u>**

| | |
|---|---|
| Cash: | 23.0% (AUD and USD) |
| Non-AUD exposure: | 29.7% |
| Longs: | 69.8% |
| Shorts: | -4.1% |
| Options delta: | 14.2% |
| Net exposure: | 79.9% |
| Top 5 equities (alphabetical): | AAPL, APX, EML, PME, RMD |

As mentioned, AYX drops out of our top 5, replaced by EML. Our US enterprise software basket currently sits at ~17.3% of the portfolio. Our non-AUD exposure continues to increase, as the likes of AAPL outperformed our Australian holdings this month.

Our net exposure remains just under the ~80% mark despite buying more put spreads this month. We bought puts on AAPL, QQQ and SPY and all of them are well out of the money. We will look to revisit replacing shares with long-dated call options later this month when the Jan-2023 options come to market.


Value of $1M Invested at Inception
$4,700,000
$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
$4,180,840
$1,837,971
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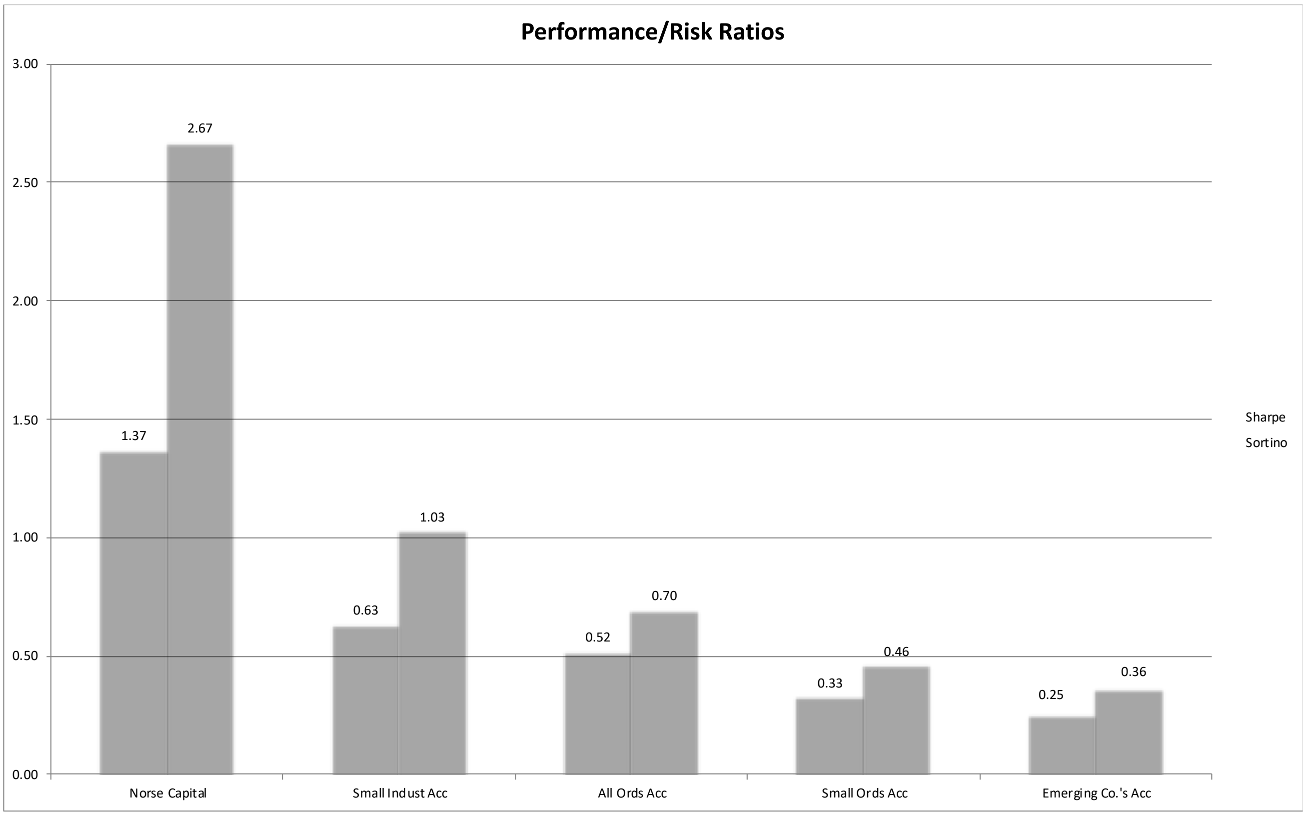
Norse Capital
RBA cash
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc


Performance/Risk Ratios
3.00
2.50
2.00
1.50
1.00
0.50
0.00
1.37
2.67
0.63
1.03
0.52
0.70
0.33
0.46
0.25
0.36
Norse Capital
Small Indust Acc
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino