December 2020 Monthly Report plus 2020 Year in Review

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

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	344.72%	103.11%	241.61%	72.90%	271.82%
Inception per annum	20.49%	9.25%	11.24%	7.08%	13.41%
CY2020	26.36%	3.64%	22.73%	9.21%	17.15%
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	0.11%	1.75%	-1.65%	2.76%	-2.65%
3m	6.69%	14.43%	-7.74%	13.83%	-7.14%
6m	8.70%	15.69%	-6.99%	20.28%	-11.58%
1y	26.36%	3.64%	22.73%	9.21%	17.15%
2y pa	34.57%	13.37%	21.21%	15.10%	19.47%
3y pa	24.86%	7.43%	17.43%	6.57%	18.29%
5y pa	19.70%	9.25%	10.45%	10.45%	9.26%
7y pa	20.67%	8.25%	12.42%	8.67%	12.00%
Sharpe Ratio	1.40	0.58	2.40x	0.39	3.55x
Sortino Ratio	2.73	0.81	3.39x	0.57	4.84x
Annualised standard deviation	12.81%	14.11%		16.78%	
Highest monthly return	11.78%	10.16%		14.27%	
Largest monthly loss	-7.88%	-20.94%		-22.38%	
Largest drawdown	-14.04%	-27.33%		-29.11%	
% positive months	72.92%	65.63%		58.33%	

Happy new year and welcome to 2021. A late report release, some other issues to attend to. December gave us a positive final month in 2020 for equity markets to cap off what turned out to be a positive year for the AUD and USD equity indices we follow, despite the emergence of the Covid-19 pandemic that wreaked havoc on lives and economies around the world. As usual we'll give a short recap on December before taking a look at 2020's performance.

Our portfolio managed to (just) eke out a positive month at +0.11%, lagging behind the All Ords (+1.75%), the Small Ords (+2.76%), the S&P 500 (+3.7%) and the Nasdaq (+5.7%).

APX was the main detractor, down -21.7% to cost the portfolio ~2.5%, as they announced a downgrade to previous guidance with their typical Q4 growth ramp up not as strong as expected due to Covid restrictions and customer reallocations to new projects away from more data-intensive existing projects and not helped by a much stronger AUD.

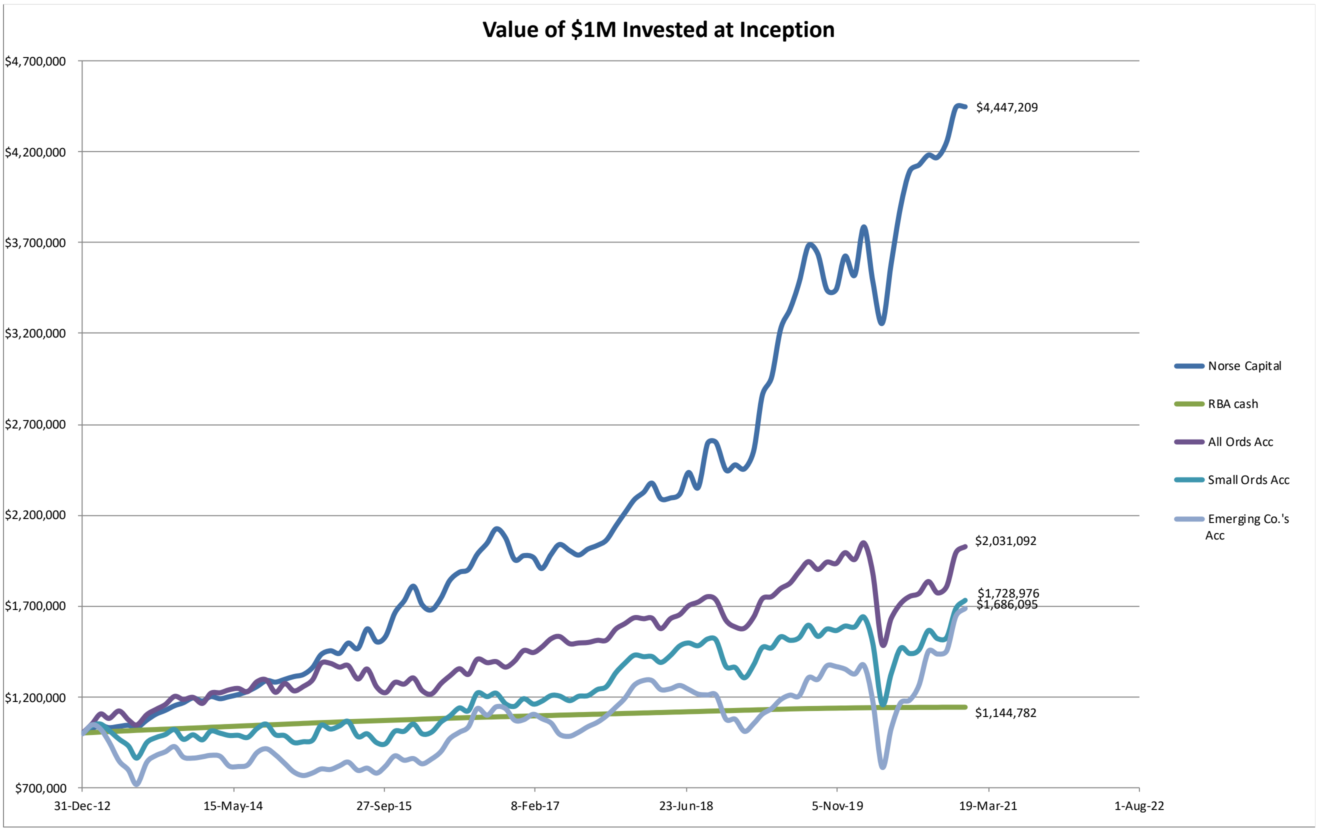
Negative contributions also from hedging which cost -0.6% and the aforementioned +4.76% rise in the AUD which cost another -1.4%.

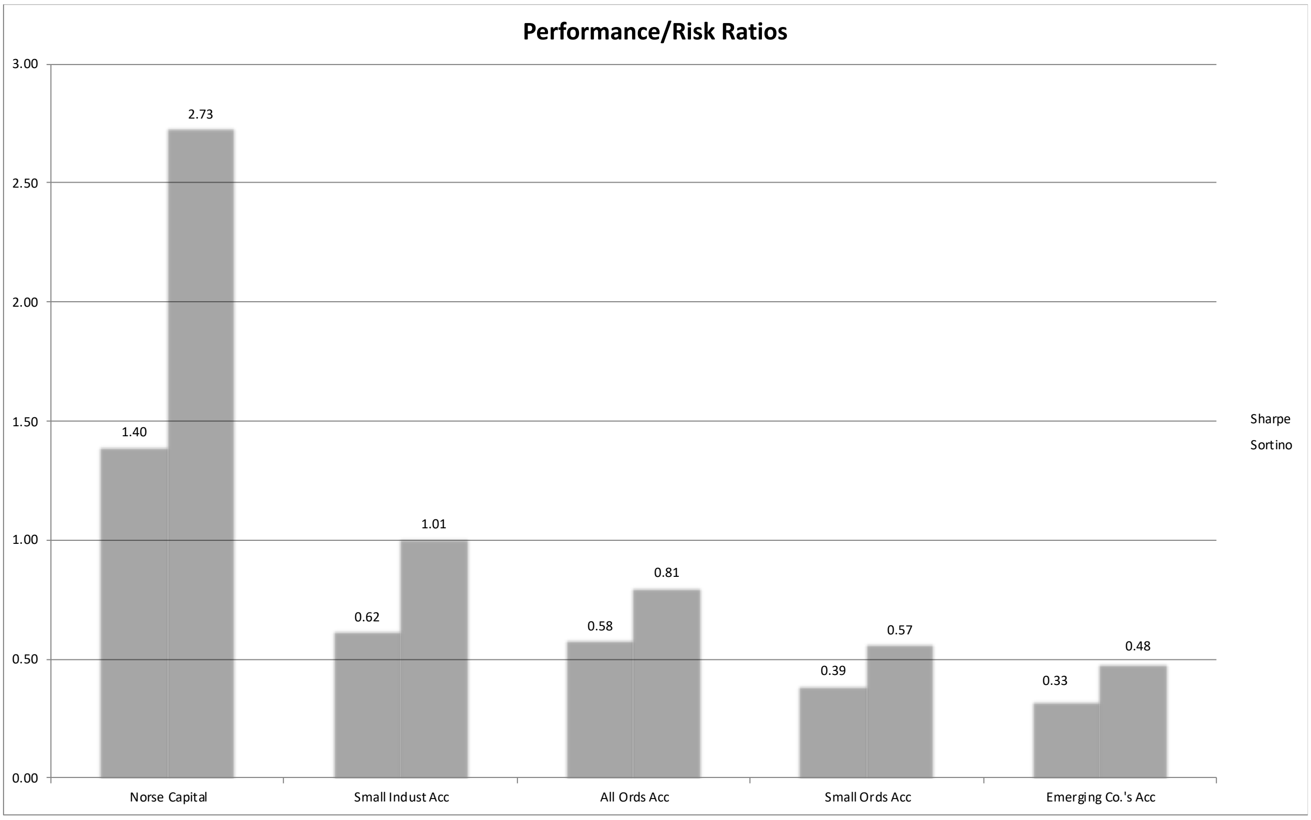
Positive contributions came from PME and EML while our enterprise software basket came in relatively flat with strong performances from CRWD and ZS on the back of the Solarwinds hack offsetting losses from TTD and ZM where we sold a third of our shares.

<u>Portfolio Holdings:</u>

Cash:	26.1% (AUD and USD)
Non-AUD exposure:	29.0%
Longs:	65.2%
Shorts:	-7.2%
Options delta:	18.4%
Net exposure:	76.3%
Top 5 equities (alphabetical):	AAPL, APX, EML, PME, RMD

TTD drops out of the top 5 with an -11.1% drop in December giving back some previous gains, to be replaced by RMD. Our US-listed enterprise software basket makes up ~19.7% of our portfolio while APX and PME represent roughly ~8.4% positions.


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
1-Aug-22
$4,447,209
$2,031,092
$1,728,976
$1,686,095
$1,144,782
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
1.40
2.73
0.62
1.01
0.58
0.81
0.39
0.57
0.33
0.48
Norse Capital
Small Indust Acc
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino

2020 Year in Review

2020 was the 8th year managing our portfolio and if you'd offered me a ~+26% return prior to the start of the year I would have been very happy to accept that. If you'd given me that choice in the depths of March when the first Covid tsunami hit, I'd have bitten your arm off to get the deal of a lifetime. And yet, looking back from the start of a new 2021, it's hard to shake the feeling of opportunities lost. Despite outpacing the All Ords by over 22% and the Small Ords by over 17%, we lagged considerably in the second half of 2020 by between ~-7% and -11.6% to eat into our ~+25% outperformance at end June. In addition, we trailed the tech-heavy Nasdaq which returned +43.6% in USD or +31.0% in AUD; seems about right for us to lag the Nasdaq given our cash weighting/lower net exposure but given some fantastic returns in some of our individual enterprise software holdings, it could have been much better if not for our timidity at the depths of March.

Anyway, let's take a look at what happened and what could have been better.

At a high level, we entered 2020 with a net exposure of ~70% and exited at ~76%, averaging ~71.5% for the year. Seems pretty consistent but that belies how drastically that changed in March with our exposure in the mid 30% level at the lows and just shy of ~43% at the end of March. Our consistent hedging and cash weighting approach over the years had its glory in the sun during that pandemic-induced market drop, protecting the portfolio and giving us a huge lead over the benchmark indices. The counterpoint though is what did we do with that opportunity. We did buy during the downturn, adding to APX and RUL and to our enterprise software basket, adding CRWD and ZM. We initiated positions in MA and XRO and closed out shorts in SIX and SEAS as well as buying back some of our put option hedges. However these additions to our net exposure were done in thimblefuls and at a snail's pace with our belief at the time that the eventual rebound in markets would take much longer than it did. The speed of the equity market recovery belied that belief and it was mostly thanks to our positive gamma that we got our net exposure back above 70% long.

Detractors:

Shorts and hedges: -2.1%

At one point in mid-March our shorts and hedges had contributed over +5% to the portfolio but ended the year detracting just over -2%. Hindsight would have had us closing out the hedge book at the lows but our approach has usually been to try and buy outright equity positions in individual stocks we like against the short hedges. So hedge losses should be compared to long positions we initiated while the hedge book was in the money. As mentioned above, that is where we were not aggressive enough.

AUD: -4.8%
Unsurprisingly the AUD rise of almost 10% in 2020 cost the portfolio. (The loss amount includes lower profits than otherwise would have been the case on US positions that grew during the year, so our ~30% US position would have otherwise been higher). Over the long-term we expect swings and roundabouts as we tend not to hedge AUD currency moves. But given the extreme lows in the AUD down to near 55c, we were again too slow/timid to take advantage.

Contributors:

APX: +2.4%
APX closed the year up just shy of +10% but had a huge range from pandemic lows below $16 to all-time highs above $43. We did manage to buy some on the dip near $19 and $16 which we sold out above $30 and $34. We trimmed further on the way up shy of $36 and again at $43 but made the mistake of not trimming further on the way down. APX initially seemed to be a business protected (as well as can be) from the pandemic with a stay at home workplace and well cashed up big tech customers; eventually though even APX was not immune as sales efforts to a locked-down Silicon Valley became more difficult and customer engineers were re-allocated to new projects that were less data intensive. Given what we believe to be a long runway of tailwinds in AI with industry projections of 28% spending growth and APX's position as the top provider of annotation services, we believe the current share price pullback should provide long-term growth from here.

PME: +3.6%
PME closed the year up +52.8% to contribute +3.6% to the portfolio as we left the position untouched during 2020. As I have mentioned many

times, PME is one of the highest quality companies trading on the ASX with long-term minimum contracts giving high forward earnings visibility. As a consequence though, it also trades at a high premium and needs to continue winning new contracts to justify that premium. 2020 did not disappoint on that front with PME winning 5 contracts totalling $83.5m (and followed up early in 2021 with another $40m contract). Pleasingly the latest contract also includes use of PME's open archive product. The additional share price burst in 2021 following the latest contract win propelled the shares past $40 and into our highest weighted holding until we trimmed the position slightly.

AAPL: +2.8%
One of the mega cap tech winners in the pandemic with robust hardware sales (pandemic-induced Mac buying and high-growth in wearables coupled with new 5G iPhones) and continued strength in services propelling the shares up over 80% (in USD terms). In a crisis, the strong and well capitalised got stronger, taking the company to over $2 trillion in market cap, despite many years of share buybacks. We have held the shares for many years now and at one point the daily move up was over 4x the price we paid for our initial stake. We intend to continue to try and hold our position for the long term.

US-listed enterprise software basket: +15.9%
What started out as an ~5% basket position when we first decided to invest in enterprise software companies is now an almost ~20% portfolio position and was the biggest contributor to performance in 2020. Our original thesis of an inexorable trend towards digital transformation was exponentially accelerated by the pandemic which brought forward years of that transformation into a matter of months or less with the individual holdings showing tremendous growth in revenues which reflected into share price growth. Most of the basket holdings had triple-digit percentage gains in 2020 with the likes of CRWD +325%, DDOG +161%, SHOP +185%, MDB +173%, TTD +208%, TWLO +244% in the year and ZM +172% from our purchase price. The individual holding performances added positively to our portfolio performance but at the same time also highlight the potential opportunities gone begging. The digital transformation pandemic jump start was almost a once in a blue moon event that our portfolio should really have taken more advantage of and increased our portfolio weightings as results and our conviction increased.

Time to finish the self-flagellation. Unlike Hindsight Capital LLC (our affiliated sister fund) which took full advantage of its crystal ball to record yet another record-breaking performing year, we have to be content with 2020’s results. In a year that has been devastating for so many, we in Australia should count our good fortune and so I’ll stop carping on about missed opportunities.

All the best for 2021, hopefully much improved from 2020.