January 2023 Monthly Report plus 2022 Year in Review

Returns 31-Dec-12 to 31-Jan-23

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	265.67%	147.00%	118.67%	75.77%	189.90%
Inception per annum	13.71%	8.84%	4.87%	5.32%	8.39%
CY2023 (ytd)	1.66%	6.44%	-4.77%	6.56%	-4.89%
CY2022	-30.79%	-2.96%	-27.83%	-18.38%	-12.41%
CY2021	16.86%	17.74%	-0.88%	16.90%	-0.04%
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	1.66%	6.44%	-4.77%	6.56%	-4.89%
3m	-7.33%	9.55%	-16.88%	7.64%	-14.97%
6m	-2.90%	9.75%	-12.65%	2.34%	-5.25%
1y	-23.96%	10.54%	-34.51%	-4.44%	-19.53%
2y pa	-9.50%	10.11%	-19.61%	0.95%	-10.46%
3y pa	-1.15%	6.37%	-7.52%	2.41%	-3.56%
5y pa	9.48%	8.63%	0.85%	4.35%	5.13%
7y pa	11.49%	10.40%	1.09%	8.41%	3.08%
10y pa	13.57%	8.92%	4.65%	5.36%	8.20%
Sharpe Ratio	0.83	0.60	1.39x	0.32	2.57x
Sortino Ratio	1.34	0.84	1.60x	0.45	2.95x
Annualised standard deviation	15.04%	14.17%		17.36%	
Highest monthly return	11.91%	10.16%		14.27%	
Largest monthly loss	-10.61%	-20.94%		-22.38%	
Largest drawdown	-36.68%	-27.33%		-29.11%	
% positive months	70.25%	66.12%		58.68%	

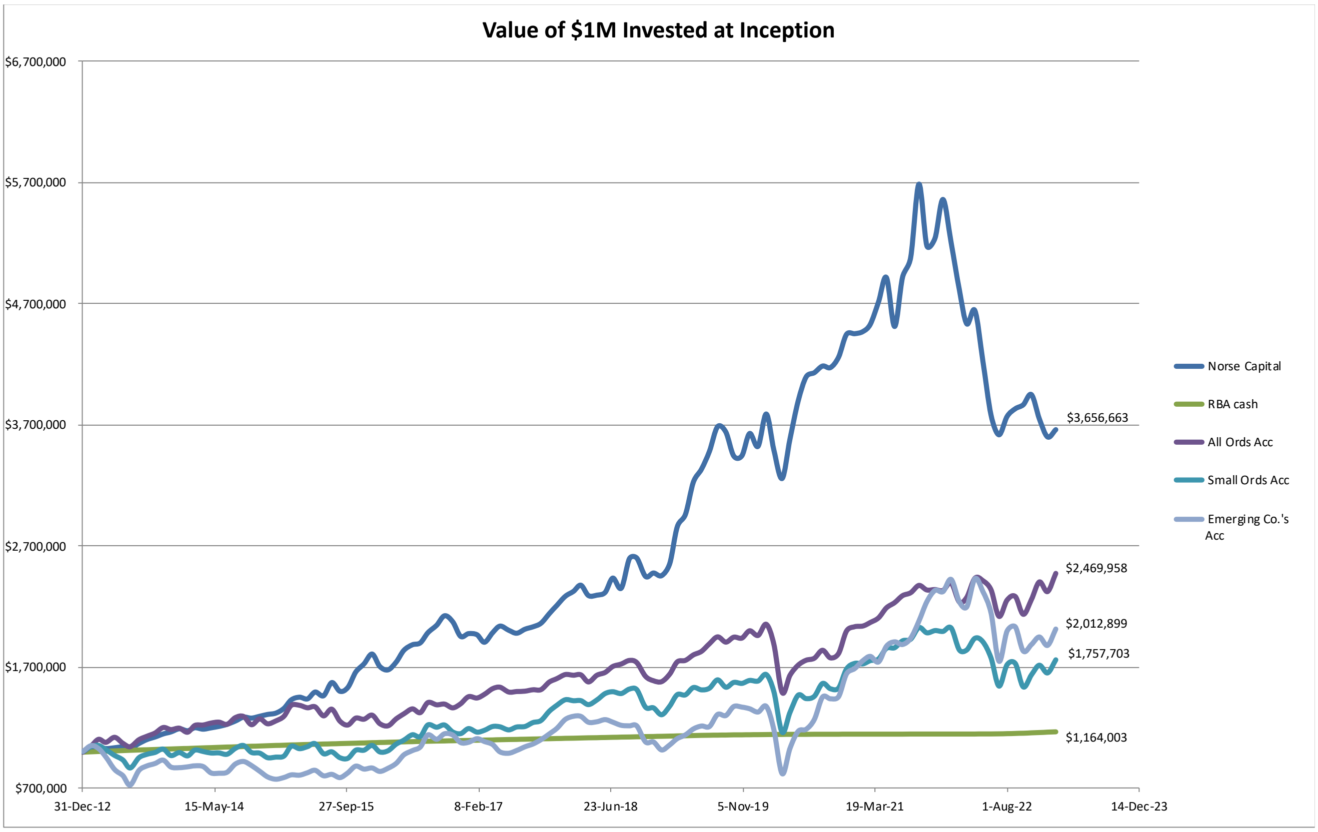
A quick monthly recap before turning to a review of 2022. Nice to have a positive start to 2023 but that's about all the positive from January. On a relative basis our +1.7% month substantially trailed the Aussie and US indices we follow with the All Ords +6.4%, the Small Ords +6.6%, the S&P 500 +6.2% and the Nasdaq +10.7%. The underperformance due to (1) shorts and hedges costing us -3.23%, I unfortunately added additional short-term hedging to cover my enforced temporary absence from the portfolio, (2) the AUD rallying +3.5% to cost an additional -1.42% and (3) the underperformance of the highest weightings in our enterprise software basket (e.g. CRWD only +0.6%, DDOG only +1.8%) vs our specific basket hedge etf shorts (ARKW +29.2%, WCLD +14.5%).

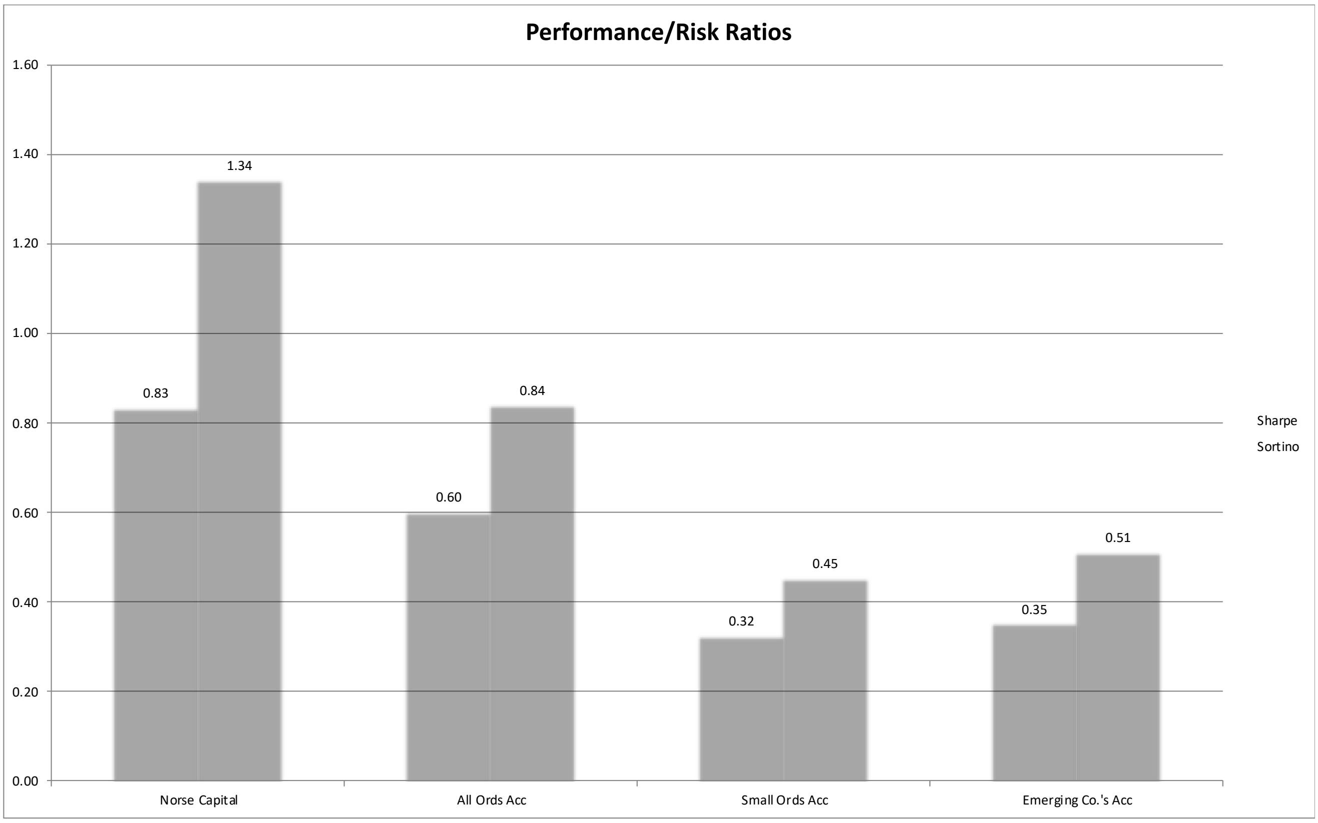
On the positive side, PME rose +21% with the announcement of 2 new deals in the US in January: a $12m 8-year deal with Samaritan Health and a $25m 7-year deal with the University of Washington, on top of a late 2022 $15m 7-year deal with Luminis Health.

Portfolio Holdings:

Cash:	28.5% (AUD and USD)
Non-AUD exposure:	32.9%
Longs:	84.9%
Shorts:	-23.4%
Options delta:	11.1%
Net exposure:	72.7%
Top 5 equities (alphabetical):	AAPL, PME, RMD, RUL, TTD

Similar to the previous month with the same top 5 positions and hedging in place. The portfolio net exposure has turned longer as the markets rallied above the strikes of our "just-in-case" calls on SPY and QQQ that we purchased as relatively cheap insurance vs our shorts and hedges.


Value of $1M Invested at Inception
$6,700,000
$5,700,000
$4,700,000
$3,700,000
$2,700,000
$1,700,000
$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
14-Dec-23
$3,656,663
$2,469,958
$2,012,899
$1,757,703
$1,164,003
Norse Capital
RBA cash
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc


Performance/Risk Ratios
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
0.83
1.34
0.60
0.84
0.32
0.45
0.35
0.51
Norse Capital
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino

2022 Year in Review

Our first ever negative year in what was the 10th year of managing the portfolio. If I'd been offered that result 10 years ago, I'd have been very, very happy. However, coming off 9 positive years to drop -30.8% though, was painful, especially compared to the -3.0% for the All Ords and -18.4% for the Small Ords. In a pyrrhic victory, we did slightly outpace the Nasdaq's -32.3% decline while falling short of the S&P 500's -19.4% drop.

A painful result, especially relative to the All Ords, but somewhat to be expected given the preponderance of resources exposure in the All Ords index in a year that saw inflation increase the prices of most commodities while inflation-induced interest rate increases hit growth/technology shares hard. As a tiny comfort comparison, and given our biggest exposure remains our enterprise-software basket, the ARKW (ARK Next Generation Internet etf) plunged -67.5% while the WCLD (WisdomTree Cloud Computing etf) dropped -52.5%. In ASX-land the XTX (S&P/ASX All Technology Index) fell -32.8%. However there's no prizes awarded for relative-schadenfreude vs how poorly other technology-focused investments did in 2022.

At a high level, we entered 2022 with a cash weighting of 20.2% and a net exposure of 81.9 %, exiting 2022 at 33.9% and 62.1% respectively. Our average numbers for 2022 were 33.9% and 60.7%. The first thing that stands out is that we entered 2022 with a net exposure that was too high. Historically we have averaged ~75% net exposure and if anything, we should have been under the average given the high valuation multiples evident in the market at the end of 2021. However, we fell into the trap of reducing exposure too slowly when we'd taken cash out of the portfolio later in 2021 and to be fair, being slow to sell had been an ingrained lesson in the minds of many portfolio managers over the preceding decade as markets continued inexorably higher. 2022 obviously had other lessons in store…

<u>Detractors:</u>

Enterprise software basket: -13.8%
Unsurprisingly our biggest loser. We entered 2022 with a basket weighting of just shy of 19% and over the course of the year, the individual components fell precipitously with our largest basket holdings CRWD -48.6%, DDOG -58.7%, TTD -51.1% and ZS -65.2%. Other smaller components did even worse, e.g. SHOP -74.8% on the year

although we escaped a lot of that carnage by holding long-dated calls that expired worthless before re-buying the shares much lower. Adding on dips in the initial 2022 downturn didn't help either.

MIGI: -5.5%
Our previous largest individual holding, the shares tumbled -92.1% in 2022. To be fair, we were escrowed in a chunk of our position until 2022 and sold a portion at the first available opportunity which in hindsight proved to be the highs of the year. Unfortunately, we only sold enough at that time to recoup our investment capital. (A lesson that the term "free carry" on the position is not really free…) We did follow up with further selling during the year, albeit at continually lower prices to eventually take out ~2.5x our initial invested capital until the prices were so low we just held onto the remaining position. In retrospect a profitable investment over its life but a massively volatile swing positive then negative (and which I'd warned could be the case when the escrow conditions were first put into effect). The lesson here (once again) was to not be shy when selling.

EML: -2.1%
We were blindsided as the Central Bank of Ireland investigation turned into an EML fiasco that culminated in the resignation of the CEO. Very hard to have sniffed it out without the benefit of hindsight but the company does operate in a difficult to parse payments industry and was growing its European operations (too) quickly. We did bail out of our position near $1.40, down ~-56.7% from where it started 2022. The shares subsequently lost another almost -55% to end the year. Perhaps we can chalk the loss down to it coming with the territory of investing in a financially opaque industry and happy to have sold well out. An improvement would have been to bail at an earlier stage after the warnings had come out, yet another lesson in the art of selling.

Others:
Multiple position losses that cost the portfolio between -1% to -2% each. Not surprising in a negative year for equities.

<u>Contributors:</u>

Shorts and hedges: +3.3%
As would be expected, shorts and hedging were the biggest positive contributors in a year like 2022. However, I would have to classify the largest positive contributor as the biggest disappointment in that the magnitude of the gains were nowhere near enough versus the size of the

losses. Again, too slow to recognize the change in the wind (habits no doubt ingrained over the previous 9 years where those who didn't sell or more so bought-the-dip did so well). Also, the severity of the falls mentioned above discussing our enterprise software basket were multiples of the falls in our initial hedging instruments, i.e. the SPY (S&P 500) and QQQ (Nasdaq 100) etfs. We did not really transition to using cloud-specific hedges until later in the year, almost too late. Also of note, our short META position actually made up almost a third of the positive contribution.

AUD: +2.6%
Our natural short-AUD position, a quasi-hedge, helped in a down-year as the AUD-USD currency rate dropped -6.2%. In fact, the quasi-hedge had been contributing almost an additional +3% to the portfolio until the last quarter of the year when equity markets outside of the high growth/ technology area started rallying and the AUD rallied alongside it. Unfortunately, our area of focus/exposure actually double-dipped towards previous lows while other sectors were rallying. So together, shorts and hedges plus our AUD quasi-hedge contributed just shy of +6% in total.

In terms of lessons going forwards, seemingly the same lesson as noted last year and which unfortunately did not permeate deeply enough into my sub-conscious: do not be shy with selling, especially after the decision has been made. (Witness starting the year with too high a net exposure due to selling too slowly, not selling enough of both MIGI and EML earlier when the sell decision had already been made and being too slow and conservative on the hedging front).

Where to from here? No guarantees and inflation has yet to be tamed although inflation's glidepath does look positive so far (i.e. going lower albeit slowly). Many of our positions have much lower valuations, although if a recession eventuates are the valuations low enough to compensate for probably lower growth/earnings prospects during such a potential recession until the market can see through to the other side? No easy answers but I intend to stay the course as over the long run, good companies should compound their way out of any shorter-term obstacles. Whether I can learn from these lessons along the way, well hopefully we've already had most of the bad news hit (from both in and out of the market) and it's positive from here 🤞!