December 2023 Monthly Report plus 2023 Year in Review

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

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	323.45%	162.17%	161.28%	77.86%	245.59%
Inception per annum	14.01%	8.66%	5.35%	4.98%	9.03%
CY2023 (ytd)	17.73%	12.98%	4.75%	7.82%	9.90%
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	4.76%	7.44%	-2.68%	7.23%	-2.47%
3m	11.77%	8.67%	3.11%	8.52%	3.26%
6m	13.83%	7.95%	5.88%	6.42%	7.41%
1y	17.73%	12.98%	4.75%	7.82%	9.90%
2y pa	-9.73%	4.71%	-14.44%	-6.19%	-3.54%
3y pa	-1.62%	8.88%	-10.50%	0.95%	-2.57%
5y pa	11.53%	10.66%	0.87%	6.39%	5.13%
7y pa	11.49%	8.76%	2.74%	5.90%	5.59%
10y pa	13.50%	8.16%	5.35%	6.00%	7.50%
Sharpe Ratio	0.84	0.58	1.46x	0.29	2.87x
Sortino Ratio	1.38	0.82	1.70x	0.41	3.35x
Annualised standard deviation	14.95%	13.99%		17.14%	
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	68.18%	64.39%		57.58%	

As previewed in last month's missive, a slightly later monthly report as I spent a few weeks in Europe and revisited the scene of last year's skiing accident. Thankfully, mission accomplished – no accidents this time.

Anyway, a quick monthly recap before turning to a review of 2023. Nice to continue the positive ending to 2023 with a +4.8% result although well behind the All Ords and Small Ords at +7.4% and +7.2%. We were slightly ahead of the S&P 500's +4.4% and a bit behind the Nasdaq's +5.5%.

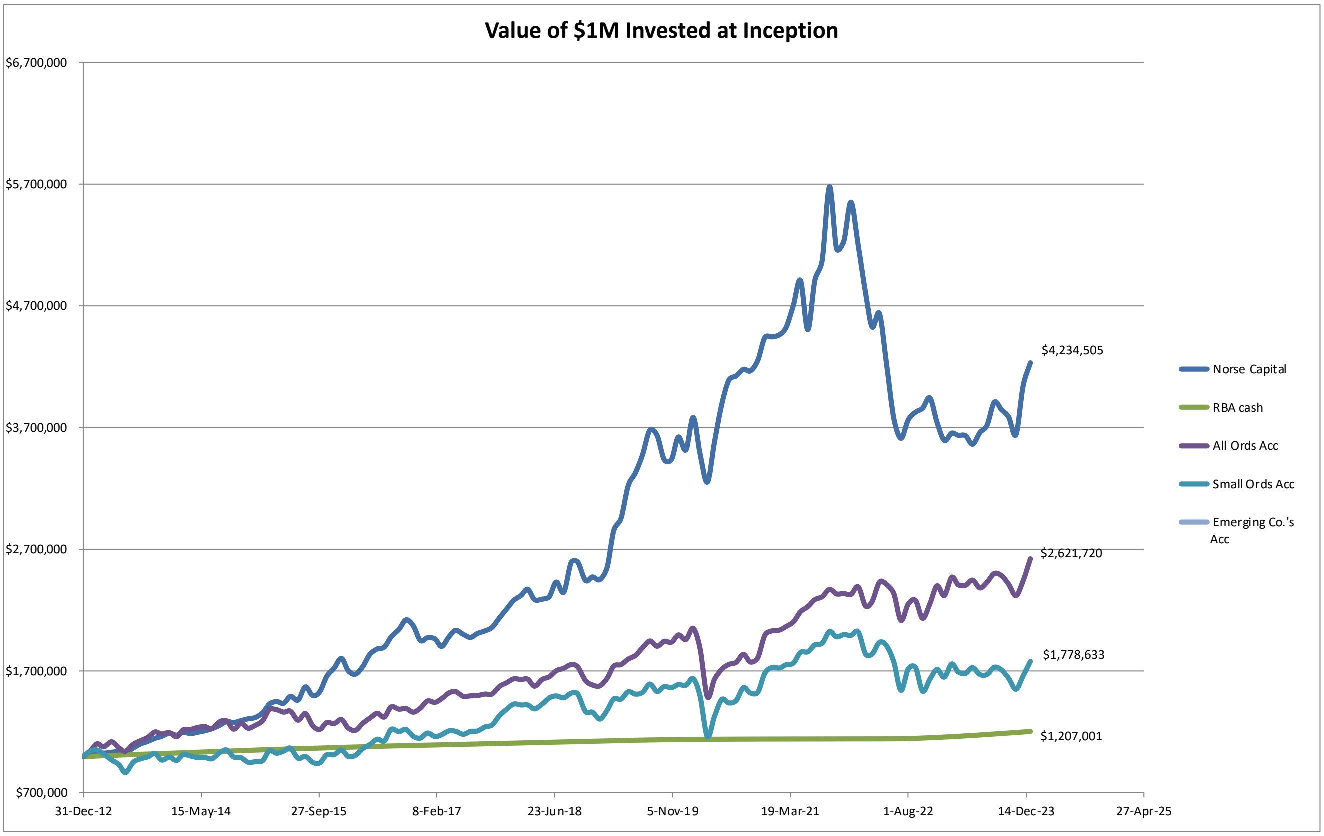
The main detractors were shorts and hedging which cost the portfolio -0.6% and the +3.1% rise in the Aud-Usd which cost us -1.3%.

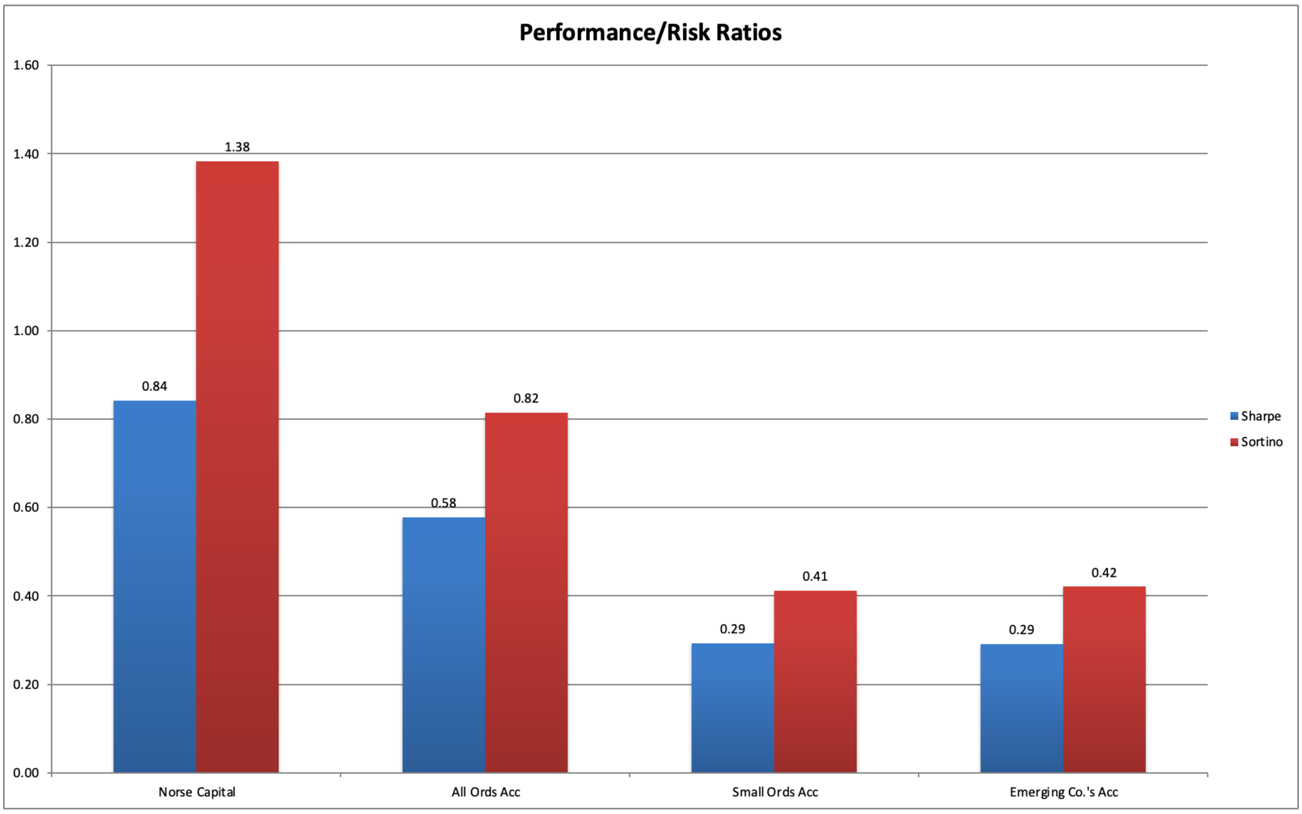
Positive contributions from RUL which rose +14.8% and PME +8.4% as well as the ASX listing of LTP which opened +75% from its IPO price. (LTP was previously one of our unlisted holdings, held since mid 2021. We took profit on a substantial portion of our holding.)

Portfolio Holdings:

Cash:	14.6% (AUD and USD)
Non-AUD exposure:	23.1%
Longs:	88.2%
Shorts:	-6.1%
Options delta:	-2.2%
Net exposure:	79.9%
Top 5 equities (alphabetical):	AAPL, CRWD, PME, RMD, RUL

Net exposure is slightly higher, just shy of 80% as option deltas on the short side decrease, despite rolling some of our hedges further out and some small trimming of CRWD in January. The rise in RMD has seen it reclaim a top 5 position at the expense of TTD which has been treading water recently. We maintain hedges in AAPL and RMD on an individual stock basis as well as QQQ and SPY at an index level, although most of the option strikes are now a fair way below market. Our outright shorts remain in QQQ and SPY, albeit at a modest weighting.


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
27-Apr-25
$4,234,505
$2,621,720
$1,778,633
$1,207,001
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
0.84
1.38
0.58
0.82
0.29
0.41
0.29
0.42
Norse Capital
All Ords Acc
Small Ords Acc
Emerging Co.'s Acc
Sharpe
Sortino

2023 Year in Review

Back to positive following 2022's first ever negative year with our +17.7% outpacing the All Ords +13.0% and the Small Ords +7.8%. However, we trailed the US indices by a large margin with the S&P 500 +24.2% and especially the Nasdaq which posted +43.4%.

So mixed feelings; good to post a double-digit return above our current lifetime return rate and to outpace the All Ords and Small Ords. Disappointing to trail the US indices, especially the Nasdaq, by such a large margin. We'll take a look at why below.

At a high level, we entered 2023 with a high cash weighting of 32.2% and a net exposure of only 62.1 %, exiting 2023 at 15.6% and 74.2% respectively. Our average numbers for 2023 were 23.6% and 72.5%. Looking at the averages, not too dissimilar to our long-term cash and net exposure levels, where we have typically held a roughly 25%/75% balance. However, the intra-year timing of our net exposure levels left something to be desired as we'll examine in the following detractors section.

Detractors:

Shorts and hedges: -9.7%
Not just our biggest loser but the most we have ever lost to our hedge component in our history. What stands out is that half of that yearly loss occurred in the month of January 2023 alone, coincident with my ski accident and surgery and the subsequent decision to hedge a significant portion of the portfolio. In addition, implementing the majority of the hedges via outright shorts (QQQ and SPY) as that was the most pragmatic way to do it quickly. The lesson – don't make large portfolio decisions on the fly, especially when feeling sorry for yourself. Perhaps easy to say in hindsight but making large changes to your normal approach in one fell swoop is rarely the correct decision. A corollary lesson for those investing money with active managers – make sure to analyse key-person risk to ensure there is backup to cover for unexpected events. A lesson certainly learnt the hard way. In the end the QQQ Nasdaq 100 etf (which represents the bulk of our shorts and hedging) ended January 2023 up +10.6% and posted a +53.8% return for calendar 2023. Ouch – a painful hedge/short choice, especially in the size we had in January 2023.
A tiny -0.05% drop in AUD for the year, timing of currency hedges cost the portfolio an additional -0.4% in 2023.

RMD: -1.4%
The 2023 rise of GLP-1 agonists and their anti-obesity drug corollaries led to a significant drop in the values of companies which could potentially be substantially affected by the promise of a significant reduction in obesity in a large percentage of the population. In Resmed's case, the fear that this could lead to a permanent reduction in future demand as some portion of those who would otherwise have needed CPAP machines to combat sleep apnoea might no longer require them as they lose weight via anti-obesity drugs instead. Plenty written on this subject elsewhere but suffice to say this resulted in a -17.8% drop in the RMD share price in 2023, even after a decent bounce from the lows. The lesson here is that I was not proactive enough for the risks to the Resmed thesis; historically over a more than 10-year holding period, Resmed's stellar performance saw me put it in the bottom-drawer in terms of risk worries, to be taken out every financial report to ensure the thesis was intact, then put back in that same bottom drawer. Despite being cognisant of the rise of anti-obesity drugs, the letdown here was not being proactive enough to join the dots from the anti-obesity drugs leading to a risk to Resmed's future demand. We continue to hold Resmed in the portfolio but have hedged a portion via out-of-the-money puts on the US listing. Resmed's latest financial report has been very promising but upcoming trial results for anti-obesity drugs in different settings could mean a bumpy ride.

<u>Contributors:</u>

Enterprise Software Basket: +12.5%
A bounce-back from 2022's biggest detractor, recouping the majority of that year's -13.8% fall. The biggest gains came from our cybersecurity holdings with CRWD up +142.5% and ZS +98% while TTD and SNOW rose +38% and +38.6% and DDOG +65.1%. In the case of TTD, we trimmed the position twice, at ~$90 and again at ~$80. In 2023 we concentrated our basket holdings into the highest FCF margin holdings; as a consequence, we sold out of AYX, MDB and SHOP.

Pro Medicus: +6.6%
PME rose +61.2% in 2023. Unfortunately, we trimmed the position 3 times at ~$65, ~$70, and ~$85 while PME has gone on to record subsequent all-time highs and is now trading over $100. Despite trimming more in 2023 and now holding only 22% of our original position which we started all the way back in late 2014, the latest rally in January 2024 has taken the position back to our largest holding. One form of self-torture is to imagine how the portfolio would be looking

today if I'd never sold a single share. As it is, between PME and AAPL, if I'd never sold a share then everything else would just be noise. If only… Oh well. Anyway, for PME, September 2023 was when they announced the largest contract win in their history – the 10 year, $140m contract with Baylor, Scott & White Health. This was almost an order of magnitude step change higher than their previous contracts and was the fundamental catalyst that powered PME higher.

Apple: +4.8%
AAPL rose +48.2% in 2023, a remarkable performance for the biggest market-cap company in the world (now back and forth with MSFT). In actual fact, that +48.2% was the "lowest" amongst the Magnificent 7. At least in the case of AAPL, I have not trimmed the position since the first half of 2020. Albeit that has been made easier to do with the existence of the AAPL options market which I have used periodically to hedge the position.

In terms of lessons going forwards, the big one already mentioned previously is not to change your investment and risk management process on the fly. Especially not when in a negative situation and doubly so making that decision from a hospital bed. Life lessons learnt the hard way, but so long as the lesson is learnt.

Where to from here? It sems as though central bankers have managed to put the inflation genie back in the bottle without triggering the recession that usually follows rate-hiking cycles. No guarantees inflation continues lower or that recession has been avoided although so far, so good. On an index level, stocks do seem expensive although potential rate cuts (how many and how quick) could reduce that apparent over-valuation. And for individual companies, could 2024 prove the AI revenue tailwind thesis to potentially more than justify current valuations?

So, continue with our historical investment and risk management process (no more big on the fly changes and no more accidents please!) Continue to try to hold good companies with good revenue/earnings/FCF prospects and hedge on the periphery as needed. And try to keep/find those with real positive AI optionality. 🤞 and good luck for 2024!