December 2024 Monthly Report plus 2024 Year in Review

Returns 31-Dec-12 to 31-Dec-24

	Norse Capital	All Ords Accum	Outperformance	Small Ords Accum	Outperformance
Inception	514.96%	192.17%	322.78%	92.73%	422.23%
Inception per annum	16.33%	9.34%	6.99%	5.62%	10.71%
CY2024	45.23%	11.44%	33.78%	8.36%	36.87%
CY2023	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	-0.21%	-3.07%	2.86%	-3.07%	2.87%
3m	14.85%	-0.86%	15.71%	-1.01%	15.87%
6m	19.48%	6.93%	12.55%	5.46%	14.02%
1y	45.23%	11.44%	33.78%	8.36%	36.87%
2y pa	30.71%	12.19%	18.52%	8.08%	22.63%
3y pa	5.77%	6.90%	-1.13%	-1.57%	7.34%
5y pa	11.79%	8.30%	3.49%	4.01%	7.79%
7y pa	15.19%	8.61%	6.58%	4.37%	10.82%
10y pa	16.61%	8.80%	7.81%	7.27%	9.34%
12y pa	16.33%	9.34%	6.99%	5.62%	10.71%
Sharpe Ratio	0.97	0.59	1.65x	0.30	3.27x
Sortino Ratio	1.65	0.83	1.98x	0.42	3.92x
Annualised standard deviation	14.83%	13.58%		16.63%	
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	69.44%	65.28%		57.64%	

A small -0.2% loss to close out calendar 2024, only the 2nd negative month for the year (along with the CRWD-fallout July negative month) but ahead of the Australian indices with both the All Ords and Small Ords

-3.1%. Also ahead of the S&P 500 which was down -2.5% but trailing the Nasdaq at +0.5%. It was also the best year so far for the portfolio, the +45.2% result eclipsing 2019's +43.4% and ahead of the indices we follow with the All Ords adding +11.4%, the Small Ords +8.4%, the S&P 500 +23.3% and the Nasdaq +28.6%.

So a brief recap for December before we dive into 2024.

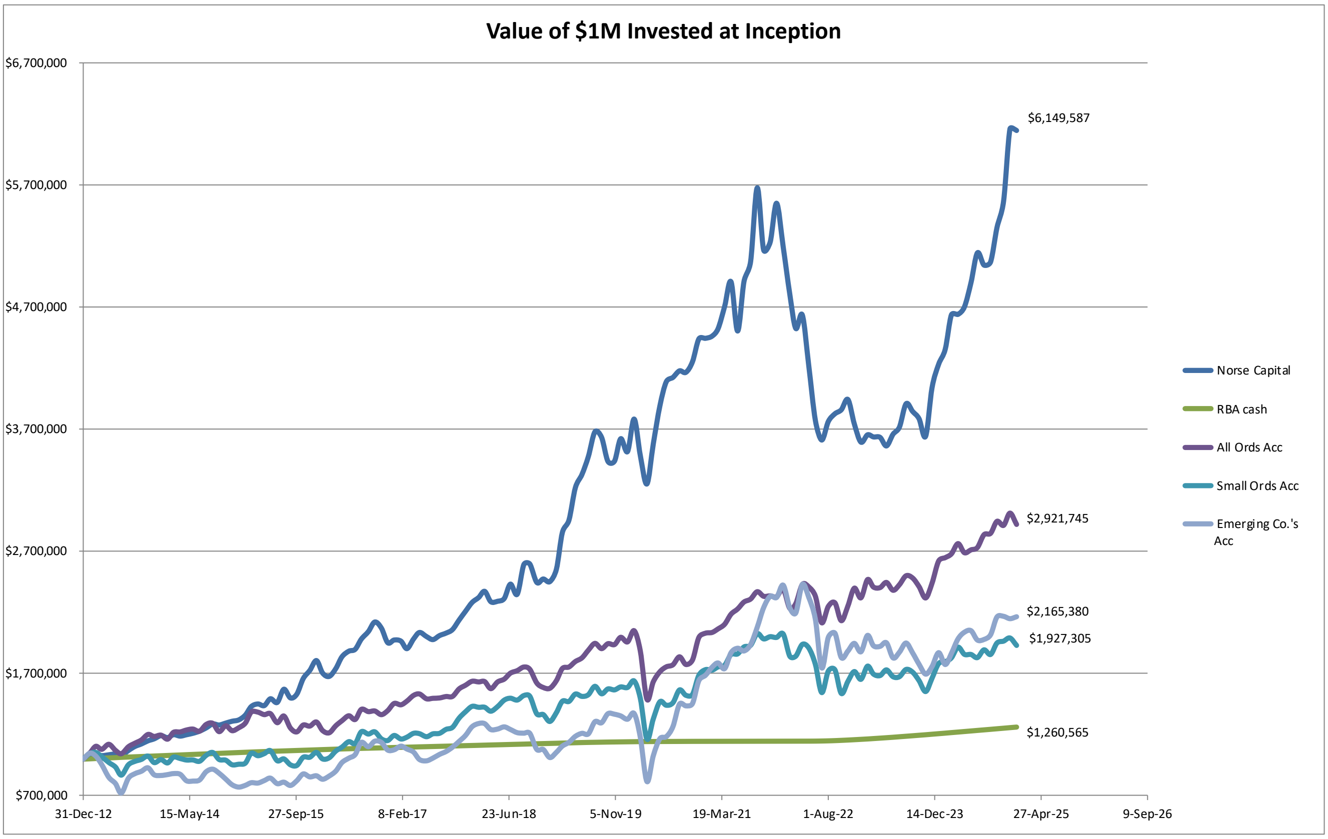
The biggest cost for the month came from our US enterprise software basket which cost the portfolio ~-1.2%, led by TTD down -8.6%, ZS -12.7% and DDOG -6.5%. The software space as represented by the IGV etf was lower by -4.4% for the month.

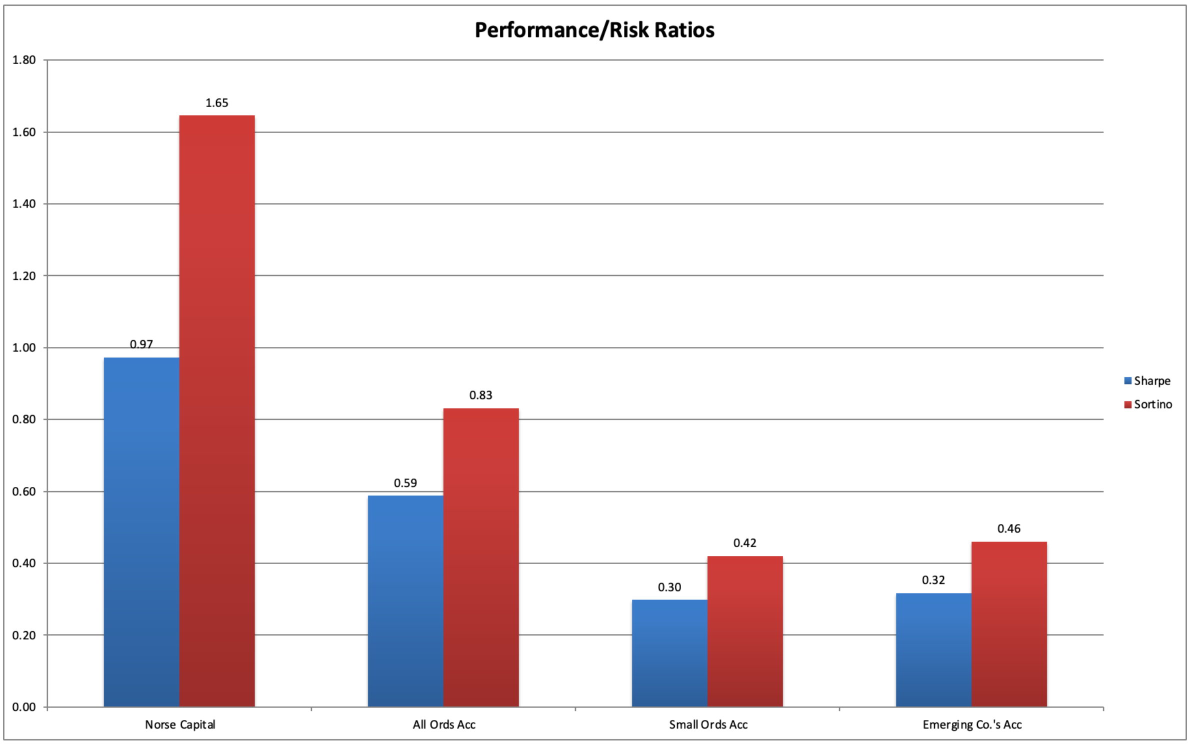
Our biggest positive contribution came from the -6% fall in the AUD-USD currency pair which contributed +3.1% to performance. The USD had a strong month with the market pricing in potential Trump tariffs and the Fed pulling back on the number of projected rate cuts in 2025. My decision last month to cut back ~2/3rds of our AUD currency hedge (i.e. increase our USD exposure) has so far proved fortuitous. AAPL's +5.5% rise added ~+0.5% to the portfolio while shorts and hedges contributed another +0.4%.

Portfolio Holdings:

Cash:	13.9% (AUD and USD)
AUD-USD currency exposure:	34.2%
Longs:	92.0%
Shorts:	-7.4%
Options delta:	-14.2%
Net exposure:	70.3%
Top 5 equities (alphabetical):	AAPL, PME, RMD, RUL, TTD

Quite a bit shorter in our net exposure as I slowly started paring back on positions from late December. Thanks to 2024's positive performance, our net exposure had reached just over 90% (vs historically we've been averaging more like ~75%). So I trimmed some more PME around $252 and $259, sold 10% of our AAPL position between $242-$245, and trimmed some TTD near $127. (As usual, I was unable to sell the highs). In addition, I re-shorted the IWM (the Russell 2000 small cap etf) after previously stopping out higher, as well as initiating outright puts on the HACK and IGV etfs. I hedged out 40% of our CRWD position and ~30% of our DDOG position via risk-reversals, buying puts financed by selling calls. ($350 puts vs $400 calls in CRWD and $125 puts vs $170 calls in DDOG). Finally, I also added some AAPL, QQQ and SPY put spreads. Those options explain the -18.1% swing in option deltas to bring our total exposure down by -16.3%. We are still significantly long, although below our rough long-term average. Whether I should be hedging more or not…





2024 Year in Review

A very good year for equities with the four indices we follow all positive and all except the Small Ords up double digits: the All Ords +11.4%, the Small Ords +8.4%, the S&P 500 +23.3% and the Nasdaq +28.6%. Very happy that our portfolio managed to outpace them all to post our highest calendar year return so far at +45.2%.

At a high level, we entered 2024 with a cash weighting of 14.6% and a net exposure at 79.9%. Ceteris paribus, net exposure would naturally tend to increase in a positive equity environment; hence our exposure fluctuated around the mid to high 70% level and gradually increased towards the mid 80% level during 2024, before reducing as I periodically added hedging or trimmed positions along the way. We reached a high >90% level into December before ending the year back down at 70.3%. The average exposure for the year was just under 80%; a little higher than our long-term ~75% average but to be expected for such a positive year. In 20/20 hindsight, we should have ignored hedging and let the exposure expand to 100% and beyond. (For those interested in capturing every market situation, I recommend another fund I know well - Hindsight Capital LLC. Unfortunately, they are currently closed to new investments and I am still on their waitlist to invest and have been waiting for many years).

Let's have a deeper look inside at which investments detracted from performance (including how much hedging cost us this year) and which contributed and see if we can learn any lessons therein.

<u>Detractors</u>:

Shorts and hedges: -2.4%
Our biggest (and it turns out only significant) loser for the year came (unsurprisingly) from our shorts and hedges. For such a benign year, it was inevitable that the short/hedging program would exhibit a loss. However, in the context of a positive +45.2% (including this loss), the -2.4% feels entirely palatable. Especially compared to 2023's -9.7%, I would posit I learned the lesson not to make large portfolio decisions on the fly based on external circumstances (see last 2023's year in review missive). For 2024, I tended to hedge slowly, maintained a smaller outright short position and tended to preference options over those outright shorts. (Obviously when a larger correction or bear market eventuates, I will wish I'd hedged quicker and larger but that's life).

On another note, should I hedge at all? From a purely statistical point of view, the answer would be “no” – over time hedging costs detract from portfolio returns. However, from a psychological point of view, hedging serves to cushion downsides and (hopefully) provides opportunities and/or encourages rational actions during extreme market dislocations. My theory is that “hacking my brain” via hedging will help prevent or lessen undesirable behaviours during these events and will add positively to portfolio returns over the long term.

Historically the hedge program has cost on the order of ~-1.5% per annum, higher in positive markets and less in negative markets. -2.4% in 2024’s positive equity environment feels in line.

Contributors:

Pro Medicus: +16.1%
PME rose +161% in 2024 to become my first 100-bagger (and then first 200-bagger) from our initial purchase price of $1.095 way back in late 2014. Yet again, I unfortunately trimmed multiple times along the way, selling just under 30% of 2024’s starting position from $109.50 all the way up to $259. Despite having only 15.6% of the original position left, PME still currently represents almost ~17% of the portfolio. PME continues to be the undisputed “if only” stock: if only I’d never sold, sigh… (I’m sure Hindsight Capital LLC never sold). Notwithstanding the sales, the PME lesson to date has been to try to hold on to super-high quality businesses for the long-term.

From a business point of view, 2024 was yet another stellar performance from Pro Medicus with multiple new contracts (including another largest ever contract, the Trinity Health 10-year $330m addition), increasing margins (EBIT margins > 72%!), increasing pricing power, more “full-stack” cloud-based contracts and the premium product in the market, yet only at ~7% penetrated in the US with plenty of runway remaining and the promise of other ‘ologies and AI in the wings.

Apple: +5.5%
AAPL shares rose +30.1% in 2024 to become my second 100-bagger from initial purchase way back in 2006 to add +5.5% to the portfolio. (Not even including dividends or a profit from our AAPL hedging). Similar to the PME lesson to hold long-term, albeit psychologically easier to do with AAPL thanks to the availability of option hedging potential.

In 2025, AAPL shares actually lagged most of its Magnificent 7 brethren (other than MSFT up “only” +12.1% in 2024) in a year when the Mag 7 was responsible for on the order of ~half the S&P 500’s return and represented an all-time high of near ~30% of that index.

One of the positive drivers was the introduction of Apple Intelligence (AI) to newer iPhones and the premise that this will drive an upgrade cycle when most of the AI features are enabled in 2025. We shall see when/if this eventuates; meanwhile Apple continues to gush FCF while priced at > 30 P/E in anticipation.

RPM Global: +5.4%
RUL shares tacked on +74.3% in 2024 with positive financial results and future locked in TCV convincing the market of their successful move from software licensing to a subscription model after several years of transition. A positive result with the shares added to the ASX 300 index as a consequence.

Enterprise Software Basket: +5.0%
Actually a mixed performance with TTD (+63.3%) and CRWD (+34.0% even in the aftermath of their global outage) responsible for most of the basket’s gains. DDOG (+17.7%) had a smaller contribution while ZS (-18.6%) was a detractor. We also lost faith in our SNOW position, stopping out at a loss near $126, much lower than today’s price. TTD continued to post impressive results, cementing their top status in the digital ad space outside the walled gardens (especially strong in connected TV and audio) in an election and Olympic year with revenues growing in the mid to high ~20% region. Meanwhile, even with the outage, CRWD continued its premier position in cybersecurity endpoint protection with revenue growth slowing from previous years but still north of +36%.

AUD-USD currency exposure: +4.5%
The almost -9.2% fall in the AUD-USD in 2024 contributed almost +4.5% to portfolio returns in 2024. We started the year with ~40% of our currency exposure hedged at an average around ~65c and added on dips to cover almost ~60% of that exposure early in the year. Until mid-October our currency exposure was actually a detractor to the portfolio on the order of ~-1.4% but that started turning in the runup to the US election and USD strength accelerated post Trump’s election victory. Fortuitously, I backed out ~2/3rd of our currency hedge post-election, buying AUD puts financed by selling AUD calls. Currently, ~20% of our currency exposure is hedged on down moves in the AUD (leaving ~80%

to profit at lower AUD-USD), ~40% hedged should the AUD go higher (or ~60% losing out on a stronger AUD-USD). (Some of the sold calls have expired while I rolled out some of the bought puts to a later expiry).

Crypto: +3.4%
In 2024, Bitcoin did what Bitcoin often does, exhibiting big price volatility, this time to the upside, to cross the $100k level at one point late in the year to post a +119.5% return for 2024. Ethereum (in which we have a much smaller position, ~11% of our total crypto exposure) added +46.5%. Meanwhile our holding in the GBTC bitcoin etf outpaced the underlying with a +139.8% return, closing the last of its discount to NAV gap with the approval of spot Bitcoin etfs earlier in 2024. (We had initially purchased our GBTC holding when it was trading ~40% below its Bitcoin holdings, with much of the gap closing in 2023 and finally reaching parity upon SEC approval in 2024. We did similarly with the ETHE etf with Ethereum spot etfs also following suit to gain SEC approval). Wider adoption of Bitcoin as evidenced by the aforementioned approval of various spot etfs and then Trump's pro-Bitcoin outlook served as catalysts for 2024's price rise. I continued to add to our Bitcoin position (this time via the cheaper-fees IBIT etf) in the first half of 2024 before starting to trim (too early obviously) both the Bitcoin and Ethereum etf positions when Bitcoin exceeded $80k. Our crypto exposure currently represents ~4.8% of the portfolio, ~90% of that in Bitcoin etfs.

Telix Pharmaceuticals: +3.4%
We started buying our TLX position in August 2023 between ~$9 and ~$11 and the shares tacked on +144.1% in 2024. Revenues increased on the order of ~+65% with profits up ~+67.5%; improved numbers from already lofty expectations lending confidence to our thesis of investing in an early(ish)-stage biotech with proven revenues and profits that enable them to self-fund the progression of their other pipeline diagnostic and therapeutic products through regulatory approval.

I managed to add +10% to the position when the share price dipped below $18 (after previously exceeding $20) but missed out on half the desired +20% addition as I was too greedy with the 2nd buy order. The (so far) positive and negative lessons from the TLX investment: (1) positive to avoid the "I've missed it fallacy" and buy despite the share price already doubling from the previous year and rising ~7x from 3 years prior, (2) positive to add to the position at ~+75% higher than first purchase when results/confidence in the thesis increased, but (3) negative to be too greedy on the price drop and only adding half of the desired amount to the investment.

Resmed: +2.5%
A +44.5% rebound in RMD's share price in 2024 following the GLP-1 scare-induced -17.8% drop in 2023. The picture was definitely cloudy for RMD in the midst of the potentially thesis-busting threat to Resmed from the GLP-1 agonist weight-loss drugs which were feared to possibly remove some percentage of Resmed's future customer base who might no longer need sleep apnoea CPAPs in the long-term. Questions still remain and the share price continued to react negatively to positive news on the weight loss drugs' potential but so far RMD's financials have continued positively and studies so far have actually indicated that GLP-1s have had a positive effect on the uptake of CPAP therapy with a higher propensity to start CPAP and a higher resupply rate over time for GLP-1 patients vs non-GLP-1 patients.

The positive RMD-2024 lesson was not to panic-sell at the peak of the GLP-1 fears for a historically excellent quality business. I have to admit I myself was unsure (and not as positively-inclined to add at 20/20 hindsight cheap prices); instead I bought RMD puts (listed in the US) to cover the position on further falls. The negative lesson was not adding at what now looks like bargain opportunistic prices and to "waste" money on eventually worthless puts. (Part of the -2.4% hedging cost in 2024). In retrospect however, I was (unfortunately) not as convinced as others at the time and the options gave me options (pun intended) with the position. Perhaps one example where the hedge loss statistics don't capture the upside profit from not selling out.

Altium: +2.2%.
ALU shares rose +42.8% in 2024 to where I eventually sold out at $66.90, following the takeover offer from Japanese firm Renesas at $68.50. A high-quality technology business now lost to the ASX.

I initially invested in ALU way back in 2015 at $2.88 and added up to $4.45. Then managed to sell all out at ~$9.40 and buy back in between $7.67 and $8.45. Obviously (and foolishly) I must have been a genius trader and sought to do the same again, selling all out between ~$13-$14 in late 2017 to early 2018 only to watch the business continue to grow and the share price rise inexorably higher. At least I bought back in a year later in 2019 but I had to pay between ~$31 to ~$35! This negative lesson (selling completely out of a high quality, growing business) has stayed with me over time; perhaps I have learnt this lesson in holding on to some portion of other high-quality portfolio companies.

NVDA: +1.7%
NVDA shares soared +171.2% in 2024; even a tiny position can still contribute meaningfully when it grows that much. What's the lesson here? Over the years, I watched NVDA from afar as the business kept growing and the share price kept rising. Obviously, valuation matters; however certain companies can grow quicker than implied in their share price growth and in those cases, fixating on historical prices doesn't help. Let me know if you've discovered a fool-proof way to tell which is which. I did take the coward's way out by only purchasing a small position which now has a ~2% portfolio weighting.

Hopefully I continue to learn from and improve from these lessons and no doubt I will make many more, including repeating many past mistakes.

Where to from here in 2025? With Trump soon to take the reins, my prediction (through a very murky crystal ball) is that the range of potential outcomes (both positive and negative) will widen. In that world of fatter tails and given the market's arguably expensive valuation, I feel more comfortable reducing exposure. Hence today's ~70% net exposure, on the order of ~20% lower than in early December.

Good luck to everyone for 2025. 🤞