

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 30 SEPTEMBER 2018

NET TANGIBLE ASSET VALUE BREAKDOWN

PRE TAX NTA	POST TAX & PRE UNREALISED GAINS TAX NTA	POST TAX NTA	SHARE PRICE	PREMIUM/ (DISCOUNT) TO NTA (PRE TAX)	FULLY FRANKED DIVIDEND YIELD
\$1.13	\$1.13	\$1.10	\$1.01	(10.62%)	5.20%

MARKET INSIGHT

For the month of September, the NAC Investment Portfolio fell by -1.46%, outperforming the Benchmark S&P/ASX 300 Industrials Accumulation Index which fell by -2.70% over the same period. This brings the inception performance for the period of 3 years and 10 months to +75.44% vs. the Benchmark which has returned +34.23%. NAC paid a 2.5 cent per share fully franked dividend during September, and the first quarterly dividend for FY2019 is expected to be declared later in October.

A number of positions within the Investment Portfolio performed strongly over the month however one core position, Japara Healthcare (ASX: JHC), was sold off aggressively. The sell off was prompted by the announcement of a Royal Commission into the aged care industry. Subsequently, all three listed aged care providers sold off heavily, with JHC falling by over 22% (excluding the dividend that was paid in the same period). Although this is a disappointing result, we believe that over the medium term this will ultimately end up being a positive for the larger listed operators, given their ability to better manage the cost of running aged care facilities due to their size and scale. Currently there are roughly 200,000 residential aged care beds in Australia, of which JHC manage around 4,000, and the other listed providers Estia (ASX: EHE) and Regis (ASX: REG) manage 6,000 and 6,700 respectively. The average occupancy of their facilities is close to 94%. The companies make approximately \$270-\$280 in revenue per bed, per occupied day, of which the government contributes around 70%. Over the past three years, the Government has removed a significant amount of funding from the sector, with estimates ranging between \$1bn - \$3bn.

Japara recently acquired Riviera Healthcare, which was previously run by a small loss-making operator and had failed to provide a high standard of care. Due to their scale, JHC was able to significantly enhance the level of care provided, and they acquired the portfolio at well below replacement cost. It is our view that the alternatives to residential aged care are lacking and it appears the Government is reluctant to increase funding for the sector, so to see an improvement in the quality of care, we believe they need to incentivise the private sector to fund it. In our view, residential aged care companies will find it hard to make excess profits due to the sensitive nature of the services that they provide. However, we do believe that a more stable regime in government funding will allow companies like JHC to provide the quality of care that is needed, whilst also allowing for a satisfactory return on invested capital. It is also our view that a consolidation of the sector will significantly improve care levels, and the larger players like JHC will benefit. Even so, we have reduced the size of our investment in JHC due to significant regulatory noise that is bound to eventuate over the next 12-18 months.

Looking ahead, Annual General Meeting season commences early this year with many of our investments including Helloworld Travel (ASX: HLO), Reece (ASX: REH) and Service Stream (ASX: SSM) expected to provide updates relating to the first 3-4 months of trading.


INVESTMENT PORTFOLIO PERFORMANCE


	1 MONTH	6 MONTH	1 YEAR	2 YEARS (P.A.)	3 YEARS (P.A.)	INCEPTION (P.A.)	INCEPTION (NOM.)
NAC Investment Portfolio Performance*	-1.46%	+3.38%	+14.04%	+4.42%	+16.76%	+15.58%	+75.44%
S&P/ASX 300 Industrials Accumulation Index	-2.70%	+8.46%	+10.84%	+9.11%	+10.15%	+7.88%	+34.23%
Outperformance Relative to Benchmark	+1.24%	-5.08%	+3.20%	-4.69%	+6.61%	+7.70%	+41.21%

* Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders. Since inception (p.a. and nom.) includes part performance for the month of November 2014. Returns compounded for periods greater than 12 months.

INVESTMENT BELIEFS


VALUE WITH LONG TERM GROWTH 


QUALITY OVER QUANTITY 

INVEST FOR THE LONG TERM 

PERFORMANCE V LIQUIDITY FOCUS 

IGNORE THE INDEX 

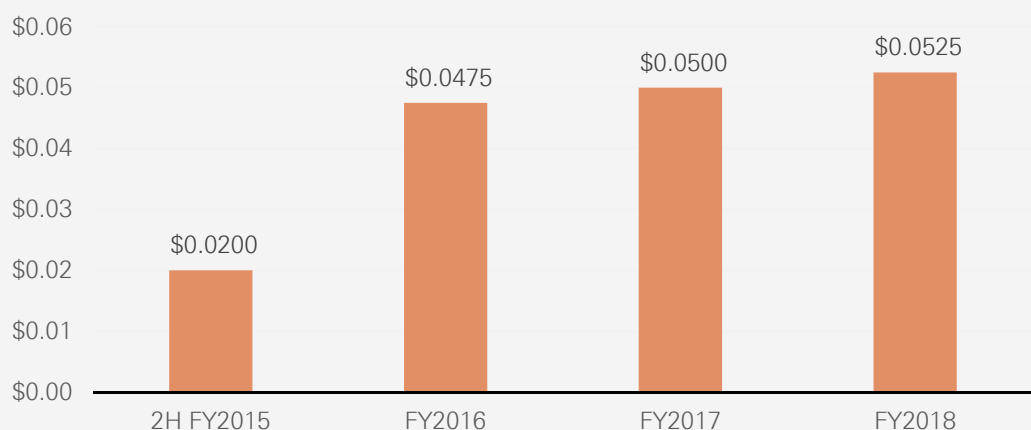
PURE EXPOSURE TO INDUSTRIALS 

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) 

MANAGEMENT ALIGNMENT 

FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

NAC aims to deliver shareholders a sustainable growing stream of fully franked quarterly dividends.



STOCK CONTRIBUTION ANALYSIS

The table below lists the top 5 positive stock contributors to the investment portfolio since inception.

TOP 5 POSITIVE CONTRIBUTORS	CONTRIBUTION TO RETURN (%NAV)
MNF Group Limited (ASX: MNF)	+8.36%
BSA Limited (ASX: BSA)	+6.93%
Smartgroup Corporation Limited (ASX: SIQ)	+6.74%
Event Hospitality & Entertainment Limited (ASX: EVT)	+6.02%
Elders Limited (ASX: ELD)	+5.73%

KEY METRICS – SUMMARY DATA

Weighted Average Market Capitalisation of the Investments	\$1.23 billion
Number of Holdings	12 Long Positions
Cash Weighting	7.20%
Standard Deviation of Returns (NAC)	9.33%
Standard Deviation of Returns (XKIAI)	11.04%
Downside Deviation (NAC)	2.85%
Downside Deviation (XKIAI)	5.94%
Percentage of Positive Months (NAC)	62%
Percentage of Positive Months (XKIAI)	64%
Shares on Issue	52,536,889
NAC Directors Shareholding (Ordinary Shares)	7,477,380

INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS*

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
FY19	+0.24%	+6.23%	-1.46%									
FY18	-0.54%	+0.76%	+1.22%	+2.28%	+6.69%	+3.18%	-0.27%	-1.99%	+0.23%	-2.05%	+0.85%	-0.25%
FY17	+3.81%	+5.01%	+3.84%	-0.22%	-0.63%	-1.98%	+0.35%	-2.56%	+1.48%	-2.78%	-0.11%	+0.65%
FY16	+0.31%	-1.35%	+1.98%	+3.38%	+3.63%	+7.93%	-2.39%	-1.02%	+5.97%	+4.48%	+4.83%	-0.51%
FY15					+0.54%	-1.66%	+2.77%	+0.88%	+2.73%	+0.43%	+4.87%	-1.54%

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NAOS

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