

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 OCTOBER 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
\$1.01	\$1.03	\$1.03	\$0.945	(6.44%)	5.55%

The above NTA figures include the 1.35 cents per share fully franked Q1 FY19 dividend, which went ex-dividend on 5 November 2018 and will be paid on 19 November 2018.

MARKET INSIGHT

For the month of October, the NAC Investment Portfolio fell by -10.41%, underperforming the Benchmark S&P/ASX 300 Industrials Accumulation Index ('XKIAI') which fell by -6.06% over the same period. This brings the inception performance for the period of 3 years and 11 months to +57.18% vs. the Benchmark which has returned +26.11%. Clearly the performance for the month was a very poor outcome and represents the worst month of negative performance since the Company's inception by a considerable margin. The underperformance was not driven by one specific stock but due to many of the investments all falling by considerable amounts amongst the market volatility in October. The bottom three performers accounted for approximately -5% in negative performance with the others accounting for the remainder of the negative performance.

During October trading updates were provided by several of our key holdings including MNF Group (ASX: MNF), Service Stream (ASX: SSM) and Reece (ASX: REH). REH provided 1H FY19 guidance of \$250-\$260 million in EBITDA which includes the contribution from the recent Morsco acquisition. This is a pleasing result and in line with expectations given the uncertainty around the potential for integration risk of the Morsco business as well as concerns around a slowing Australian residential building market in certain geographies. Even with the positive update, REH shares were not spared from the wider market sell off and fell over 7% for the month. SSM also provided updated guidance for FY19 with the company stating that the 1Q FY19 exceeded internal targets, bolstering their confidence around guidance of EPS growth of at least 10% YOY. In our view, this is a positive result, especially considering the significant moving parts around NBN activation volumes and assurance work together with the start of the 5G roll-out, which is now expected to take place in FY20. The Company also stated that they continue to review a number of strategic acquisition opportunities which would make effective use of the significant cash balance that SSM has accumulated, with an outcome expected over the next few months. Even post this update SSM shares fell by close to -12%.

Finally, MNF Group (ASX: MNF) was the clear disappointment from a market reaction perspective, with the shares falling more than 14% following the release of updated guidance for both FY19 and FY20. Clearly the market was disappointed by the \$4 million gross profit drop within the global minutes business, a poorly timed Share Purchase Plan and the announcement of the Telco In A Box (ASX: IAB) acquisition without the release of an expected synergy figure. We believe that over the next 2-3 years the market will re-focus on the significant organic growth that MNF has been able to generate, driven by a clear market trend both domestically and globally to cloud hosted voice services, with the likes of Twilio and Skype continuing to offer new products and services around voice. In our view, the acquisition of IAB makes sound strategic sense as this is a software platform business with a customer base that could be a big beneficiary from the much larger MNF software product offering, together with a network that may release significant synergies over time.


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*	-10.41%	-5.43%	-0.10%	-1.05%	+11.32%	+12.07%	+57.18%
S&P/ASX 300 Industrials Accumulation Index	-6.06%	-0.54%	+0.22%	+7.26%	+6.41%	+6.02%	+26.11%
Outperformance Relative to Benchmark	-4.35%	-4.89%	-0.32%	-8.31%	+4.91%	+6.05%	+31.07%

* 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)
BSA Limited (ASX: BSA)	+6.21%
Elders Limited (ASX: ELD)	+5.21%
MNF Group Limited (ASX: MNF)	+5.16%
Event Hospitality & Entertainment Limited (ASX: EVT)	+4.90%
Smartgroup Corporation Limited (ASX: SIO)	+4.62%

KEY METRICS – SUMMARY DATA

Weighted Average Market Capitalisation of the Investments	\$1.11 billion
Number of Holdings	13 Long Positions
Cash Weighting	4.83%
Standard Deviation of Returns (NAC)	10.88%
Standard Deviation of Returns (XKIAL)	11.42%
Downside Deviation (NAC)	5.66%
Downside Deviation (XKIAL)	6.38%
Percentage of Positive Months (NAC)	60%
Percentage of Positive Months (XKIAL)	63%
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%	-10.41%								
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

OUR TEAM

Chairman

David Rickards (Independent)

Directors

Warwick Evans

Sebastian Evans

Company Secretary/

Senior Legal Counsel

Rajiv Sharma

Chief Investment Officer

Sebastian Evans

Portfolio Managers

Robert Miller

Ben Rundle

Investment Analyst

Rachel Folder

Chief Financial/

Operating Officer

Richard Preedy

Business Development

Manager

Julia Stanistreet

Communications

& Marketing

Megan Walker

Distribution &

Sales Manager

Scott Hildebrand

ENQUIRIES

Telephone: (02) 9002 1576

Email: enquiries@naos.com.au

www.naos.com.au

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