

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 DECEMBER 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
\$0.97	\$1.00	\$1.00	\$0.89	(8.25%)	5.87%

MARKET INSIGHT

For the month of December, the NAC Investment Portfolio decreased by -4.57%, underperforming the Benchmark S&P/ASX 300 Industrials Accumulation Index which fell by -1.43% over the same period. This brings the inception performance over 4 years and 1 month to +52.89%, vs. the benchmark index which has returned +22.97%. The end of December 2018 also brought with it the worst quarter of performance for small cap industrial companies since 2008. Clearly CY2018 proved to be a challenging year for the NAC Investment Portfolio, and it was unfortunately the first year that has produced a negative return since NAC's inception. For the final monthly investment report of 2018 we will comment on the challenges and opportunities presented by the current market dynamics.

As a long-term investment manager we are faced with two main conundrums; being value vs. growth, and short-term valuations vs. long-term earnings potential. Clearly, in 2018 cyclical type businesses in Australia have suffered, and these are companies which tend to be classed as value type investments. Such examples include Adelaide Brighton (ASX: ABC), which is a fair representation of the building materials industry and has fallen by approximately 35% in 2018. Retailers have also been under significant pressure, an example being market darling Lovisa (ASX: LOV), which has fallen by roughly 20% over the last 12 months. More generally non-bank and diversified financials, car dealerships, media, IT services and packaging businesses have all delivered significant negative returns and all would be considered cyclical type businesses. Some businesses in these sectors operate in duopoly type industry structures, and in many cases would be very hard to replicate. These companies may turn out to be excellent long-term investments, but the key issue is they do not have a clear short-term catalyst that will drive short-term positive share price movement given current cyclical industry conditions.

The other potential pool of investments represents higher growth businesses that are often viewed as less exposed to such cyclical variances over the short term, though the market compensates for this with a higher valuation multiple, meaning any potential slip up in earnings will be treated harshly by the market. This was the case with Class1 (ASX: CL1) and Domain (ASX: DHG), which have fallen by -48% and -35% respectively. What is interesting is that some of the market darlings of CY2018 which all have high short-term P/E valuations, such as Altium (ASX: ALU), Appen (ASX: APX), Wisetech Global (ASX: WTC) and Pro Medicus (ASX: PME), have all held up much better both in relative and absolute terms compared to their more cyclical counterparts. Looking forward, the key for any investor will be to determine whether or not the valuations of these businesses represent a sound long-term investment opportunity, or whether it is preferential to invest in a more cyclical business with a business model that is proven over the long term albeit with less visibility and certainty on near term earnings, which may impact short term share price performance.


INVESTMENT PORTFOLIO PERFORMANCE


	1 MONTH	1 YEAR	2 YEARS (P.A.)	3 YEARS (P.A.)	4 YEARS (P.A.)	INCEPTION (P.A.)	INCEPTION (NOM.)
NAC Investment Portfolio Performance*	-4.57%	-11.73%	-1.12%	+6.26%	+11.51%	+10.82%	+52.89%
S&P/ASX 300 Industrials Accumulation Index	-1.43%	-4.28%	+2.23%	+3.93%	+5.01%	+5.13%	+22.97%
Outperformance Relative to Benchmark	-3.14%	-7.45%	-3.35%	+2.33%	+6.50%	+5.69%	+29.92%

* 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)	6.07%
Elders Limited (ASX: ELD)	5.47%
Service Stream Limited (ASX: SSM)	4.87%
Event Hospitality & Entertainment Limited (ASX: EVT)	4.82%
MNF Group (ASX: MNF)	4.08%

KEY METRICS – SUMMARY DATA

Weighted Average Market Capitalisation of the Investments	\$1.05 billion
Number of Holdings	11 Long Positions
Cash Weighting	22.20%
Standard Deviation of Returns (NAC)	11.01%
Standard Deviation of Returns (XKIAI)	11.25%
Downside Deviation (NAC)	5.86%
Downside Deviation (XKIAI)	6.25%
Percentage of Positive Months (NAC)	60%
Percentage of Positive Months (XKIAI)	60%
Shares on Issue	52,536,889
NAC Directors Shareholding (Ordinary Shares)	7,492,433

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%	+1.93%	-4.57%						
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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