

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 30 SEPTEMBER 2019

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
\$1.14	\$1.15	\$1.11	\$0.93	(18.42%)	5.65%


MARKET INSIGHT

For the month of September, the NAC Investment Portfolio increased by +6.58%, outperforming the benchmark S&P/ASX 300 Industrials Accumulation Index (ASX: XKIAI) which increased by +1.67%. This brings the inception performance over 4 years and 11 months to +88.14% on a total return basis, outperforming the benchmark index which has returned +51.90%. At the end of the month the investment portfolio was made up of 9 long positions and no short positions with a cash weighting of 12.60%, and the weighted average market capitalisation of the investments was \$328.8 million. Pleasingly the performance was driven by a number of the core holdings with 3 positions contributing approximately 2% each to portfolio performance. There was only one significant detractor to portfolio performance with People Infrastructure Limited (ASX: PPE) detracting approximately -0.80% on no significant news.

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 

INVESTMENT PORTFOLIO PERFORMANCE MONTHLY AND FY RETURNS*

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FY Total Return
FY20	+0.50%	+8.14%	+6.58%										
FY19	+0.24%	+6.23%	-1.46%	-10.41%	+1.93%	-4.57%	+5.20%	+0.10%	-0.10%	+3.65%	-4.74%	+2.29%	-2.86%
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%	+10.25%
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%	+6.69%
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%	+30.16%
FY15					+0.54%	-1.66%	+2.77%	+0.88%	+2.73%	+0.43%	+4.87%	-1.54%	+9.21%

* 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.

Over the course of the month there was little in terms of stock specific news flow with only MNF Group (ASX: MNF) providing any update of significance. Two new positions were added to the investment portfolio in September, the first being AMA Group Limited (ASX: AMA) and the other being Objective Corporation Limited (ASX: OCL). Both businesses have been followed by the NAOS investment team for many years and recent liquidity opportunities have enabled the investment team to establish core investments at prices that we believe represent solid long-term value. MNF issued an updated investor presentation for its US institutional investor roadshow. Within the presentation FY20 guidance was re-affirmed, but more importantly greater disclosure was provided around the annualised run rates for the business based on the 4th quarter of FY19. The key takeaways were that annualised recurring revenue and annualised gross margin was \$100 million and \$69 million respectively. When comparing this to the FY20 guidance we believe this makes the guidance figure readily achievable and highlights that on a run-rate basis circa 70% of the total gross margin is now recurring in nature.

FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

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



MARKET INSIGHT CONTINUED

AMA Group (ASX: AMA) is a provider of panel repair services with customers including the major car insurance companies within Australia. Many of the contracts that AMA has with insurance companies are 'take or pay' arrangements, which guarantees volumes for AMA and gives the customer assured capacity when it is required at a fair price. As AMA gains greater scale it should be able to improve efficiencies through increased purchasing power for significant cost items such as car paint. Over time we believe AMA should be able to grow its revenue line organically by taking market share from less sophisticated competitors, and also through acquisition. Importantly, there is significant opportunity to diversify their client offering into adjacent industries such as bus and truck panel beating and also the equipment hire industry. At the end of the month AMA announced the acquisition of Suncorp's Capital S.M.A.R.T and ACM Parts businesses in a transaction that is expected to deliver double-digit EPS accretion in the first full-year of ownership.

OCL is a business with a market capitalisation of almost \$400 million, but with the founder owning over 65% of the shares on issue and a very tight share register this is a business that has flown under the radar for many years. OCL has a number of the attributes that the NAOS team look for in any potential investment including: significant shareholder alignment, a history of successful execution and business reinvestment, a tier 1 client list including numerous government departments and local councils and finally a balance sheet that is in a significant net cash position, which we believe provides it with the ability to internally fund an acquisition if the right opportunity presented itself. This is an investment that we will continue to discuss over the coming months.

STOCK CONTRIBUTION ANALYSIS

The table below lists the top 5 positive stock contributors to the investment portfolio since inception, November 2014. The stocks listed below may or may not be current holdings within the portfolio.

TOP 5 POSITIVE CONTRIBUTORS	CONTRIBUTION TO RETURN (%NAV)
MNF Group Limited (ASX: MNF)	14.19%
People Infrastructure Limited (ASX: PPE)	11.41%
Service Stream Limited (ASX: SSM)	7.64%
BSA Limited (ASX: BSA)	7.36%
Smartgroup Corporation (ASX: SIQ)	6.85%

INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	1 YEAR	2 YEARS (P.A.)	3 YEARS (P.A.)	4 YEARS (P.A.)	INCEPTION (P.A.)	INCEPTION (Total Return)
NAC Investment Portfolio Performance*	+6.58%	+7.24%	+10.60%	+5.35%	+14.31%	+13.82%	+88.14%
S&P/ASX 300 Industrials Accumulation Index	+1.67%	+13.16%	+12.00%	+10.44%	+10.89%	+8.94%	+51.90%
Performance Relative to Benchmark	+4.91%	-5.92%	-1.40%	-5.09%	+3.42%	+4.88%	+36.24%

* 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 Total Return) includes part performance for the month of November 2014. Returns compounded for periods greater than 12 months.

KEY METRICS – SUMMARY DATA

Weighted Average Market Capitalisation of the Investments	\$328.8 million
Number of Holdings	9 Long Positions and 0 Short Positions
Cash Weighting	12.60%
Standard Deviation of Returns (NAC)	11.48%
Standard Deviation of Returns (XKIAI)	10.92%
Downside Deviation (NAC)	5.77%
Downside Deviation (XKIAI)	5.91%
Percentage of Positive Months (NAC)	63%
Percentage of Positive Months (XKIAI)	64%
Shares on Issue	51,070,315
NAC Directors Shareholding (Ordinary Shares)	7,542,172

OUR TEAM

Chairman

David Rickards (Independent)

Directors

Warwick Evans

Sebastian Evans

Sarah Williams (Independent)

Chief Investment Officer

Sebastian Evans

Portfolio Managers

Robert Miller

Ben Rundle

Investment Analyst

Rachel Cole

Chief Financial/

Operating Officer

Richard Preedy

Business Development

Manager

Julia Stanistreet

Compliance Officer

Julie Coventry

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