

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 DECEMBER 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
\$1.18	\$1.19	\$1.14	\$0.965	(18.22%)	5.44%

MARKET INSIGHT

For the month of December, the Investment Portfolio increased by +0.87%, outperforming the benchmark S&P/ASX 300 Industrials Accumulation Index (ASX: XKIAl) which decreased by -2.92%. This brings the inception performance to +95.45% on a total return basis, outperforming the benchmark index which has returned +51.49% over the same period. At the end of the month the Investment Portfolio was made up of 9 long positions and 1 short position with a cash weighting of 5%, and the weighted average market capitalisation of the investments was \$397.2 million. It was a relatively quiet month for the majority of the investments within the NAC Investment Portfolio after what has been a very busy period. In saying that there was a negative trading update released by AMA Group (ASX: AMA) as well as the re-introduction of Smartgroup Corporation Ltd (ASX: SIO) into the Investment Portfolio, after the Managing Director resigned and the stock subsequently fell by over 20%.

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%	+1.99%	+0.98%	+0.87%							+20.33%
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.

Firstly, AMA Group released a negative trading update less than a month after providing commentary at their Annual General Meeting and only 3 months after completing a large acquisition and associated capital raising. The Company blamed two key variables, namely drier weather which has led to lower volumes of damaged cars through their workshops and then the significant slowdown in new car sales which has affected the ACAC (car accessory) division. Clearly, we were disappointed by the size of the downgrade, but more importantly the reasons associated with the downgrade as neither of the two variables highlighted in the market update are new events and should have been apparent for some time. From our perspective the Investment Team made the decision to exit the position immediately due to three key reasons. The first of these was the increased uncertainty around future organic growth in part due to the variables surrounding weather and new car sales which historically has not been a significant issue. This has the potential to be offset by an increase in the average spend on a car per accident, but clearly this has not been the case in the short term.

FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

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



MARKET INSIGHT CONTINUED

Secondly, the integration risk is of greater significance considering the size of the acquisition and the organic growth headwinds which will place more emphasis on the company achieving their short-term cost synergy targets. Finally, the leveraged balance sheet provides the business with limited flexibility especially if market conditions continue to worsen. In our view the company should have taken the opportunity to raise more equity at the time of the recent acquisition to reduce the net debt position to well below 2.50 times net debt to EBITDA. Longer term AMA may still represent a sound investment opportunity as it is the leading player in what is a highly fragmented market with defensive characteristics. The MD has a proven track record within the industry and is highly aligned with a significant equity ownership. We will continue to follow the progress of the business, with the key catalysts being the 1H and full year results over the next 8 months.

As mentioned previously SIQ has been added as a core position to the NAC portfolio once again. The stock has come under significant pressure over the past 3 months with the shares down by almost -45%. During this time SIQ has seen its largest shareholder sell out completely, the MD announced his resignation just a number of months after returning to work from extended leave, and finally SIQ announced a material change with its insurance provider which will result in a ~10% earnings hit. Post all of these events we believe SIQ is now trading on a circa 11 times P/E multiple and a FCF yield that is approaching 9%. The business has virtually a net debt free balance sheet which gives it significant capability to grow inorganically. We will expand on this investment thesis in next months report.

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)	12.91%
People Infrastructure Limited (ASX: PPE)	11.82%
Service Stream Limited (ASX: SSM)	7.71%
BSA Limited (ASX: BSA)	7.43%
Smartgroup Corporation (ASX: SIQ)	7.15%

INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	1 YEAR	2 YEARS (P.A.)	3 YEARS (P.A.)	5 YEARS (P.A.)	INCEPTION (P.A.)	INCEPTION (Total Return)
NAC Investment Portfolio Performance*	+0.87%	+27.83%	+6.23%	+7.72%	+14.60%	+13.94%	+95.45%
S&P/ASX 300 Industrials Accumulation Index	-2.92%	+23.19%	+8.60%	+8.79%	+8.42%	+8.43%	+51.49%
Performance Relative to Benchmark	+3.79%	+4.64%	-2.37%	-1.07%	+6.18%	+5.51%	+43.96%

* 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	\$397.2 million
Number of Holdings	9 Long Positions and 1 Short Position
Cash Weighting	5.00%
Standard Deviation of Returns (NAC)	11.21%
Standard Deviation of Returns (XKIAI)	10.82%
Downside Deviation (NAC)	5.65%
Downside Deviation (XKIAI)	5.86%
Percentage of Positive Months (NAC)	65%
Percentage of Positive Months (XKIAI)	63%
Shares on Issue	49,056,021
NAC Directors Shareholding (Ordinary Shares)	7,925,323

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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