

### MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 29 FEBRUARY 2020

#### 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
\$1.03	\$1.03	\$1.03	\$0.88	(14.56%)	5.97%


The above NTA figures are exclusive of the 1.35 cent per share fully franked Q2 FY20 quarterly dividend, which went ex-dividend on 28 February 2020 and will be paid on 18 March 2020.


#### MARKET INSIGHT


The month of February brought an end to the 8 consecutive months of positive performance for the NAC Investment Portfolio, which fell by -13.80%, underperforming the benchmark S&P/ASX 300 Industrials Accumulation Index (ASX: XKIAl) which fell by -6.43%, and its smaller counterpart the Small Ordinaires Accumulation Index (XSOAI) which fell by -8.68%. This brings the inception performance to +72.37% on a total return basis, outperforming the benchmark index which has returned +50.21% over the same period. Clearly this is a very disappointing outcome, and even more so considering that more than half of this negative performance was derived from arguably the two most defensive stocks in the portfolio, being Over The Wire (ASX: OTW) and MNF Group (ASX: MNF), both of which have a very high level of recurring revenue within their business models together with net cash positions on their respective balance sheets. The remainder of the portfolio fared relatively well in what was a very challenging month, with Smartgroup Corporation (ASX: SIQ) and Objective Corporation (ASX: OCL) posting strong half-year results. Even so, both of these stocks finished down for the month due to the wider market sell-off, despite SIQ increasing by +12% on the day it reported. It is important to note that the NAOS investment philosophy is firmly focused on investing in companies that have structural industry tailwinds, a clear competitive advantage, and net cash balance sheets that provide these businesses with the liquidity to reinvest in strategic initiatives to drive growth both organically and through selective acquisitions.

#### 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\*

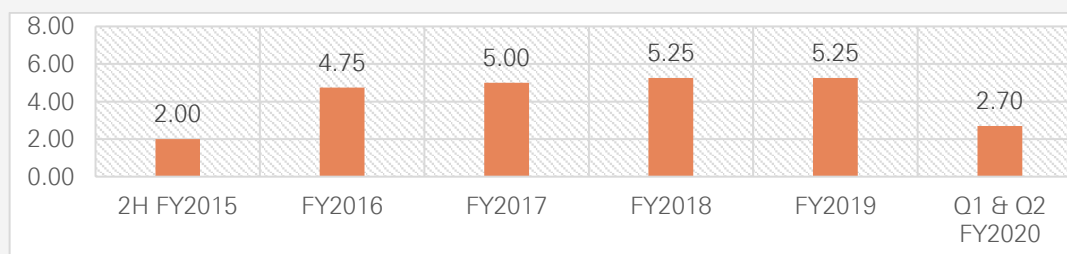
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FY Total Return
FY20	+0.50%	+8.14%	+6.58%	+1.99%	+0.98%	+0.87%	+2.31%	-13.80%					+6.12%
FY19	+0.24%	+6.23%	-1.46%	-10.41%	+1.93%	-4.57%	+5.20%	+0.10%	-0.10%	+3.65%	-4.74%	+2.29%	-2.86%
FY18	-0.54%	+0.76%	+1.22%	+2.28%	+6.69%	+3.18%	-0.27%	-1.99%	+0.23%	-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.

MNF fell by -18% for the month of February, despite reaffirming FY20 EBITDA guidance which was originally given to the market over 18 months ago. Even so, the market was clearly disappointed with the reduction in NPAT guidance, as this figure was not normalised for one-off costs such as redundancies, and the normalisation of the tax rate due to a change in the government R&D incentive scheme. When looking at the core drivers of the business such as the gross profit derived from the recurring operations, they continue to grow and importantly for the FY20 guidance to be achieved, they must continue to do so in the 2H of FY20.

#### FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

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



## MARKET INSIGHT CONTINUED

The balance sheet is in pristine shape with net cash of over \$8 million and we expect cash flow conversion to be >82% after the AASB16 accounting changes. In our view, the most important section of the results presentation was the greater clarity provided around the Singapore network opportunity, where MNF are targeting a 10% market share of the 7.5 million phone numbers that exist, and where we believe circa \$10m has already been invested by the business. Currently MNF generates \$8.78 in EBITDA per phone number in Australia and New Zealand, but we believe this figure is significantly higher once the lower margin products such as minutes trading and the current Singapore losses are removed. We believe \$15 EBITDA per phone number is readily achievable, which would generate >\$11 million EBITDA from the Singapore network alone if MNF reached their targeted market share, translating to 33% of their current FY20 EBITDA guidance. We believe MNF is significantly undervalued relative to its recurring revenue base and global tier-1 client list and this was further reinforced when the CEO acquired >\$400,000 shares in late February.

OTW delivered a result which failed to meet the markets expectations and carried on from what was considered an opaque FY19 result. Organic revenue growth of 4% from 2HFY19 to 1HFY20 implies the business is roughly on track to meet their 15% annual organic growth rate but as with the FY19 result the non-recurring side of the business continues to cause headaches, especially when the cost base of a telecommunications business is relatively fixed. Pleasingly cash conversion was again ~100% and the business will be net cash in 2HFY20 which gives OTW plenty of flexibility. The company is confident of returning to 12-15% organic revenue growth together with 22% EBITDA margins. The CEO also acquired a further \$170,000 worth of stock in early March, which we view as a positive sign.

## 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)
People Infrastructure Limited (ASX: PPE)	10.28%
Service Stream Limited (ASX: SSM)	6.65%
BSA Limited (ASX: BSA)	6.41%
MNF Group Limited (ASX: MNF)	6.11%
Smartgroup Corporation (ASX: SIQ)	5.87%

## 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*	-13.80%	+7.06%	+0.90%	+4.07%	+10.95%	+10.82%	+72.37%
S&P/ASX 300 Industrials Accumulation Index	-6.43%	+12.57%	+8.17%	+8.00%	+6.10%	+7.98%	+50.21%
Performance Relative to Benchmark	-7.37%	-5.51%	-7.27%	-3.93%	+4.85%	+2.84%	+22.16%

\* 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	\$365.3 million
Number of Holdings	12 Long Positions
Cash Weighting	7.30%
Standard Deviation of Returns (NAC)	12.77%
Standard Deviation of Returns (XKIAI)	11.32%
Downside Deviation (NAC)	7.92%
Downside Deviation (XKIAI)	6.24%
Percentage of Positive Months (NAC)	64%
Percentage of Positive Months (XKIAI)	63%
Shares on Issue	47,612,009
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

### Chief Financial/

### Operating Officer

Richard Preedy

### Business Development

### Manager

Julia O'Brien

### Compliance Officer

Julie Coventry

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