

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 JULY 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
\$1.10	\$1.12	\$1.08	\$0.855	(22.27%)	6.14%


MARKET INSIGHT

The month of July saw the NAC Investment Portfolio increase by +5.04%, outperforming the benchmark S&P/ASX 300 Industrials Accumulation Index (XKIAL) which decreased by -0.40%, as well as its smaller counterpart the S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +1.39%. This brings portfolio performance since inception to +11.85% p.a., outperforming the benchmark index which has returned +5.25% p.a. over the same period. Two of the NAC core holdings provided market updates in July; Objective Corporation (ASX: OCL) provided a trading update with their preliminary results for FY20 and Smartpay Holdings Ltd (ASX: SMP) provided a quarterly update for their 1st quarter of FY21, as they have a March financial year-end.


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 

CONSTRUCTIVE ENGAGEMENT 

INVESTMENT PORTFOLIO PERFORMANCE MONTHLY AND FY RETURNS*

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FY Total Return
FY21	+5.04%												+5.04%
FY20	+0.50%	+8.14%	+6.58%	+1.99%	+0.98%	+0.87%	+2.31%	-13.80%	-22.22%	+8.81%	+18.84%	+4.15%	+11.16%
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.

OCL released their preliminary results for FY20, which in our view are very pleasing for numerous reasons. The Annual Recurring Revenue (ARR) profile increased by 21% to reach 75% of total OCL group revenue. Cash flow from operations was 166% of EBITDA with the cash balance subsequently increasing to \$51 million prior to the settlement of the recent iTree acquisition. Research & development spend for the year was over \$15m, and pleasingly this was all expensed, as opposed to being capitalised and then amortised over a period to boost short term profitability. Looking forward OCL expect a material uplift in both revenue and profitability for FY21 with a key focus on broadening their current offerings across their entire customer base. With R&D spend now at 22% of total revenue we believe the opportunity for OCL to offer multiple products to one customer is significant, especially if those product lines are continually improved through further research and development initiatives.

SMP provided an update for the 1st quarter of their financial year, which in this case is from April to June. Overall, we viewed the update as reasonably positive, especially in the context of a highly unpredictable macro environment. SMP's strategy of increasing the size and profitability of its acquiring terminal base continues to evolve.

FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

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



MARKET INSIGHT CONTINUED

When looking at the total revenue generated across the entire fleet, June was a monthly record, even though the total number of active terminals has not yet increased past its prior peak. This highlights that the average revenue per terminal has increased significantly, and arguably also the quality of the terminal portfolio due to the larger businesses that SMP now have an exposure to. Clearly we would have liked to see more growth in regards to the total number of transacting terminals, though we believe this will accelerate over time as the funds from the recent placement are utilised to focus on customer acquisition, together with a potentially more stable macro environment over the next 12-24 months.

Looking forward into August it will be a key month for the NAC Investment Portfolio, with all but one of the concentrated portfolio reporting their full year results. The most relevant events for NAC will be the results from MNF Group (ASX: MNF), Over The Wire (ASX: OTW) and OCL, whom we have already spoken about. MNF has not provided a financial update to the market since its trading update in late April, and OTW provided a market update at the end of May. With regards to MNF, we believe the core earnings driver of the MNF business has experienced, and continues to experience, significant industry tailwinds. This was clear in the Q2 results provided by MNF peer Bandwidth (US: BAND) at the end of July. BAND reported that CPaaS annual revenue had grown by 40% YOY, together with customer accounts up 30% YOY. Looking forward, management provided guidance for ~ 30% revenue growth in its CPaaS division for Q3 as businesses return to a more normal working environment. In our view, MNF should be a beneficiary of very similar trends and we expect a strong FY20 result with solid growth in group recurring gross margin, together with an update on the opening of their Singapore network, and the potential for further geographic expansion in FY21.

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)	32.42%
Objective Corporation (ASX: OCL)	10.59%
Service Stream Limited (ASX: SSM)	7.18%
BSA Limited (ASX: BSA)	6.98%
Elders Limited (ASX: ELD)	6.01%

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*	+5.04%	+16.18%	+6.37%	+7.93%	+11.60%	+11.85%	+89.66%
S&P/ASX 300 Industrials Accumulation Index	-0.40%	-11.16%	-0.03%	+3.47%	+3.82%	+5.25%	+34.01%
Performance Relative to Benchmark	+5.44%	+27.34%	+6.40%	+4.46%	+7.78%	+6.60%	+55.65%

* 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	\$354.5 million
Number of Holdings	11 Long Positions
Cash Weighting	1.03%
Standard Deviation of Returns (NAC)	17.77%
Standard Deviation of Returns (XKIAI)	14.66%
Downside Deviation (NAC)	11.71%
Downside Deviation (XKIAI)	10.45%
Percentage of Positive Months (NAC)	65%
Percentage of Positive Months (XKIAI)	64%
Shares on Issue	46,974,075
NAC Directors Shareholding (Ordinary Shares)	7,966,337
NAC Options Closing Price (ASX: NACOA)	\$0.042

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

Nina Dunn

Compliance Officer

Julie Coventry

Marketing & Communications

Manager

Angela Zammit

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