

MONTHLY INVESTMENT REPORT & NTA UPDATE

AS AT 31 AUGUST 2020

Net Tangible Asset Value Breakdown

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings	Cumulative Fully Franked Dividends	Fully Franked Dividend Yield
\$1.20	\$1.22	\$1.15	\$0.925	9	\$0.275	5.68%

The above NTA figures are exclusive of the 1.20 cents per share fully franked Q4 FY20 dividend, which went ex-dividend on 31 August 2020 and will be paid on 16 September 2020

Market Insight

The month of August saw the NAC Investment Portfolio increase by +11.43%, outperforming the benchmark S&P/ASX 300 Industrials Accumulation Index (XKIAI) which increased by +3.63%, as well as its smaller counterpart the S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +7.24%. This brings portfolio performance since inception to +13.77% p.a., outperforming the benchmark index which has returned +5.82% p.a. over the same period. It was a very busy month for the NAC Investment Portfolio with all the investments apart from one reporting their FY20 results. From a contribution perspective it was pleasing to see a significant majority of the core investments such as Over The Wire (ASX: OTW) and Objective Corporation (ASX: OCL) contribute strongly to performance, but even more pleasing that there was just one significant negative contributor to performance, albeit the largest position, MNF Group (ASX: MNF).

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%	+11.43%											+17.05%
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%

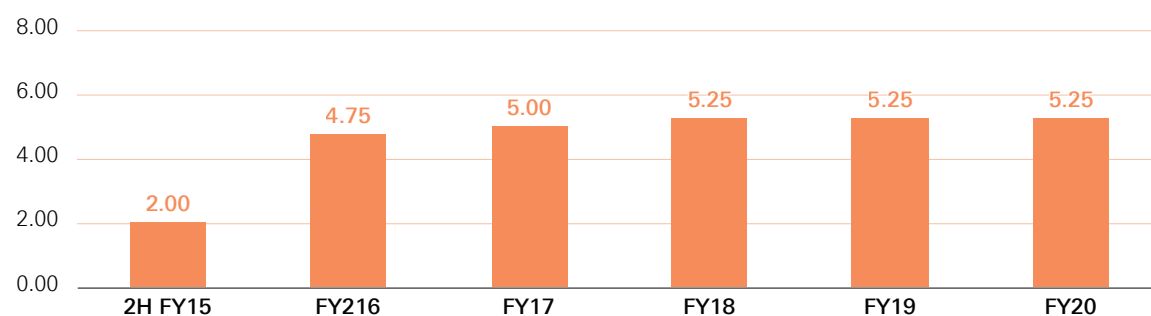
* Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders.

As mentioned above, MNF was the only significant detractor to performance, with its share price falling by -6.25% in August. On face value the result hit many of the key points that any investor would expect such as the EBITDA result coming in at the upper end of guidance (even after an increased bad debt provision for FY21 bad debts), very strong cash flow conversion (especially in the 2nd half of the financial year), and key business metrics such as phone numbers ported continuing to grow, increasing >17% y-o-y.

Where we believe MNF has again missed the mark is in relation to its smaller operations which have had a history of taking the focus away from the core growth engine of the Domestic and Global Wholesale operations. Over the years MNF has either acquired or invested in CCI (conference call service provider), Pennytel, and its direct to SME offering, all of which over the past 3 years have had a negative impact on the MNF outlook. Again, this result was tainted by the uncertain outlook of CCI as well as lower growth in the direct to SME segment, as the majority of SME's in the current environment

Fully Franked Dividend Profile (Cents Per Share)

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



Conviction. Long Term. Aligned

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

Market Insight Continued

have other priorities ahead of making decisions about their voice services.

When looking at the core business, the growth rates continue to be stellar, with Global Wholesale growing gross profit by 40% in FY20, and the Domestic Wholesale business growing at >20% annually. In isolation, we believe these businesses would be valued by the wider market on a revenue multiple, but when viewed alongside the aforementioned CCI, Pennytel, and the direct to SME segment, they are being valued on a depressed price to earnings multiple (P/E), as investors rightly or wrongly ascribe a lower valuation multiple to these operations.

Looking forward, NAC continues to run a highly concentrated structure with a focus on businesses that are significantly cash flow generative, have balance sheet flexibility and operate in industries that are supportive of long-term revenue growth. The key to future outperformance is correctly identifying what a business's profitability trajectory will look like once we reach a post Covid-19 world. Even so, we believe there are a small number of investment opportunities that provide excellent risk/return opportunities over the long term such as Objective Corporation and Experience Co (ASX: EXP).

Core Investment Portfolio Examples

Objective	PEOPLE INFRASTRUCTURE	mnf group™
Objective ASX: OCL Objective is a founder led enterprise software company providing specialist software for regulated industries such as government, councils and financial services. Objective has mission critical software, built on providing improved governance, service delivery and workflow/process efficiency., OCL is a global leader in this space, with over 1000 customers and 10 product offerings across many countries.	People Infrastructure ASX: PPE People Infrastructure is a founder led provider of specialist staffing solutions mainly to the healthcare & IT industries. Growth in the industry is being driven by demand for more flexibility in working hours by both staff and employers. PPE has over 3,000 clients including Wesley Mission, Healthscope and NSW Health.	MNF Group ASX: MNF MNF is a founder led software company, which specialises in proprietary digital network infrastructure for voice communications. With 'next generation' networks in Australia, NZ and Singapore, MNF provides voice carriage and value-added software services to some of the world's largest software companies and wants to expand further into the APAC region.

Investment Portfolio Performance

	1 Month	1 Year	3 Years (p.a.)	5 Years (p.a.)	Inception (p.a.)	Inception (Total return)
NAC Investment Portfolio Performance*	+11.43%	+19.72%	+11.62%	+14.35%	+13.77%	+111.34%
S&P/ASX 300 Industrials Accumulation Index	+3.63%	-7.04%	+4.77%	+6.27%	+5.82%	+38.88%
Performance Relative to Benchmark	+7.80%	+26.76%	+6.85%	+8.08%	+7.95%	+72.46%

* 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	\$332.1 million
Cash Weighting	1.17%
Standard Deviation of Returns (NAC)	18.15%
Standard Deviation of Returns (XKIAI)	14.61%
Downside Deviation (NAC)	11.63%
Downside Deviation (XKIAI)	10.39%
Shares on Issue	46,402,174
NAC Directors Shareholding (Ordinary Shares)	8,020,033
NAC Options Closing Price (ASX: NACOA)	\$0.065

NAOS Asset Management Giving Back

NAOS Asset Management Limited, the Investment Manager, donates approximately 1% of all management fees to the following charities.

		
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