

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 OCTOBER 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
\$1.17	\$1.18	\$1.13	\$0.93	(20.51%)	5.65%

The above NTA figures include the 1.35 cent per share fully franked Q1 FY20 quarterly dividend, which went ex-dividend on 5 November 2019 and will be paid on 19 November 2019.

MARKET INSIGHT

For the month of October, the NAC Investment Portfolio increased by +1.99%, outperforming the benchmark S&P/ASX 300 Industrials Accumulation Index (ASX: XKIAl) which decreased by -0.09%. This brings the inception performance to +91.88% on a total return basis, outperforming the benchmark index which has returned +51.76% over the same period. At the end of the month the investment portfolio was made up of 11 long positions and 1 short position with a cash weighting of 8.10%, and the weighted average market capitalisation of the investments was \$371.5 million. There was one major update from an investment held within the portfolio, being AMA Group (ASX: AMA) and its acquisition of major competitor Capital S.M.A.R.T which was owned by Suncorp (ASX: SUN).

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%									
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.

AMA Group announced the acquisition of Capital S.M.A.R.T for a total value of \$420 million, the equivalent to 11.1 times EV/EBITDA for the business, which for some may represent a very full multiple. We believe that even though the acquisition was a full price based on the headline figures, it is a very sound strategic move looking at the long-term potential of the business. Firstly, it removes a large competitor and more importantly it prevents a well-funded company from acquiring Capital S.M.A.R.T and competing directly with AMA on other small bolt-on acquisitions. We estimate the vehicle panel repair market to be worth around \$7bn with the combined group having a 9% market share, with no competitor of any notable size. Secondly, the business was significantly under-earning, especially when comparing the margins of AMA to those of Capital S.M.A.R.T, hence why AMA management have called out an initial \$17 million in synergies by FY21. Finally, SUN has entered into a 25.5-year agreement with AMA group which has minimum volume requirements that SUN must put through the AMA facilities, thereby guaranteeing a minimum volume level of throughput which the AMA management team can manage their cost base against. Since announcing the acquisition, the share price of AMA has increased

FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

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



MARKET INSIGHT CONTINUED

by +16%, and in our view there remains a significant amount of earnings growth to come over the next 3-5 years. The business is run by a CEO who successfully built a very similar business in the UK, and now owns approximately 38 million AMA shares, or just over 5% of the whole business.

Finally, we said we would expand on the OCL investment thesis in this month's investment report, and here we detail several unique facts that attracted us to the OCL business. Firstly, since listing almost 20 years ago the number of shares on issue has reduced by almost 30% due to capital management initiatives. In essence, this means that OCL has been able to grow to a \$14 million EBITDA business with \$34 million in cash on the balance sheet via internally funded initiatives, producing an impressively high Return on Invested Capital (ROIC). Secondly, the CEO owns ~ 60% of the shares on issue and has not had a pay rise (from a modest salary) in over 10 years. Importantly, the recurring revenue of the business now represents over 70% of the total revenue with Tier 1 customers such as BHP (ASX: BHP), the Federal and State Government, and Macquarie Group. Finally, and most importantly in our view, OCL generally spends ~\$13 million in research and development all of which is expensed in the profit and loss statement as opposed to being amortised over many years, which can artificially boost the short-term profitability of businesses. OCL management have recently stated that the 5-10-year opportunity for the Annual Recurring Revenue of the business could potentially be \$127 million, up from the current \$47 million. If this is achieved, then OCL may well have a market capitalisation of over \$2 billion.

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)	14.45%
People Infrastructure Limited (ASX: PPE)	12.50%
Service Stream Limited (ASX: SSM)	7.75%
BSA Limited (ASX: BSA)	7.47%
Smartgroup Corporation (ASX: SIQ)	6.95%

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*	+1.99%	+22.07%	+10.44%	+6.13%	+13.92%	+14.02%	+91.88%
S&P/ASX 300 Industrials Accumulation Index	-0.09%	+20.35%	+9.83%	+11.46%	+9.73%	+8.76%	+51.76%
Performance Relative to Benchmark	+2.08%	+1.72%	+0.61%	-5.33%	+4.19%	+5.26%	+40.12%

* 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	\$371.5 million
Number of Holdings	11 Long Positions and 1 Short Position
Cash Weighting	8.10%
Standard Deviation of Returns (NAC)	11.39%
Standard Deviation of Returns (XKIAI)	10.84%
Downside Deviation (NAC)	5.73%
Downside Deviation (XKIAI)	5.88%
Percentage of Positive Months (NAC)	63%
Percentage of Positive Months (XKIAI)	63%
Shares on Issue	50,657,448
NAC Directors Shareholding (Ordinary Shares)	7,892,172

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

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Chief Financial/

Operating Officer

Richard Preedy

Business Development

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