

## MONTHLY INVESTMENT REPORT &amp; NTA UPDATE

AS AT 31 OCTOBER 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
\$1.29	\$1.29	\$1.21	\$1.055	9	\$0.289	5.02%

The above NTA figures are inclusive of the 1.40 cents per share fully franked Q1 FY21 quarterly dividend, which has an ex-dividend date of 9 November 2020 and a payment date of 26 November 2020.

## Market Insight

The month of October saw the NAC Investment Portfolio increase by +5.24%, outperforming the benchmark S&P/ASX 300 Industrials Accumulation Index (XKIAI) which increased by +2.67%, as well as its smaller counterpart the S&P/ASX Small Ordinaries Accumulation Index (XSIAI) which increased by just +0.46%. This brings portfolio performance since inception to +15.08% p.a., outperforming the benchmark index which has returned +5.55% p.a. over the same period. Again, it was a highly volatile month with the wider index giving up a significant amount of its early monthly gains on little tangible news flow apart from sharply increasing COVID-19 cases in North America and Western Europe, and US election uncertainty. For the NAC Investment Portfolio there were a number of notable events which included MNF Group (ASX: MNF) providing initial guidance for FY21 at their Annual General Meeting (AGM), Experience Co (ASX: EXP) providing a trading update at their AGM, and a new position added to the Investment Portfolio, namely Frontier Digital Ventures (ASX: FDV).

## Investment Portfolio Performance Monthly and FY Returns\*

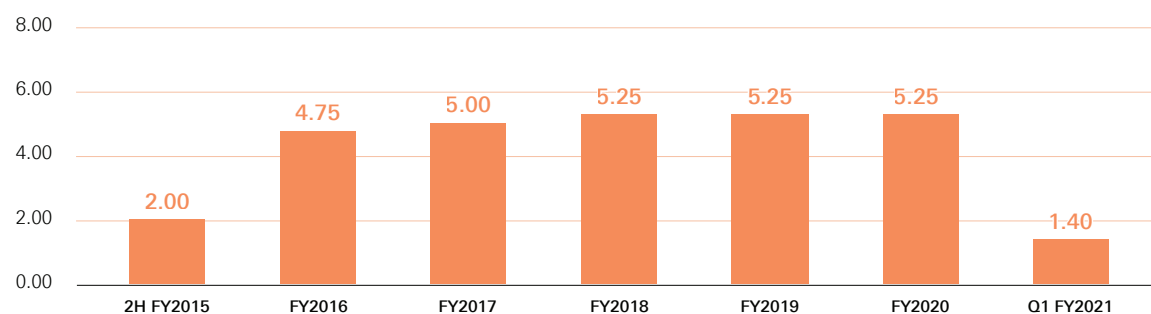
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY21	+5.04%	+11.43%	+3.96%	+5.24%									+28.06%
FY20	+0.50%	+8.14%	+6.58%	+1.99%	+0.98%	+0.87%	+2.31%	-13.80%	-22.22%	+8.81%	+18.84%	+4.15%	+11.16%
FY19	+0.24%	+6.23%	-1.46%	-10.41%	+1.93%	-4.57%	+5.20%	+0.10%	-0.10%	+3.65%	-4.74%	+2.29%	-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.

MNF provided FY21 EBITDA guidance of \$40-\$43 million, with the midpoint implying year-on-year (YOY) growth of 8.6%. As expected, the Wholesale business continues to perform well with UCaaS, CPaaS and Collaboration volumes remaining elevated and expected to remain so for the remainder of FY21. The new Singapore network will launch commercially in March but is not expected to benefit the FY21 earnings profile of MNF (interestingly customer onboarding has already commenced). Headwinds continue to relate to the audio-conferencing business which will reduce EBITDA by \$2 million and the volumes lost on the minutes trading business in relation to international roaming are expected to reduce EBITDA by \$1.50 million compared to the prior year. Adding back these two headwinds and assuming no other changes the EBITDA guidance could have been \$43.50 - \$46.50 million or 18.50% EBITDA growth YOY. As we discussed in our recent article [click here to read](#), we believe a significant amount of shareholder value can be realised if the Direct and Wholesale Divisions are split either

## 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

via a divestment or demerger. In our view, the key is to simplify the business so that investors can understand the drivers of each division and subsequently what they are worth relative to other listed peers. In the case of the Direct business, peers in Australia such as Spirit Telecom (ASX: ST1) and 5G Networks (ASX: 5GN) are trading on EBITDA multiples in excess of 10 times. For the MNF Wholesale business there is no more relevant and recent comparable than the Bandwidth (US: BAND) takeover of Voxbone for more than USD \$500 million, which equates to more than 6 times revenue.

EXP also provided a trading update at its AGM late in the month. Pleasingly, the business has been EBITDA and cash flow positive for the first 3 months of the year. We also believe that the trajectory of earnings has improved every month since June as the number of customers has continued to accelerate. To put this into perspective the Great Barrier Reef Experience division is running at 40% of its total passenger volumes compared to last year even though the QLD border with both NSW and VIC remains closed. The net debt position continues to improve markedly with the business in a net cash position of \$5.6 million prior to asset finance of \$10.1 million. The business remains focussed on executing a small number of bolt-on acquisitions which we believe can be internally financed and may well be highly complementary to the EXP customer database. We continue to believe EXP has the potential to earn >\$20 million EBITDA p.a. once the interstate borders are fully open.

## Core Investment Portfolio Examples

Objective	PEOPLE INFRASTRUCTURE	mnf group™
<b>Objective Corporation</b> ASX: OCL	<b>People Infrastructure</b> ASX: PPE	<b>MNF Group</b> ASX: MNF
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 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 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)
<b>NAC Investment Portfolio Performance*</b>	+5.24%	+20.51%	+13.69%	+15.20%	+15.08%	+131.22%
<b>S&amp;P/ASX 300 Industrials Accumulation Index</b>	+2.67%	-9.04%	+3.14%	+5.69%	+5.55%	+38.04%
<b>Performance Relative to Benchmark</b>	+2.57%	+29.55%	+10.55%	+9.51%	+9.53%	+93.18%

\* 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	\$339.2 million
Cash Weighting	0.69%
Standard Deviation of Returns (NAC)	18.00%
Standard Deviation of Returns (XKIAI)	14.51%
Downside Deviation (NAC)	11.49%
Downside Deviation (XKIAI)	10.29%
Shares on Issue	45,443,354
NAC Directors Shareholding (Ordinary Shares)	8,037,436
NAC Options Closing Price (ASX: NACOA)	\$0.12

## 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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**Important Information:** This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS.

## 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

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