

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 JANUARY 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
\$1.21	\$1.21	\$1.16	\$1.00	(17.36%)	5.25%

MARKET INSIGHT

For the month of January, the Investment Portfolio increased by +2.31%, underperforming the benchmark S&P/ASX 300 Industrials Accumulation Index (ASX: XKIAl) which increased by a not insignificant +5.97%. This brings the inception performance to +99.96% on a total return basis, outperforming the benchmark index which has returned +60.53% over the same period. At the end of the month the Investment Portfolio was made up of 13 long positions with a cash weighting of 8.69%, and the weighted average market capitalisation of the investments was \$455.1 million. From a contribution perspective, four of the NAC investment contributed more than +0.40% and one position contributed more than +1% to the total return. There were no major detractors to performance with two holdings detracting ~-0.40% each to investment portfolio performance.

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%						+23.11%
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.

The one significant announcement in January came from Objective Corporation (ASX: OCL), which released a trading update for 1H FY20. Pleasingly, the Company confirmed that they remain on track regarding their organic growth profile and increasing recurring revenue base. In 6 months alone the Annualised Recurring Revenue (ARR) base of the business increased by 11%, and now equates to 75% of the total revenue profile. All research and development expenditure was again fully expensed and cash conversion was >200% of NPAT. To put this into context, operating profit for 1H FY20 is expected to be \$5.8 million with the cash balance of the business growing by \$4.8 million, even after the payment of \$6.7 million for a small acquisition and dividend payments of \$5.6 million. We continue to believe that OCL remains one of the highest quality businesses listed on the ASX, and importantly it remains under-owned and under-researched due to the very low liquidity profile and the assumption that it may look expensive from a P/E perspective as all R&D is expensed as incurred and not amortised over a number of years. The latter approach benefits the short-term profitability of the business, and is the approach taken by peers such as Technology One (ASX: TNE), which we believe capitalised in excess of 50% of its R&D in FY19. Even so, TNE trades on a FY20 P/E multiple of 40 times and EV/EBITDA multiple of 26 times.

FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

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



MARKET INSIGHT CONTINUED

Heading into half year reporting season it is worth noting that we have already seen a number of significant downgrades. These include women's retailer Mosaic Brands (ASX: MOZ) which has seen its stock fall -23%, geospatial mapping business Nearmap (ASX: NEA) which fell almost -35% over the month, and finally two of Australia's largest engineering businesses, CIMIC Group (ASX: CIM) and Downer (ASX: DOW), both falling by approximately -20%. Each of these businesses blamed company specific issues, but with the market heading into February near all-time highs it is clear that any company that does not meet market expectations will be de-rated in a significant manner. Over CY19 90% of the ASX-200's uplift was caused through P/E expansion as opposed to earnings expansion. Earnings went backwards in CY19 with the other 10% of the positive overall return coming from dividend payments. Clearly this valuation expansion has been driven by record low interest rates and the global scramble to invest in assets that can generate a greater return than that of government bond yields, which domestically currently offer a yield of ~1.30%.

Equities are very much being valued in a relative sense, but as we have seen in the previous few weeks earnings trajectory is still the single most important variable for a company's valuation, regardless of whether or not a business is a cyclical business or a high growth technology business. What adds intrigue to the forthcoming reporting season is how investors react to recent macro variables of the tragic bushfires in Australia and the Coronavirus outbreak, and whether the market will view these events as one-off occurrences from a valuation perspective or capitalise them in a company's earnings profile going forward.

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)	13.40%
MNF Group Limited (ASX: MNF)	12.68%
Service Stream Limited (ASX: SSM)	7.80%
BSA Limited (ASX: BSA)	7.51%
Smartgroup Corporation (ASX: SIQ)	6.95%

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*	+2.31%	+24.32%	+7.59%	+8.42%	+14.50%	+14.20%	+99.96%
S&P/ASX 300 Industrials Accumulation Index	+5.97%	+27.26%	+12.17%	+11.64%	+8.81%	+9.49%	+60.53%
Performance Relative to Benchmark	-3.66%	-2.94%	-4.58%	-3.22%	+5.69%	+4.71%	+39.43%

* 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	\$455.1 million
Number of Holdings	13 Long Positions
Cash Weighting	8.69%
Standard Deviation of Returns (NAC)	11.13%
Standard Deviation of Returns (XKIAI)	10.97%
Downside Deviation (NAC)	5.61%
Downside Deviation (XKIAI)	5.83%
Percentage of Positive Months (NAC)	65%
Percentage of Positive Months (XKIAI)	63%
Shares on Issue	48,170,404
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

Investment Analyst

Rachel Cole

Chief Financial/

Operating Officer

Richard Preedy

Business Development

Manager

Julia O'Brien

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