

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 MAY 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
\$1.03	\$1.06	\$1.04	\$0.795	(22.82%)	6.60%


The above NTA figures are inclusive of the 1.35 cent per share fully franked Q3 FY20 dividend, which went ex-dividend on 1 June 2020 and will be paid on 18 June 2020.


MARKET INSIGHT

The month of May saw the NAC Investment Portfolio increase by +18.84%, outperforming the benchmark S&P/ASX 300 Industrials Accumulation Index (XKIAI) which increased by +3.67%, as well as its smaller counterpart the S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +10.59%, following on from its largest ever monthly return in April. This brings portfolio performance since inception to +10.42% p.a., outperforming the benchmark index which has returned +5.00% p.a. over the same period. From a portfolio perspective, there were numerous significant announcements made as companies grapple with these unprecedented times and manage their businesses as best they can over the short to medium term. Portfolio companies that provided updates in May included Over The Wire (ASX: OTW), People Infrastructure Limited (ASX: PPE) and Smartpay Holdings (ASX: SMP).

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
FY20	+0.50%	+8.14%	+6.58%	+1.99%	+0.98%	+0.87%	+2.31%	-13.80%	-22.22%	+8.81%	+18.84%		+6.73%
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.

Firstly, OTW provided the market with a company and financial update for FY20, their first update since the release of their 1H FY20 accounts in late February. The most pleasing news was the confirmation that FY20 EBITDA will be within 3% of market consensus. From our point of view this implies an improved 2H run rate for the core recurring revenue business, which now represents over 75% of the group EBITDA. The balance sheet remains in excellent shape with an expected improvement on the net debt position, which may well be in a slight net cash position at the end of FY20. Finally, a brief comment was made around potential acquisitions with the Company progressing a number of discussions with quality businesses. With numerous businesses leaders stating that one of the key effects of COVID-19 will be technological and digital productivity initiatives being brought forward at a significant rate, OTW should benefit from a significant tailwind over the short and medium term. Many of OTW's current and potential clients will require a partner who can provide them with the capability and services to implement these digital initiatives into their respective businesses, and we believe OTW are well-positioned to capitalise on this opportunity.

FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

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



MARKET INSIGHT CONTINUED

It has been a tumultuous couple of months for workforce management company PPE. After completing a capital raising in April the company updated the market on its expected financial performance for FY20. EBITDA is expected to be between \$24-\$25 million and the dividend payout ratio of 45-60% of NPATA will be maintained. We believe this updated guidance was some 10-15% ahead of consensus and highlights the defensive nature of the core PPE business which has several large clients that operate within the healthcare and disability industries. In our view, moving into FY21 the earnings momentum for PPE will normalise as one-off events such as the reduction in elective surgeries within the private hospital space are wound back and procedures return to pre-COVID-19 levels.

A new holding was added to the NAC Investment Portfolio, which has been followed by the investment team for a few years. Smartpay Holdings (ASX: SMP) is a provider of payment terminals to Australia and New Zealand based SME's, and originally listed on the New Zealand Stock Exchange (NZX). Over the past few years SMP have been gradually transitioning to a provider of merchant acquiring payment products, which is very similar to that of \$2 billion market cap business Tyro Payments (ASX: TYR). We believe this transition has been masking the underlying profitability of the business and the recurring nature of the earnings profile, as significant upfront investment has been made. We also see a significant industry tailwind as more consumers transition from cash to card payments. If SMP management can continue to innovate their product so it adds value and functionality for both the consumer and the merchant, then there may be significant scope for SMP to increase the Australian acquiring terminal fleet from the current number of 4,600.

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)	28.40%
Service Stream Limited (ASX: SSM)	6.58%
BSA Limited (ASX: BSA)	6.40%
Objective Corporation (ASX: OCL)	5.56%
Elders Limited (ASX: ELD)	5.51%

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*	+18.84%	+9.17%	+1.69%	+4.78%	+9.34%	+10.42%	+73.36%
S&P/ASX 300 Industrials Accumulation Index	+3.67%	-7.45%	+1.25%	+2.62%	+3.50%	+5.00%	+31.07%
Performance Relative to Benchmark	+15.17%	+16.62%	+0.44%	+2.16%	+5.84%	+5.42%	+42.29%

* 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	\$272.6 million
Number of Holdings	8 Long Positions
Cash Weighting	3.69%
Standard Deviation of Returns (NAC)	17.90%
Standard Deviation of Returns (XKIAI)	14.84%
Downside Deviation (NAC)	11.86%
Downside Deviation (XKIAI)	10.59%
Percentage of Positive Months (NAC)	64%
Percentage of Positive Months (XKIAI)	63%
Shares on Issue	47,350,404
NAC Directors Shareholding (Ordinary Shares)	7,944,998

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

Julia O'Brien

Compliance Officer

Julie Coventry

Marketing & Communications Manager

Angela Zammit

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