

MONTHLY INVESTMENT REPORT & NTA UPDATE

AS AT 30 SEPTEMBER 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
\$1.23	\$1.23	\$1.17	\$0.93	9	\$0.275	5.65%

Market Insight

The month of September saw the NAC Investment Portfolio increase by +3.96%, outperforming the benchmark S&P/ASX 300 Industrials Accumulation Index (XKIAI) which fell by -3.19%, as well as its smaller counterpart the S&P/ASX Small Ordinaries Accumulation Index (XSIAI) which fell by -2.82%. This brings portfolio performance since inception to +14.31% p.a., outperforming the benchmark index which has returned +5.16% p.a. over the same period. After an extremely busy month in August due to reporting season, the news flow momentum continued in September with significant updates from People Infrastructure (ASX: PPE) and Smartpay Holdings (ASX: SMP), whilst Over The Wire (ASX: OTW) announced an acquisition on 1st October which we will also touch on.

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%										+21.68%
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.

Firstly, PPE announced that Managing Director Declan Sherman will move to an Executive Role focusing on PPE's strategic direction, with David Cuda being elevated from his current interim role as Group CEO. We believe this is a logical move for the business which highlights two key factors. The first of these is the significant growth potential in what remains a highly fragmented and cottage-type industry. As PPE is in a very flexible position from a capital perspective we believe the opportunity exists to acquire a business (or businesses) that complements the overall PPE service offering, and the capital strength of PPE allows for the size of any acquisition to be larger than historical transactions. Secondly, in regards to David Cuda moving to a full-time CEO role, we believe this is a sound decision as David has been Group CEO since January and prior to this he was the leader of the largest division in PPE, being Community Services and Healthcare, so is well-placed to lead the business through a further growth phase.

SMP provided a business update during the month, together with a further update at their AGM. Pleasingly, lead generation continues to accelerate with acquiring revenue increasing which we would expect as the number of installed terminals grows. Interestingly, the quality of customer also appears to be increasing, as revenue per terminal has continued to rise and

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

is now higher than in a pre-COVID environment. Clearly, there is a significant focus on the number of terminals in the market as the total opportunity of 250,000 is significantly larger than SMP's current terminal count of just 4,432. However, in our view there is significant leverage in both the quality and size of each client, and with that the subsequent gross margin per client. It will be key to assess how each of these variables move as the number of terminals grows, as we believe the potential profitability of SMP could be significantly higher if the quality of the customer can increase at a similar rate.

Finally, OTW announced the acquisition of cloud business Digital Sense Hosting, which provides most of its services to Enterprise and Government clients. We believe this is an excellent strategic fit for the OTW business for numerous reasons. Firstly, the founders of Digital Sense will be taking a significant portion of OTW scrip; the business has a revenue profile that is >90% recurring in nature; and the offering of Digital Sense will increase OTW's capability in that sector of the market and bring with it a sophisticated client base. OTW has now made two significant acquisitions in a short period of time which in our view could potentially increase the EBITDA by \$14 million over the next 24 months. We firmly believe that on a normalised run-rate OTW has the potential to generate >\$35 million EBITDA in FY22, which together with significant free cash flow generation should see OTW command a premium EBITDA multiple.

Core Investment Portfolio Examples

		
<p>Objective Corporation ASX: OCL</p> <p>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.</p>	<p>People Infrastructure ASX: PPE</p> <p>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.</p>	<p>MNF Group ASX: MNF</p> <p>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.</p>

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*	+3.96%	+16.78%	+12.61%	+14.79%	+14.31%	+119.70%
S&P/ASX 300 Industrials Accumulation Index	-3.19%	-11.48%	+3.55%	+6.00%	+5.16%	+34.45%
Performance Relative to Benchmark	+7.15%	+28.26%	+9.06%	+8.79%	+9.15%	+85.25%

* 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	\$330.8 million
Cash Weighting	1.47%
Standard Deviation of Returns (NAC)	18.05%
Standard Deviation of Returns (XKIAI)	14.58%
Downside Deviation (NAC)	11.56%
Downside Deviation (XKIAI)	10.35%
Shares on Issue	46,031,682
NAC Directors Shareholding (Ordinary Shares)	8,037,436
NAC Options Closing Price (ASX: NACOA)	\$0.072

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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