



NAOS Asset Management Limited

ASA Webinar 'Does Value Investing Still Make Sense?'

NAOS

1pm 23rd June 2020

Important Information

This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) for general information purposes only and must not be construed as investment advice. It does not constitute an offer to purchase any security or financial product or service referred to herein. Any such offer or solicitation shall only be made pursuant to a relevant offer document, which is available by calling NAOS on (02) 9002 1576. This material 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.

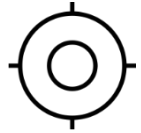
Where past performance information is shown, it is intended to be for general illustrative purposes only. Past performance is not a reliable indication of future performance. In relation to any NAOS financial product or service referred to herein, NAOS does not guarantee its future performance, the amount or timing of any returns or that any investment objectives will be achieved.

Statements contained in this material that are not historical facts are based on the current expectations, estimates, projections, opinions, assumptions and beliefs of NAOS, which are subject to change without notice. This material may also contain forward-looking statements. Forward-looking statements are not guarantees or predictions of future performance and involve known and unknown risks, uncertainty and other factors beyond NAOS' control. Unless otherwise expressly stated, no independent person has reviewed the reasonableness of any such forward-looking statements or assumption. Undue reliance should not be placed on forward-looking statements as actual events or results or the actual performance of a NAOS financial product or service may materially differ from those reflected or contemplated in such forward-looking statements.

Neither NAOS or any of its respective officers or employees makes any representation or warranty (express or implied) with respect to the correctness, accuracy, reasonableness or completeness of any information contained in this material and to the maximum extent permitted by law, NAOS disclaims all liability to any person relying on the information contained in this material 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. Certain economic, market or company information contained in this material may have been obtained from published sources prepared by third parties. Any trademarks, logos or service marks contained herein may be the registered or unregistered trademarks of their respective owners. Nothing contained herein should be construed as granting by implication or otherwise, any license or right to use any trademark displayed without the written permission of the owner.

NAOS investment beliefs provide a competitive advantage



Value with Long
Term Growth



Quality over
Quantity



Invest for the
Long Term
5+ years



Performance v
Liquidity Focus

The closed end LIC structure
removes application and
redemption risk.



Ignore the
Index



Pure Exposure
to Industrials



Management
Alignment



Environmental, Social
and Governance (ESG)

We do not invest in businesses that
are directly related to the production
or sale of tobacco, gambling, nuclear,
uranium, coal or iron ore,
controversial weapons, coal mining
operations or oil and gas production
companies.



Constructive
Engagement

What is value investing?

Value investing can be described as a style of investing that involves acquiring securities in a business that appears underpriced when analysed through fundamental analysis.

The following table highlights some of the key fundamental attributes of ASX listed 'value' versus 'growth' companies*

Company	ASX Stock Code	Share Price	Market Cap (\$'000)	Price Earnings Ratio	Revenue Growth	1 Year Total Shareholder Return
Rio Tinto	RIO	\$98.69	\$35,960,000	12	-9.70%	-6.40%
BHP Group	BHP	\$35.93	\$103,841,000	13	-4.30%	-10.80%
Lendlease Group	LLC	\$12.68	\$8,356,000	14	-17.80%	-2.90%
ANZ Banking Group	ANZ	\$18.99	\$52,214,000	5	-5.00%	-32.50%
National Australia Bank	NAB	\$18.60	\$59,451,000	15	2.40%	-30.10%
Westpac Banking Corp	WBC	\$17.91	\$62,771,000	17	0.70%	-35.40%
Costa Group Holdings	CGC	\$2.88	\$1,118,000	24	8.30%	-20.90%
Ramsay Health Care	RHC	\$65.96	\$14,438,000	38	5.70%	-8.00%
News Corp	NWS	\$17.38	\$811,000	67	-11.50%	-0.90%
Pro Medicus	PME	\$27.31	\$2,835,000	116	19.40%	15.40%
CSL Limited	CSL	\$285.29	\$126,584,000	40	11.60%	34.10%
EML Payments	EML	\$3.67	\$1,227,000	39	25.30%	29.30%
Zip Co	Z1P	\$6.22	\$2,253,000	-69	88.50%	111.20%
NEXTDC	NXT	\$9.38	\$4,159,000	-243	12.80%	38.90%
Afterpay	APT	\$55.19	\$13,705,000	-308	77.40%	156.20%

* Source: IRESS figures as at 16/6/2020, Price Earnings and Revenue Growth figures are based on the market consensus for FY20.

What is value investing?

Is value investing and the expectation of long term profit growth mutually exclusive? *

Company	ASX Stock Code	Share Price	Market Cap (\$'000)	Price Earnings Ratio	1 Year Revenue Growth	1 Year Total Shareholder Return
Xero Limited	XRO	\$85.26	\$11,802,000	421	18.1%	44.4%
Cochlear Limited	COH	\$194.82	\$12,328,000	73	-10.4%	-5.1%
CSL Limited	CSL	\$285.29	\$126,584,000	40	11.6%	34.0%
Magellan Financial	MFG	\$55.48	\$9,690,000	24	15.1%	17.1%

* Source: IRESS figures as at 16/6/2020, Price Earnings and Revenue Growth figures are based on the market consensus for FY20.


What is value investing?

Is value investing and the expectation of long term profit growth mutually exclusive?

Stock example Xero Limited (ASX: XRO)*

- As XRO expands, the overseas adoption rates are accelerating.
- XRO is now free cash flow (FCF) positive, an improvement of close to NZD\$90m in FCF since FY17.
- XRO are a provider of mission critical software, with a sticky customer base. They are accelerating globally into very large markets resulting in high levels of incremental FCF generation versus incremental investment.
- There is inherent value in the customer base and business which historical profit hasn't measured.

Xero's global footprint



FY20	Australia		New Zealand		United Kingdom		North America		Rest of World	
Subscribers	914k	+26%	392k	+12%	613k	+32%	241k	+24%	125k	+51%
Revenue	\$320m	+23%	\$116m	+19%	\$184m	+54%	\$55m	+25%	\$43m	+43%
	>50% cloud adoption ¹				<20% cloud adoption ¹					

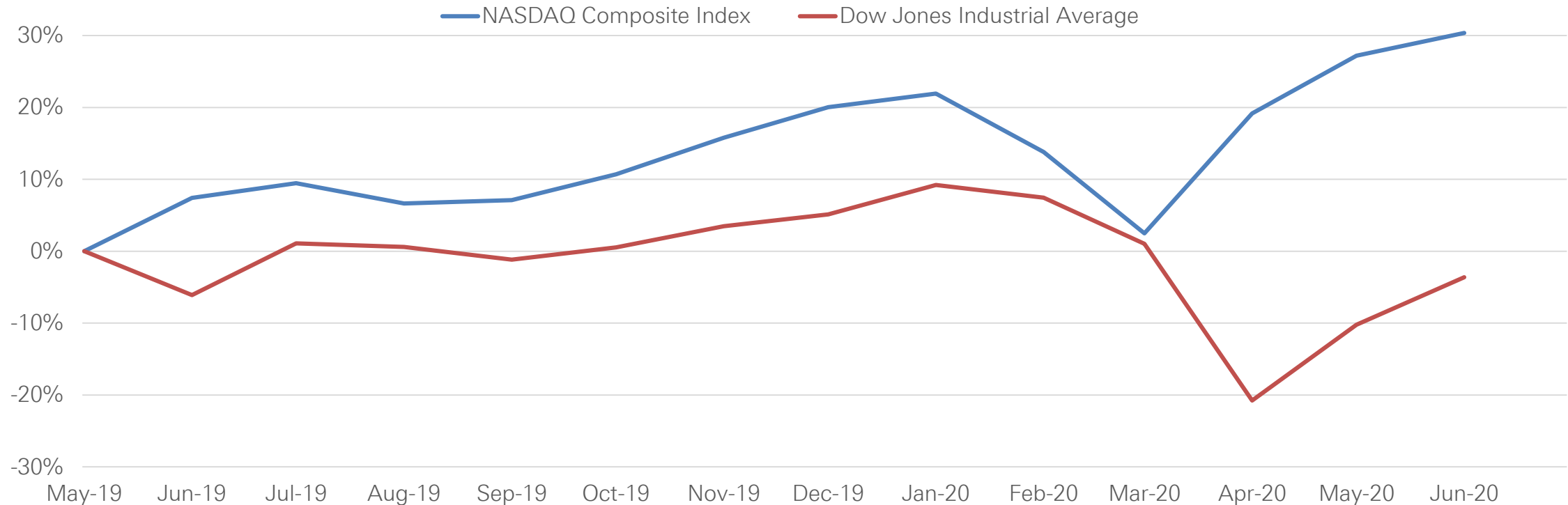
¹ Estimated adoption rates across English speaking addressable cloud accounting markets, based on publicly available data

* Source Xero Limited Investor Briefing full year results to 31 March 2020, all currency amounts are in NZ dollars.

The recent underperformance of value v growth investing

What has caused the recent underperformance of 'value' investing*?

1. Low interest rates leading to increased risk tolerance.
2. Significant change in consumer and business habits.
3. Many value type investments have been unable to grow revenue yet continue to cut costs.



* Source: <https://www.macrotrends.net/>

How NAOS approach value investing

Watch for 'value traps'

Identify companies which represent fair value but also have the potential to grow over the long term

Consider sector headwinds/tailwinds, invest in businesses where positive long-term trends are sustainable

Focus on long-term valuation scenarios

Consider balance sheet capacity and funding

Key quantitative considerations for long term investing

Organic long term revenue growth

Margin expansion

Balance sheet flexibility

Valuation multiple expansion

NAOS core investment | MNF Group Limited (ASX: MNF)



Organic revenue growth

- Increased number of voice applications used over the internet and mobile applications e.g. Video calls, webinars, calling from computers.

Margin expansion

- MNF charges customers using its phone numbers on a recurring basis, as more numbers are utilised this should more than offset growth in its fixed cost base.

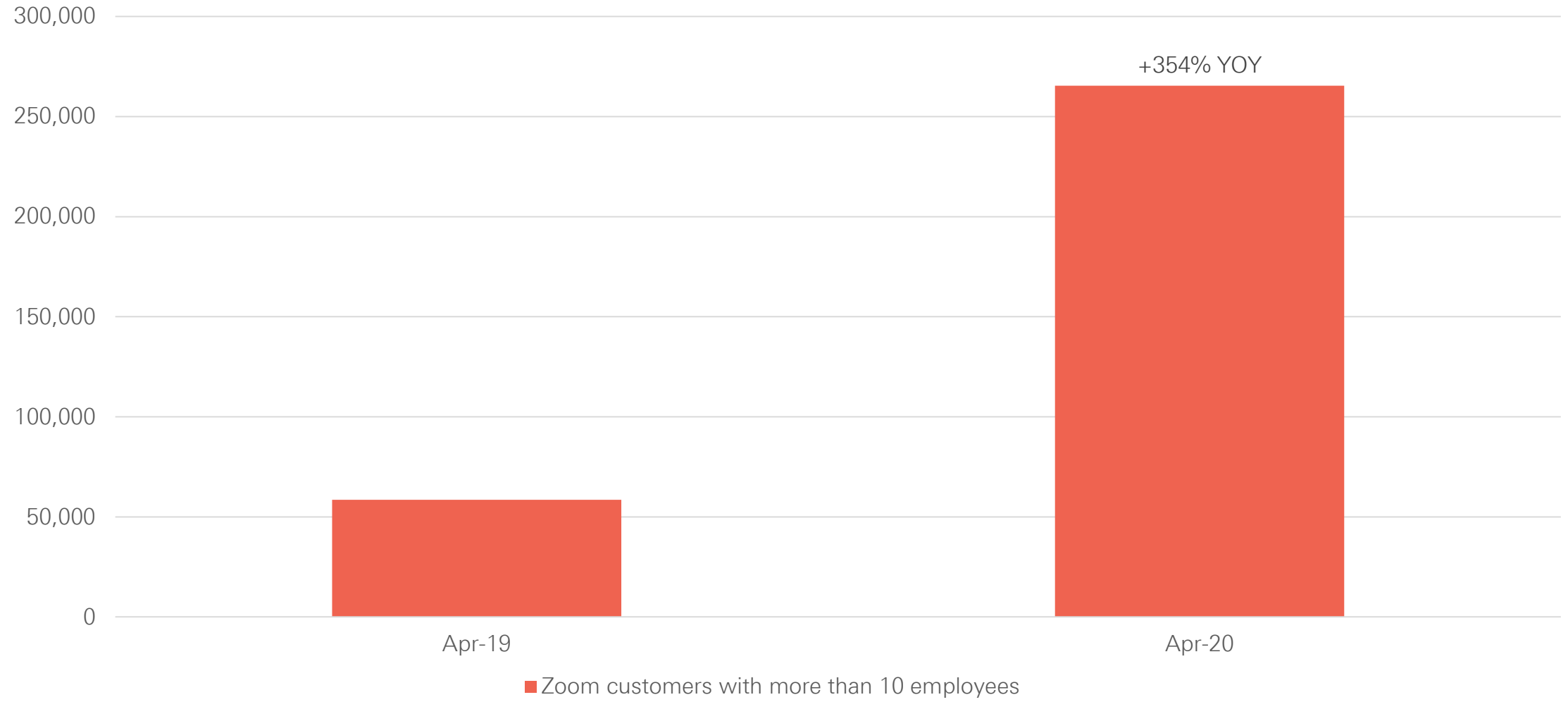
Balance sheet flexibility

- In our view, at 30 June 2020 MNF should have a significant net cash balance sheet with ample flexible to internally fund a substantial acquisition if opportunity arises.

Valuation multiple expansion

- MNF currently trades on a revenue multiple of ~1.5 times, key comparable companies to MNF such as Bandwidth and Ring Central trade on revenue multiples in excess of 8 times.

Zoom customer growth*



* Zoom Video Communications, Inc. First Quarter Results for Fiscal Year 2020 and Fiscal Year 2021

NAOS core investment | Eureka Group Limited (ASX: EGH)



Organic revenue growth

- The number of Australians aged over 85 will increase from 535,000 to over 1 million in 15 years time.*

Margin expansion

- As more villages are brought into the EGH model this should provide significant fixed cost leverage without increasing rents.

Balance sheet flexibility

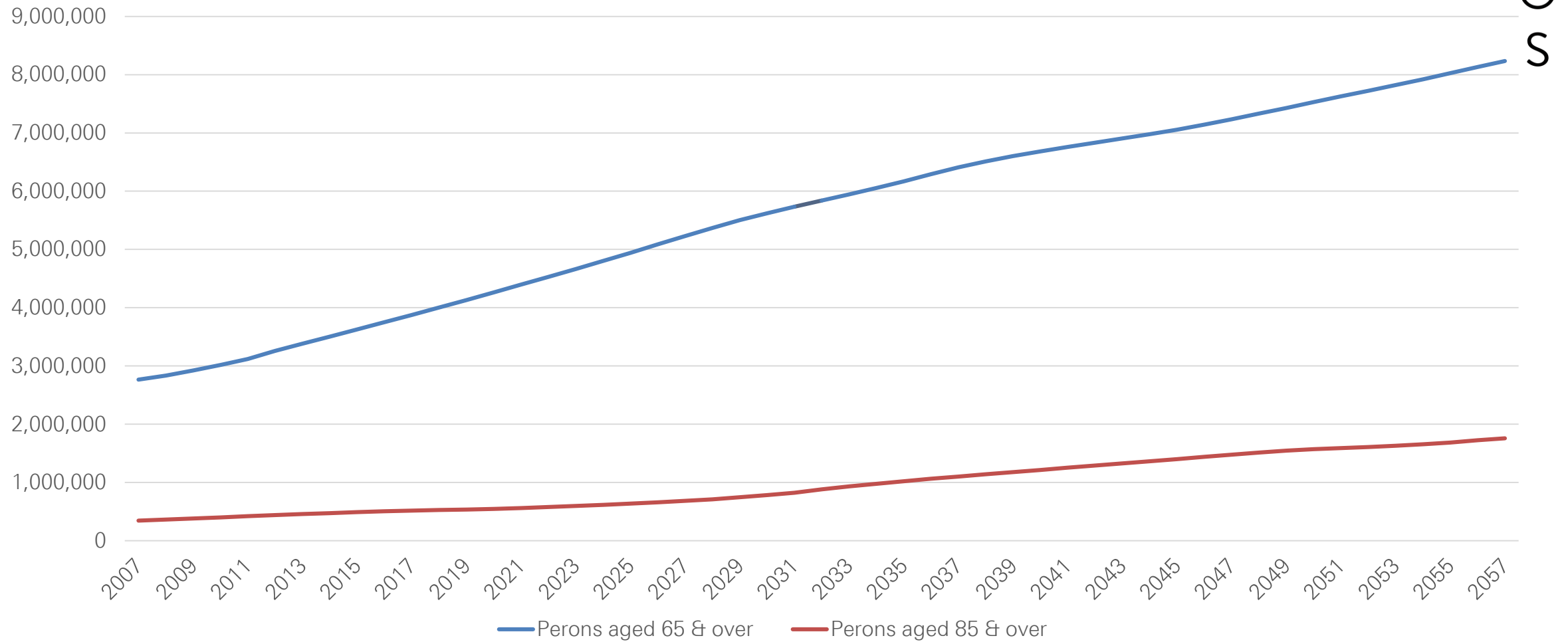
- Property assets are valued at an indicative rental yield of ~10% which we believe is undervalued and can provide scope to increase debt funding capability.

Valuation multiple expansion

- EGH is a 100% rental model and with cash rates expected to remain extremely low we believe EGH has significant cap rate compression potential.

* Source: https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook43p/ageingpopulationfigure

Australian population projections*



* Source: https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook43p/ageingpopulationfigure

Q&A

Thank you for your support

“If you own stocks like you’d own a farm or apartment house,
you don’t get a quote on those every day or every week.”

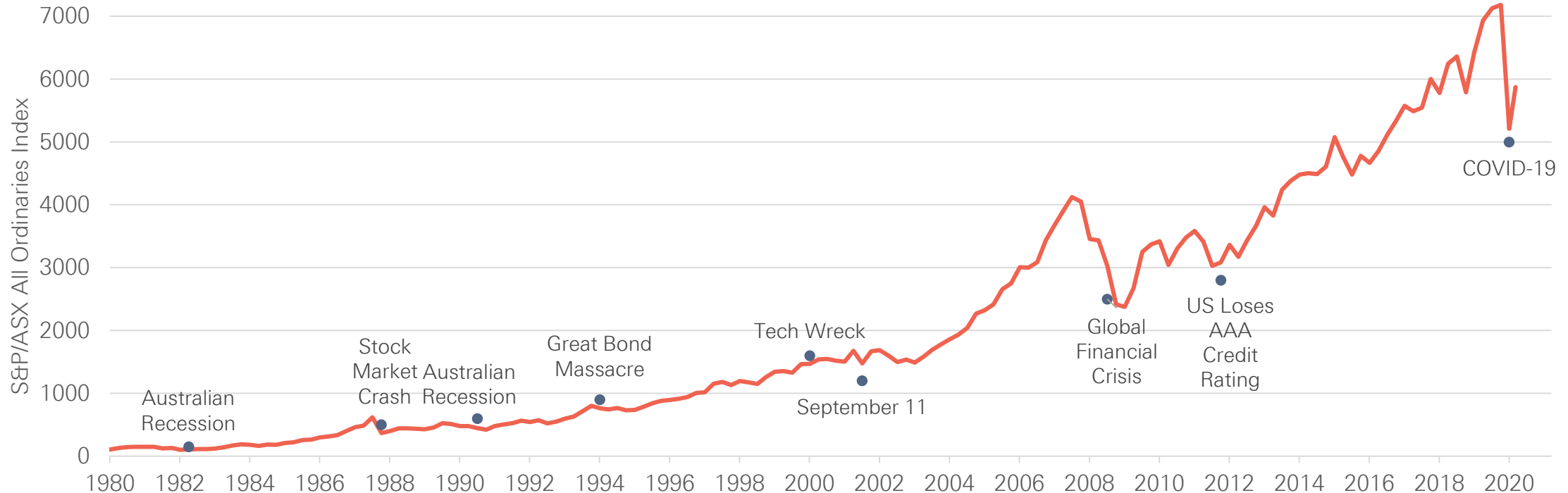
Warren Buffett

Appendix

NAOS

Long term investing

Historical Market Events and S&P/ASX All Ordinaries Index Long Term Performance*

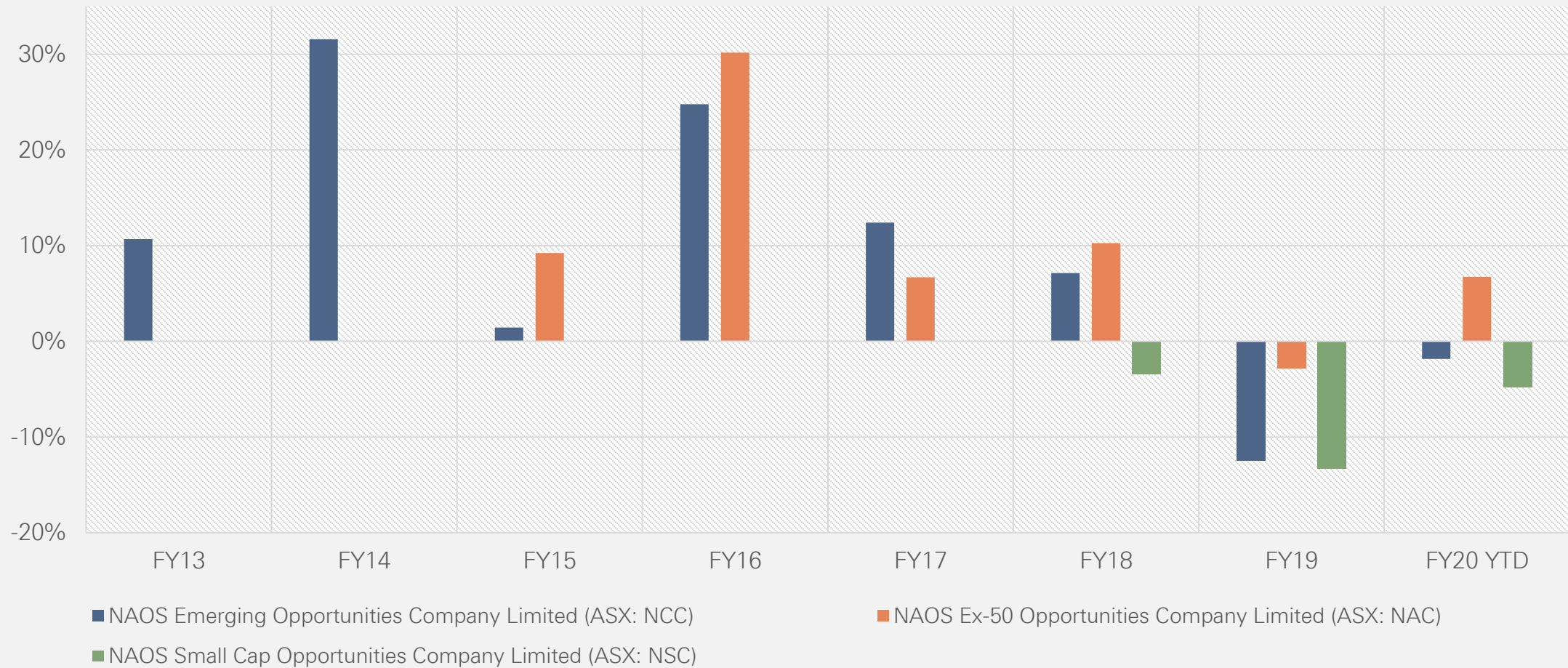


"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."

Warren Buffett

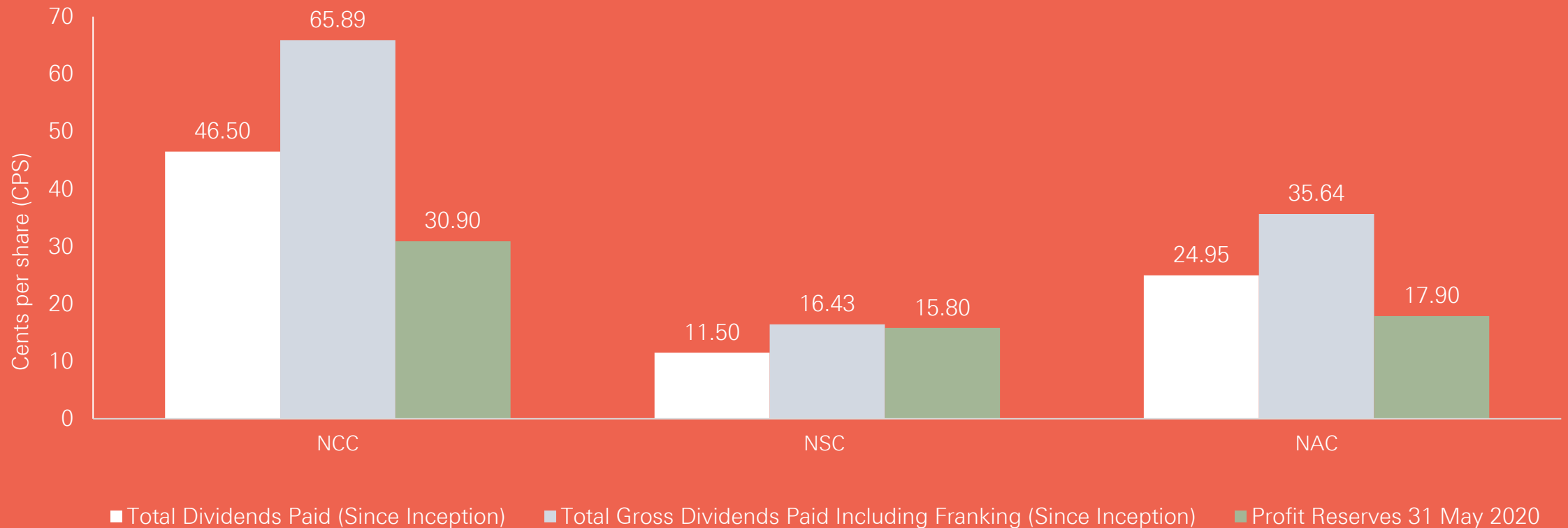
* Source Bloomberg

NAOS investment portfolio financial year returns*



* 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. Inception dates are February 2013 (NCC), November 2014 (NAC) and December 2017 (NSC). FY20 YTD performance to 31 May 2020.

NAOS LIC dividend history and profit reserves*



* All figures are as at 31 May 2020

NAOS LICs addressing the discount to NTA

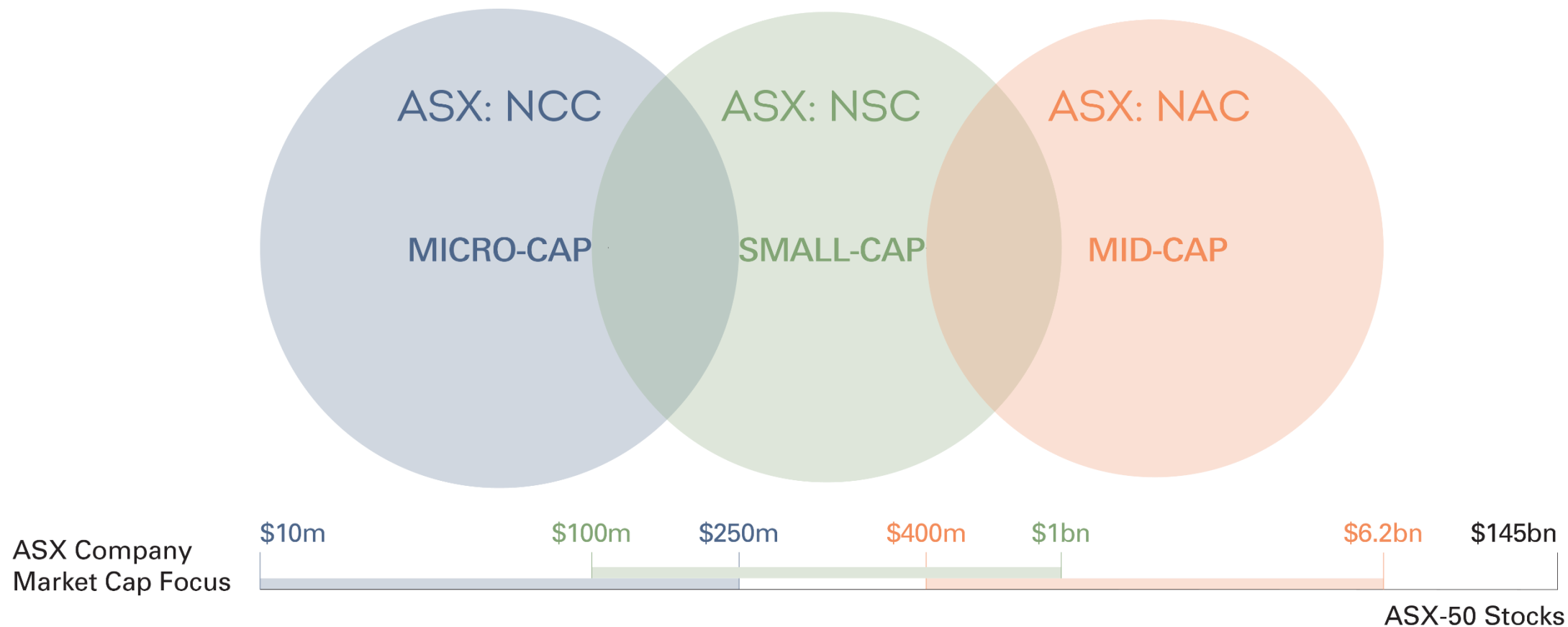
NAOS LIC	Discount to Pre Tax NTA [^]	Share Price [^]	NTA*	Dividend Yield [^]
NAOS Emerging Opportunities Company Limited (ASX: NCC)	-2.81%	\$0.865	\$0.89	8.38%
NAOS Small Cap Opportunities Company Limited (ASX: NSC)	-24.60%	\$0.475	\$0.63	8.42%
NAOS Ex-50 Opportunities Company Limited (ASX: NAC)	-21.84%	\$0.805	\$1.03	6.52%

Performance	Maintain a focus on long term performance without deviating from the NAOS investment philosophy.
Dividends	Provided a growing stream of fully franked dividends over the long term (NCC and NAC).
Strategy	Unique investment strategy providing genuine, concentrated exposure to Australian listed industrial companies outside of the ASX-50.
Alignment	Continue to be aligned with shareholders as Directors and Staff are some of the largest shareholders across all 3 of the LIC's.
Communication	Maintain a very high standard of marketing materials and communications so all current and prospective shareholders have a clear understanding of the NAOS offering.
NSC	Active buy-back with more than 10.1 million shares bought back, the buy-back is accretive to NTA per share. [^]
NAC	Continue to buy-back shares on market (10% of SOI bought back [^]).

* Pre Tax NTA as at 31 May 2020

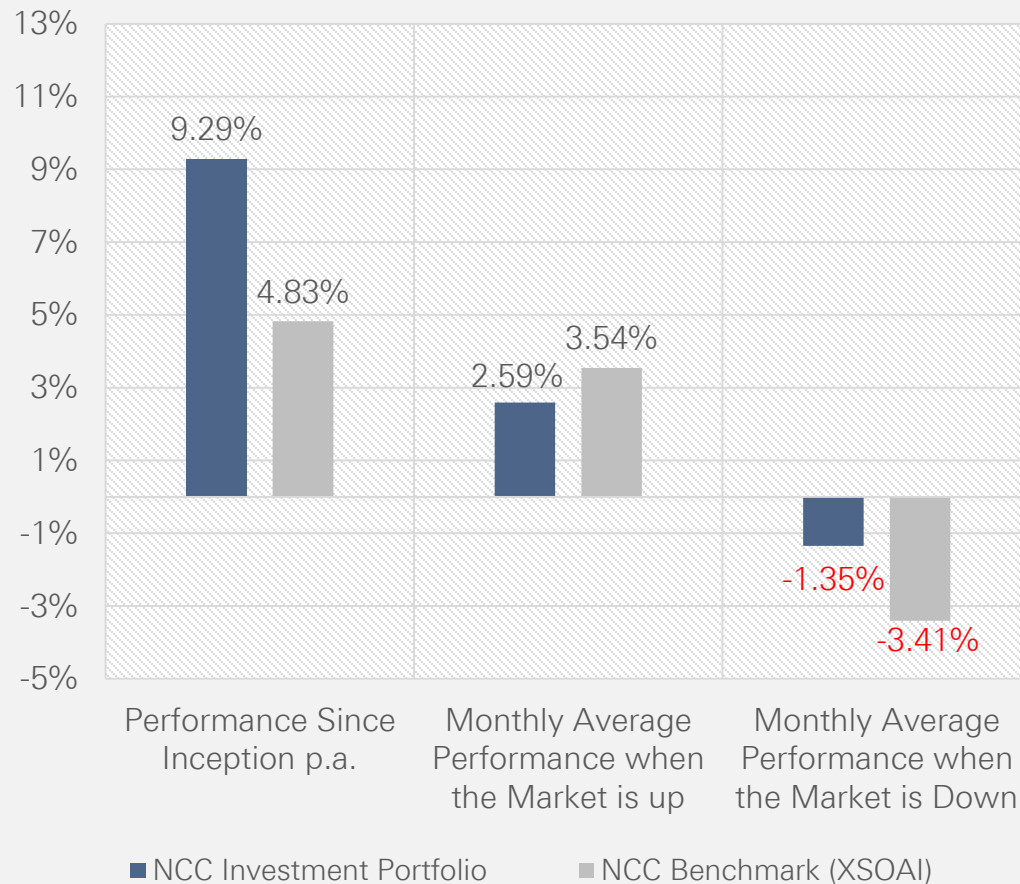
[^] Discount to NTA, Share Price, Dividend Yield and Buy-Back figures as at 19th June 2020

NAOS investment universe

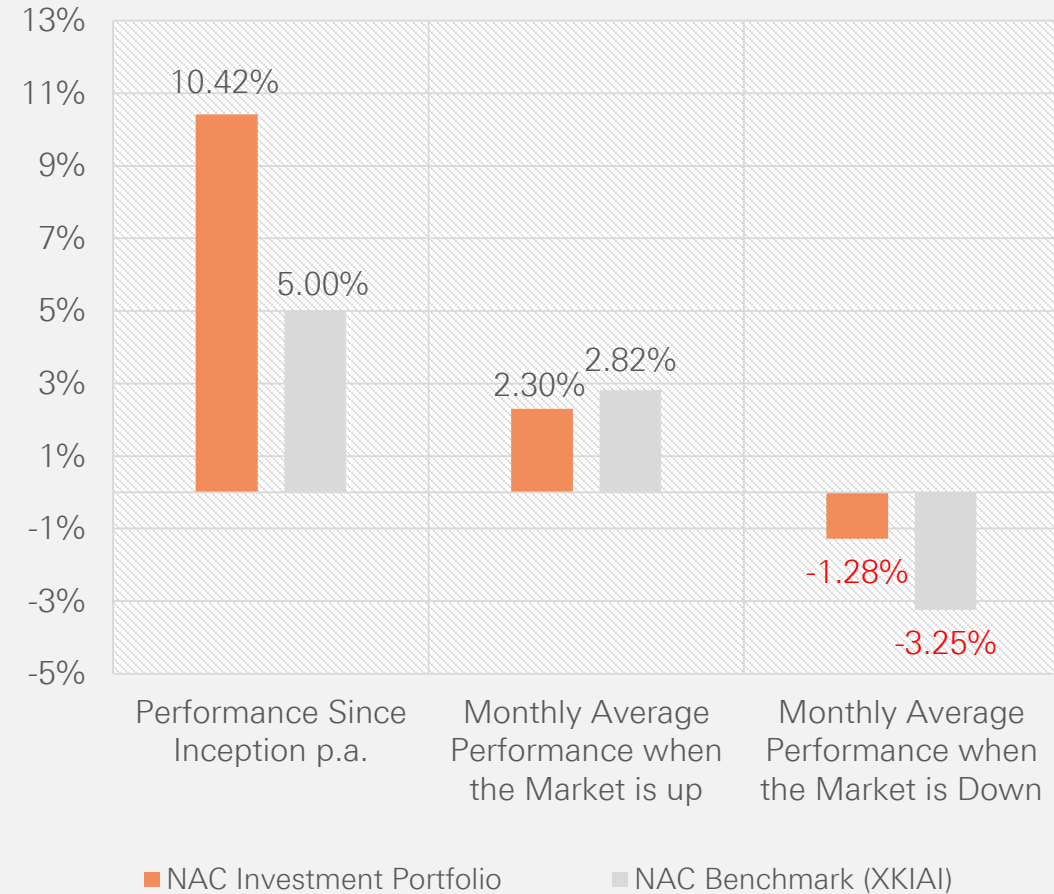


NAOS strong long term (5 years+) risk-adjusted returns*

NCC Investment Portfolio Risk and Performance Metrics

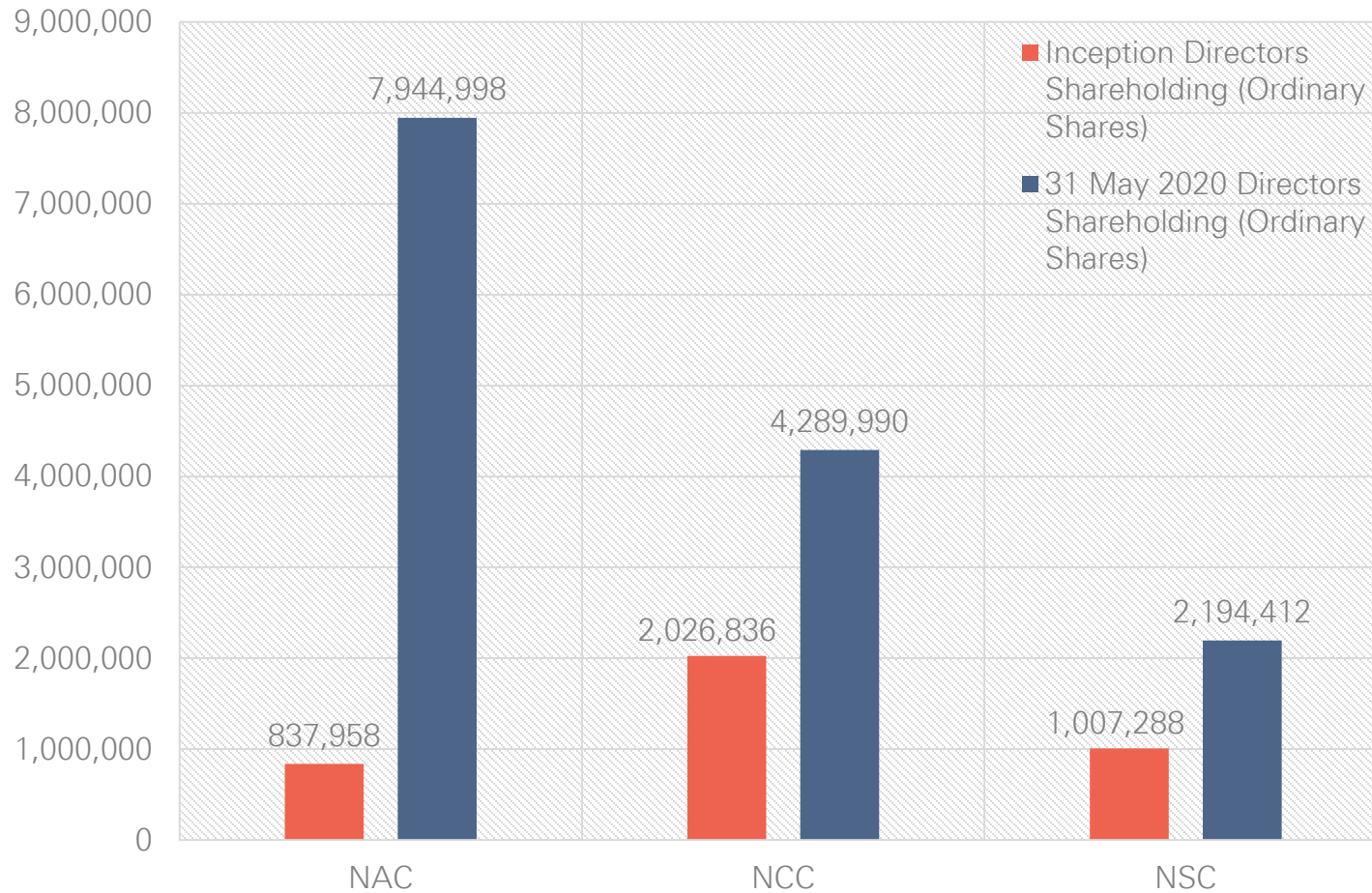


NAC Investment Portfolio Risk and Performance Metrics



* 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.) includes part performance for the month of February 2013 (NCC) and November 2014 (NAC), returns compounded for periods greater than 12 months. All risk metrics are calculated from the inception date of each portfolio. All Figures are as at 31 May 2020. Since NCC's inception (87 months) there have been 49 positive months for the market and 38 negative months and since NAC's inception (67 months) there have been 42 positive months for the market and 25 negative months.

NAOS alignment of interests

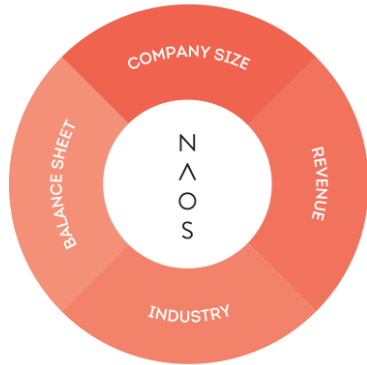


- Investment team members are prohibited from holding any securities outside of the NAOS LICs.
- Directors and all investment team members are significant holders of shares on issue across our strategies, aligning our interests with those of our shareholders
- The Investment Manager paid for NAC's IPO costs.

NAOS investment process

01

INVESTMENT UNIVERSE SCREEN CRITERIA

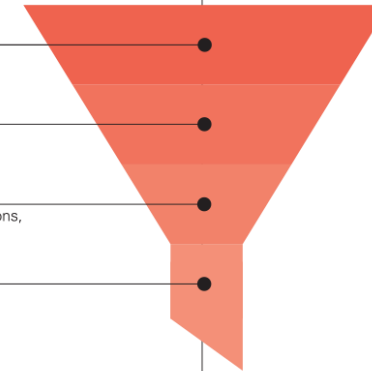


2568
TOTAL ASX LISTED COMPANIES*

02

INVESTMENT UNIVERSE FUNNEL

- 1168 **COMPANY SIZE**
Remove: ASX Top 50, <\$10m Market Cap
- 504 **REVENUE**
Remove: No Substantial Revenue
- 200 **INDUSTRY**
Remove: Tobacco, Gambling, Nuclear & Uranium, Controversial Weapons, Coal Mining Operations, Oil & Gas Production
- 400 **BALANCE SHEET**
Remove: Unsustainable Debt Levels



04

THE NAOS LICs

- 0-15 ASX:NCC**
NAOS EMERGING OPPORTUNITIES COMPANY LIMITED
NCC generally invests in 0-15 ASX listed **MICRO-CAP** industrial companies with a target market cap of <\$250m
- 0-30 ASX:NSC**
NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED
NSC generally invests in 0-30 ASX listed **SMALL-CAP** industrial companies with a target market cap of <\$100m-\$1b
- 0-20 ASX:NAC**
NAOS Ex-50 OPPORTUNITIES COMPANY LIMITED
NAC generally invests in 0-20 ASX listed **MID-CAP** industrial companies with a target market cap of <\$400m-\$1b+

50-80
NAOS ACTIVE INVESTMENT
UNIVERSE WATCHLIST

03

INVESTMENT CRITERIA

MANAGEMENT & CULTURE

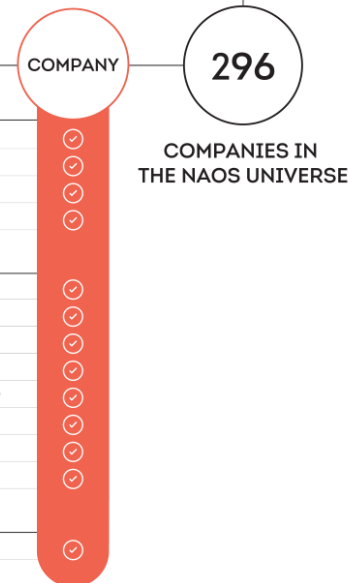
- Does the management team have a long term proven track record?
- Are the management team aligned with shareholders?
- Is there management team depth?
- Does the culture support a sustainable competitive advantage?

VALUATION, GROWTH & MARGIN OF SAFETY

- Does long term valuation meet a 20% p.a. return hurdle?
- Can the balance sheet support future growth?
- What is the trend and future of return on invested capital (ROIC)?
- Is the industry conducive to revenue growth?
- Does free cash flow allow for both organic growth and growth by acquisition?
- Are the earnings drivers transparent to shareholders?
- Is there a clear plan and a history of earnings growth?
- Is the company developing processes and services to increase sales?

ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

- Does the Company comply with our ESG Framework?



* Source: Bloomberg Data as at June 2019

NAOS ESG framework

01

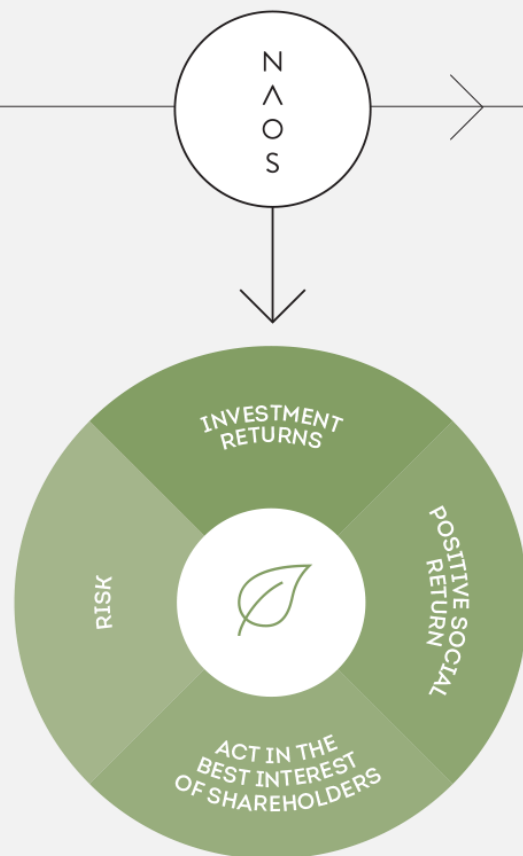
OUR COMMITMENT TO RESPONSIBLE INVESTMENT

As an investment manager, NAOS recognises and accepts its duty to act responsibly and in the best interests of shareholders. We believe that a high standard of business conduct and a responsible approach to environmental, social and governance (ESG) factors is associated with a sustainable business model over the longer term that benefits not only shareholders but also the broader economy.

We recognise the material impacts that ESG factors can have on investment returns and risk, and also the wider implications for achieving a positive social return.

NAOS is a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and is guided by these principles in incorporating ESG into our investment practices.

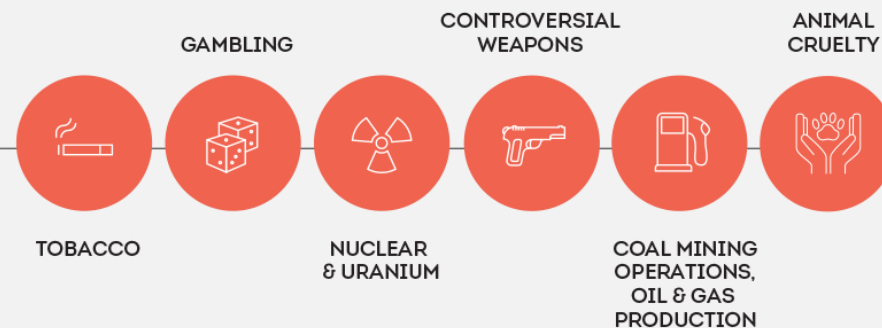
Signatory of:



02

NEGATIVE SCREENS

NAOS systematically excludes investing in specific industries and companies that do not align with our responsible investment goals.



03

ESG FRAMEWORK

The types of ESG factors we consider are represented by the following, although from time to time we will consider factors outside this group.



04

THE INCORPORATION OF ESG

The incorporation of ESG considerations into the investment process applies across all NAOS investments, and involves regular discussions and engagement with companies over material ESG issues.

NAOS supports the adoption of a responsible investment strategy, and is committed to ensuring that this is an integral part of the NAOS investment process.

NAOS giving

NAOS Asset Management, the management company, is proud to be giving back ~ 1% of recurring income to the following charities



'Golden Shouldered Parrot' threatened species project, in partnership with Bush Heritage



'Reef Aid' campaign, in partnership with Greening Australia



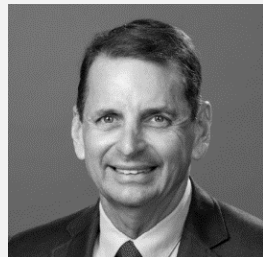
RFDS, dedicated to providing healthcare to Australians in remote communities

NAOS Directors and Team

OUR DIRECTORS



Sebastian Evans
Managing Director, NAOS Asset Management Limited & Director NCC, NSC & NAC



Warwick Evans
Chairman, NAOS Asset Management Limited & Director NCC, NSC & NAC



Mark Bennett
Director, NAOS Asset Management Limited



Trevor Carroll
Independent Chairman NSC



Matthew Hyder
Director, NAOS Asset Management Limited



David Rickards
Independent Chairman & Director, NCC and NAC & Independent Director NSC

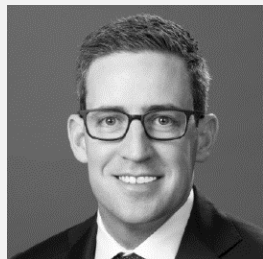


Sarah Williams
Independent Director, NCC and NAC

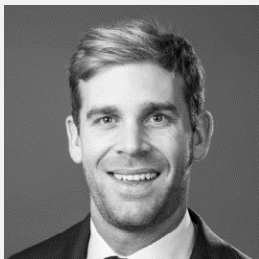
OUR TEAM



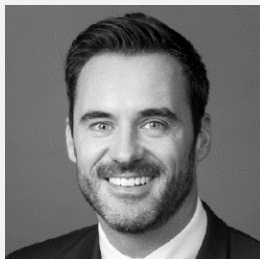
Sebastian Evans
Chief Investment Officer



Ben Rundle
Portfolio Manager



Robert Miller
Portfolio Manager



Richard Preedy
Chief Financial and Operating Officer



Julia O'Brien
Business Development Manager



Angela Zammit
Marketing and Communications Manager



Julie Coventry
Compliance Officer

Investor awareness and communication



CEO Insights, NAOS
Newsletter,
subscribe via our
website
[naos.com.au/
#subscribeform](https://naos.com.au/#subscribeform)



Shareholder
Webinars and Events,
subscribe via our
website
[naos.com.au/
#subscribeform](https://naos.com.au/#subscribeform)



Monthly Investment
Report & NTA email
updates, subscribe via
our website
[naos.com.au/
#subscribeform](https://naos.com.au/#subscribeform)



The news and media
section of our website
is updated regularly
naos.com.au

FOLLOW NAOS

