

KEY CHARACTERISTICS

1. Concentrated Small Cap Exposure with a Long Term Value Focus

NSC seeks to provide investors with exposure to high quality, undervalued small cap companies (market capitalisation generally >\$20 million to <\$1 billion) with an industrial bias in a concentrated structure.

2. Sustainable Growing Dividend Stream

NSC aims to deliver shareholders with a sustainable growing stream of dividends franked to the maximum extent possible over the longer term.

3. Focus on Quality of Companies Not Quantity or Size

Our primary focus is on developing a deep understanding and appreciation of the companies in our portfolio. We believe the best way to achieve this is to focus on a select number (target 0-30) of high quality investment ideas, in order to capitalise on our 'long term knowledge & liquidity advantage'.

4. Portfolio Flexibility with a Benchmark Unaware Approach

This means we are not forced holders of stocks with large benchmark/index weightings that we are not convinced are attractive investment propositions.

5. Significant Alignment of Interests with Shareholders

NAOS Directors have established initial shareholdings in NSC and intend to create meaningful positions, providing shareholders with a significant alignment of interests.

6. Environmental, Social and

Governance (ESG) NAOS adopts an ESG screen across its investments.

Net Tangible Asset Value Breakdown as at 31 January 2018

Pre Tax NTA:	\$1.03
Post Tax & Pre Unrealised Gains Tax NTA:	\$0.98
Post Tax NTA:	\$0.97
Share Price:	\$0.93

Investment Portfolio Performance & Market Insight

The NSC Investment Portfolio produced a return of -0.93% for the month of January, compared to the Benchmark Small Ordinaries Accumulation Index (XSOAI) which returned -0.54%.

Due to the lack of stock specific news throughout January, it is an opportune time to comment on recent market dynamics, and the resultant strain it can put on the application of a consistent investment process and philosophy.

Over the past 6 months we have seen local indices rise by over 10%, followed by a decrease of approximately 5% over the first few days in February. The gains over the first half of the financial year were predominantly driven by strong performance in the materials, oil and gas sectors, and some notable mid-cap performers during this time included Afterpay (ASX: APT), Aconex (ASX: ACX), Big Un (ASX: BIG), Kogan (ASX: KGN) and Bellamy's (ASX: BAL). Such long-term market trends, sustained over many months, even years, can often make an investment team question the sustainability of their investment process and whether changes are required. The increased volatility of early February has provided insight into what may lie ahead for companies that are valued on long-term earnings valuations, disruptive technological change and long-term commodity price assumptions, especially in more unique metals and minerals such as lithium and cobalt.

A key objective of investors should be to minimise the potential for permanent capital loss, which could occur through a company going into liquidation, or more commonly through investing in a business that is reliant on debt or equity funding, which is often called upon at low or depressed prices, and therefore caps any long-term share price appreciation. Ultimately, when trying to build a sustainable long-term track record of meaningful outperformance, the ability to manage risk and minimise periods of significant negative performance is key, as opposed to trying to shoot for high double digit returns year on year. In our view, the former can only be accomplished by sticking to a proven investment process, in times when it is producing results and also in times when performance can be harder to come by and patience can be tested.

Investment Portfolio Performance to 31 January 2018

	1 Month	Inception (nom.)
NSC Investment Portfolio Performance*	-0.93%	+0.17%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	-0.54%	+2.64%
Outperformance Relative to Benchmark	-0.39%	-2.47%

* Investment performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders. Since inception (p.a. and nom) includes performance for the month of December 2017. Returns compounded for periods greater than 12 months.

Positive Stock Contribution Analysis

(Contribution is what has attributed to NSC's performance since 1 January 2018)

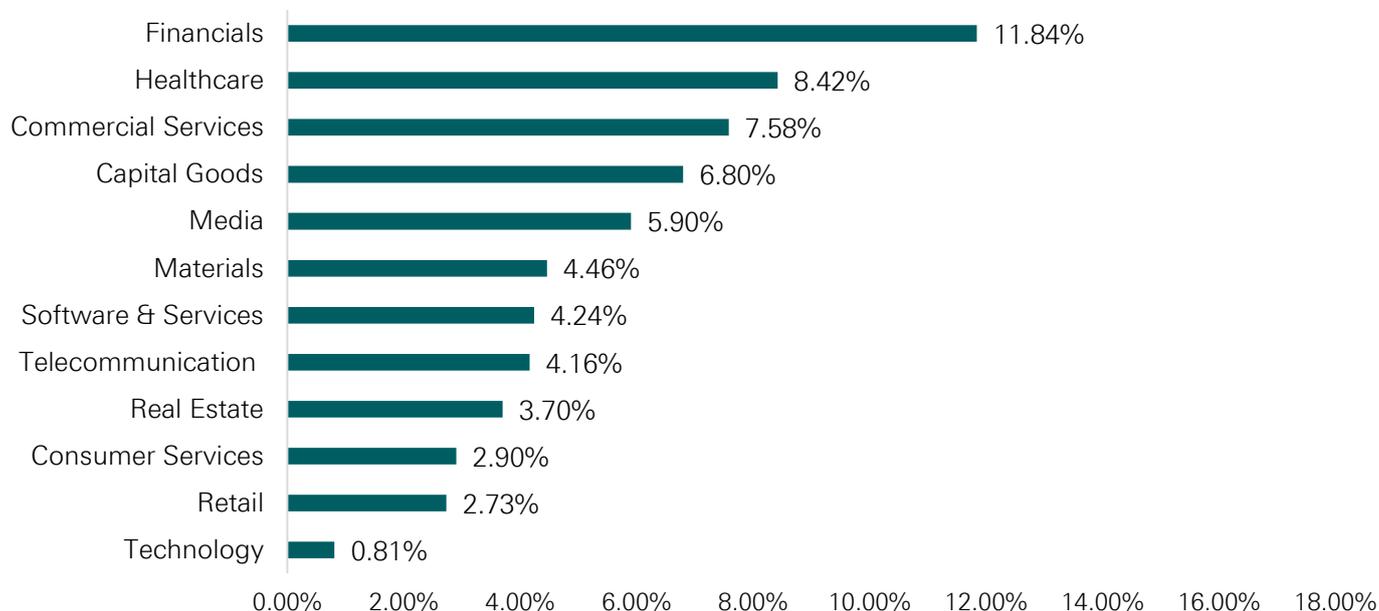
The table below lists the top positive contributors to NSC's total return since 1 January 2018. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-30 securities at any one time. We will disclose securities in which NSC has a current substantial holding, or when we have exited the position.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Over The Wire Holdings	+0.26%	BSA Limited	+0.19%
Australian Ethical Investment	+0.22%	Pro Medicus Ltd	+0.13%
MNF Group	+0.20%	360 Capital Total Return Fund	+0.10%
Enero Group	+0.19%	Big River Industries Limited	+0.06%

Portfolio Positioning as at 31 January 2018

As at 31 January 2018, the portfolio's net equity exposure was 63.54% with a subsequent cash weighting of 36.46%. As at month end, the portfolio was comprised of 19 long positions and no short positions.

Net Industry Exposure



Company Meetings

The NAOS investment philosophy is based around the belief that for a small-cap company to succeed and generate strong returns for shareholders it must be led by a motivated, proven and experienced management team. This is why the NAOS Investment Team has direct contact with many listed and unlisted emerging companies across a wide range of industries. A selection of the companies the team had contact with during December and January were as follows:

- P2P Transport Ltd (P2P AU)
- Apiam Animal Health Ltd (AHX AU)
- Webster Limited (WBA AU)
- Service Stream Ltd (SSM AU)
- Austock Group Ltd (ACK AU)
- Zip Co Ltd (Z1P AU)
- Fiducian Group Ltd (FID AU)
- 360 Capital Group (TGP AU)
- Motorcycle Holdings Ltd (MTO AU)
- Capitol Health Ltd (CAJ AU)

Portfolio Characteristics – Summary Data as at 31 January 2018

Below are a number of historical portfolio risk measures calculated from 1 December 2017. Our aim in providing these metrics is to demonstrate to investors how NSC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and to also preserve investors' capital. A glossary of the terms used below and the method used for calculating them can be found on the last page of this report.

Average Market Capitalisation of the Portfolio's Equity Holdings	\$169 million
Percentage of Positive Months (NSC)	50%
Percentage of Positive Months (XSOAI)	50%
Standard Deviation of Returns (NSC)	-
Standard Deviation of Returns (XSOAI)	-
Correlation of Returns to XSOAI	-
Sortino Ratio	-
Downside Deviation (NSC)	-
Downside Deviation (XSOAI)	-
Current Estimated Portfolio Beta (6 Month Historical)	0.126

Capital Structure – Summary Data as at 31 January 2018

Share Price	\$0.93
Premium/(Discount) to NTA (Pre-Tax)	(-9.71%)
Shares on Issue	168,995,806
NSC Directors Shareholding (Ordinary Shares)	686,434
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$101.20

A Description of Statistical Terms/Glossary

Average Market Capitalisation of the Portfolio's Equity Holdings – The sum of, the percentage of each individual position relative to the total value of all Equity Holdings multiplied by each company's respective market capitalisation (Cash and Income/Debt securities are excluded).

Standard Deviation of Returns – A historical analysis of the volatility in monthly returns also known as historical volatility.

Correlation of Returns – A statistical measure of how two variables move in relation to each other. In this case the two variables are NSC and XSOAI. If the correlation is 1 then the two securities should have the same monthly returns and if the correlation is -1 and XSOAI had a return of -1.00% then NSC would be expected to have a return of +1.00%

Sortino Ratio – A modification of the Sharpe ratio that differentiates harmful volatility from general volatility by taking into account the standard deviation of negative asset returns, called downside deviation. A large Sortino Ratio may potentially indicate that there is a low probability of a large capital loss. Returns less than that of the benchmark (Small Ordinaries Accumulation Index - XSOAI) are classified as negative asset returns.

Downside Deviation - A measure of downside risk that focuses on returns that fall below a minimum threshold or minimum acceptable return (MAR). For our calculations, we use returns negative to zero for the calculation of portfolio downside deviation.

Portfolio Beta – A measure of the volatility, or systematic risk of a portfolio or security. A beta of 1 indicates a portfolio/security's price will move with the market. A beta of less than 1 indicated that a security/portfolio should be less volatile than the market.

XSOAI – S&P/ASX Small Ordinaries Accumulation Index

Important Information:

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Warwick Evans (Director)
Sebastian Evans (Director)

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Rajiv Sharma

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