

### MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 DECEMBER 2018

#### 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 |
|-------------|---|--------------|-------------|--------------------------------------|------------------------------|
| \$0.75      | \$0.76                                  | \$0.79       | \$0.675     | (10.00%)                             | 8.30%                        |

#### MARKET INSIGHT

For the month of December, the NSC Investment Portfolio fell by -3.21%, compared to the Benchmark Small Ordinaries Accumulation Index (ASX: XSOAI) which fell by -4.18%. December 2018 represented the worst quarter of performance for the XSOAI in 5 years and the worst quarter for small cap industrial companies since 2008. The poor performance in CY2018 from both the benchmark index and the NSC portfolio has been driven somewhat by negative earnings surprises, which from an NSC perspective included Motorcycle Holdings (ASX: MTO) and MNF Group (ASX: MNF), but in the main the decrease in share prices has been driven by a sharp deterioration in valuation multiples. Fundamentally, the market is not prepared to pay the same price for the same business as it may have been just 6 or 12 months ago. Investor confidence drives share prices over the short term, and rising risk-free rates in the US, credit constraints in Australia and global trade wars have clearly all weighed on investor confidence.

Many investors will highlight the downgrades over the past year and the subsequent stock price falls as a clear reflection of investor confidence. We believe it is more telling to look at certain stocks which upgraded throughout CY2018 and yet provided negligible share price appreciation. Examples include CML Group (ASX: CGR), which provided 2 upgrades over the course of the year, yet the total share price return for 2018 was just over +7%. Cleanaway Waste Management (ASX: CWY) also upgraded in CY2018, yet the total return was also just over +7%. This uncertain environment has resulted in investors reducing their exposure to equities, which is often most keenly felt in small caps. The was certainly the case in December, where the ASX-100 Accumulation Index rose by +0.27%, compared to the XSOAI performance of -4.18%. We believe this presents an attractive entry point going forward with regard to small cap valuations.

Turning to CY2019, we are cautiously optimistic about both the short and long-term valuation potential in the core positions within the NSC investment portfolio. Valuations are ultimately driven by earnings growth and we believe the core holdings such as MNF Group (ASX: MNF), Consolidated Operations Group (ASX: COG) and Over The Wire (ASX: OTW) will all grow their earnings in the short term. Valuation multiples can be influenced by sentiment and subjectivity in the short to medium term, but if management teams remain focused on executing on their strategic goals to deliver solid cash flow generating businesses whilst maintaining strong balance sheets, this should result in earnings growth over the long term, and naturally lead to a multiple re-rate by the market. These valuation re-ratings can be in the range of 20% - 40%, excluding the effect of any earnings growth. Timing can be impossible to predict, but starting the year from a lower multiple base together with good momentum in many of our portfolio holdings may potentially set the year up for a much stronger performance in 2019.

#### INVESTMENT PORTFOLIO PERFORMANCE


|   | 1 MONTH       | 6 MONTHS      | 1 YEAR        | INCEPTION (P.A.) | INCEPTION (NOM.) |
|---|---------------|---------------|---------------|------------------|------------------|
| NSC Investment Portfolio Performance*       | -3.21%        | -11.50%       | -15.48%       | -13.49%          | -14.54%          |
| S&P/ASX Small Ordinaries Accumulation Index | -4.18%        | -12.75%       | -8.67%        | -5.31%           | -5.74%           |
| <b>Outperformance Relative to Benchmark</b> | <b>+0.97%</b> | <b>+1.25%</b> | <b>-6.81%</b> | <b>-8.18%</b>    | <b>-8.80%</b>    |

\* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders. Inception performance (p.a. and nom) is from 1 December 2017.

#### 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 

## FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

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



## STOCK CONTRIBUTION ANALYSIS

The table below lists the top 5 positive stock contributors to the investment portfolio since inception.

| TOP 5 POSITIVE CONTRIBUTORS                      | CONTRIBUTION TO RETURN (%NAV) |
|--|-------------------------------|
| Over The Wire Limited (ASX: OTW)                 | 2.31%                         |
| Service Stream Limited (ASX: SSM)                | 1.29%                         |
| 360 Capital Total Return Fund (ASX: TOT)         | 1.04%                         |
| Enero Group Limited (ASX: EGG)                   | 0.87%                         |
| Consolidated Operations Group Limited (ASX: COG) | 0.72%                         |

## KEY METRICS – SUMMARY DATA

|   |                   |
|---|-------------------|
| Weighted Average Market Capitalisation of the Investments | \$172.3 million   |
| Number of Holdings  | 10 Long Positions |
| Cash Weighting  | 0.90%             |
| Convertible Notes on Issue (NSCG)                         | 265,000           |
| Convertible Note Price                                    | \$100.50          |
| Shares on Issue   | 168,995,806       |
| NSC Directors Shareholding (Ordinary Shares)              | 1,933,235         |

## INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS\*

|      | JUL    | AUG    | SEP    | OCT    | NOV    | DEC    | JAN    | FEB    | MAR    | APR    | MAY    | JUN    |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| FY19 | -0.60% | +4.07% | -1.34% | -7.61% | -3.04% | -3.21% |        |        |        |        |        |        |
| FY18 |        |        |        |        |        | +1.11% | -0.93% | -0.57% | +0.25% | -3.35% | -1.16% | +1.24% |

\* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders.

NAOS

## OUR TEAM

Chairman  
Trevor Carroll (Independent)

Directors  
Warwick Evans  
Sebastian Evans  
David Rickards (Independent)

Company Secretary/  
Senior Legal Counsel  
Rajiv Sharma

Chief Investment Officer  
Sebastian Evans

Portfolio Managers  
Robert Miller  
Ben Rundle

Investment Analyst  
Rachel Folder

Chief Financial/  
Operating Officer  
Richard Preedy

Business Development  
Manager  
Julia Stanistreet

Distribution &  
Sales Manager  
Scott Hildebrand

## ENQUIRIES

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### Important Information:

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