

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 28 FEBRUARY 2019

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 |
|-------------|---|--------------|-------------|--------------------------------------|------------------------------|
| \$0.74 | \$0.75 | \$0.78 | \$0.67 | (9.46%) | 8.21% |

MARKET INSIGHT

For the month of February, the NSC Investment Portfolio fell by -3.88%, underperforming the Benchmark S&P/ASX Small Ordinaries Accumulation Index (ASX: XSOAI) which increased by +6.78%. In February NSC declared a fully franked dividend of 1.15 cents per share, paid on the 11th of March 2019. February brought with it the end of the half year reporting season with disparate results across industries, highlighted by the monthly performance of their respective ASX 300 indexes. Strong share price gains for resources +6.15%, financials +8.09% and information technology +6.95%, were in stark contrast to several so-called industrial industries which lagged significantly, including Consumer Staples, Healthcare and Communication Services which produced monthly returns of -2.18%, +1.28% and +2.70% respectively.

A number of the core positions within the Investment Portfolio produced excellent half year results, with Over The Wire (ASX: OTW), BSA Group (ASX: BSA), Enero Group (ASX: EGG), and Consolidated Operations Group (ASX: COG) producing a cumulative positive contribution of close to +5.00%. In an industry moving through significant change, OTW continues to be a shining light as they produced another very consistent result with a strong focus on organic revenue growth and client satisfaction and delivery. Management remain confident of achieving 20% organic revenue growth even from a much larger revenue base and are also on track to reduce net debt to zero by the end of the financial year. When looking at the results of competitors such as Vocus (ASX: VOC), TPG Group (ASX: TPM) and Optus, it is clear that OTW has a very long organic revenue runway and we believe they are just at the tip of the iceberg, especially when it comes to the size of their average customer.

The strong performance of the stocks noted above was offset by the poor performance from a minority, in this case and once again being, MotorCycle Holdings (ASX: MTO), MNF Group (ASX: MNF), and to a lesser extent one other position. MTO released a half year result which was in line with their recently downgraded guidance, yet the market continues to worry about the discretionary nature of motorcycle sales and the now potentially over-leveraged balance sheet. We have a more positive view given management have stopped the dividend to continue to reinvest within the business, with the aim of taking market share from unlisted players who are finding trading conditions tougher than MTO, which enjoys scale benefits as the largest motorcycle distribution and wholesale business in Australia. At 7 times NPAT we believe the market is not ascribing any value to the potential to both reduce the cost base and execute on new business opportunities that could lead to a flattening or even growth in earnings per share within a tough market. Finally, MNF Group (ASX: MNF) fell by over -15% after the company maintained their FY20 EBITDA guidance, yet reduced their FY19 EBITDA guidance by between -3.50% to -7.00%. Management blamed a longer timeline for the recently acquired TIAB business, together with losses within their small ADSL business and international minutes trading business. Annualising the required 2H FY19 EBITDA to meet the revised FY19 guidance implies no growth is assumed within the FY20 guidance, so there is potentially significant upside to MNF at the current valuation. To realise this management need to deliver on this guidance and continue to execute on their strategy of simplifying the business structure.

INVESTMENT PORTFOLIO PERFORMANCE


| | 1 MONTH | 6 MONTHS | 1 YEAR | INCEPTION (P.A.) | INCEPTION (NOM.) |
|---|----------------|----------------|----------------|------------------|------------------|
| NSC Investment Portfolio Performance* | -3.88% | -14.35% | -14.10% | -11.77% | -14.44% |
| S&P/ASX Small Ordinaries Accumulation Index | +6.78% | -3.06% | +3.48% | +4.98% | +6.24% |
| Outperformance Relative to Benchmark | -10.66% | -11.29% | -17.58% | -16.75% | -20.68% |

* 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) | 3.24% |
| Enero Group Limited (ASX: EGG) | 2.93% |
| Service Stream Limited (ASX: SSM) | 1.28% |
| 360 Capital Total Return Fund (ASX: TOT) | 0.74% |
| 360 Capital Group (ASX: TGP) | 0.37% |

KEY METRICS – SUMMARY DATA

| | |
|---|-------------------|
| Weighted Average Market Capitalisation of the Investments | \$182.5 million |
| Number of Holdings | 10 Long Positions |
| Cash Weighting | 0.46% |
| Convertible Notes on Issue (NSCG) | 265,000 |
| Convertible Note Price | \$101.50 |
| 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% | +4.16% | -3.88% | | | | |
| 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 &
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Scott Hildebrand

ENQUIRIES

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Important Information:

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