

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 30 APRIL 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
\$0.75	\$0.76	\$0.79	\$0.605	(19.33%)	9.09%

MARKET INSIGHT

For the month of April, the NSC Investment Portfolio increased by +0.69%, underperforming the Benchmark S&P/ASX Small Ordinaries Accumulation Index (ASX: XSOAI) which increased by +4.11%. As at the end of April the NSC Investment Portfolio was made up of 10 long positions.

At risk of sounding overly repetitive, the month of April was a continuation of what the previous three months brought to the market. The biggest contributors to the S&P/ASX Small Ordinaries Index (ASX: XSO) were again made up of high growth technology stocks with Afterpay (ASX: APT), Appen (ASX: APX), and Nearmap (ASX: NEA) all within the top 5 contributors. When looking at the top 5 monthly performers within the XSO by share price movement, four of these were high growth technology stocks being Kogan (ASX: KGN), Megaport (ASX: MP1), Pro Medicus (ASX: PME) and PolyNovo (ASX: PNV). It is important to note that whilst we believe some of these businesses have very sound business models with proven management teams and a significant competitive advantage (such as is the case with PME), the main concern for us is the significant faith that is being placed in the earnings trajectory of these businesses for many years into the future. It is one thing to grow revenue at a fast pace but when you factor in increased sales teams, client requests for R&D, regulatory changes, increased corporate overheads and funding costs either through debt or equity, we believe the risk return trade-off is not adequate, especially when you overlay the potential for competitive products and services. Due to the factors mentioned above, we believe there is heightened risk around the long-term earnings assumptions of these businesses, and therefore, an even greater risk to the stock price when large valuation multiples are applied to these earnings.

Regarding portfolio specific news it was a quiet month, though recently one of the smallest positions within the portfolio, Big River Industries (ASX: BRI) announced two acquisitions of very different sizes. The first of these was a distribution business in Perth together with a small frame and truss plant. The much larger of the two acquisitions is based in New Zealand and distributes specialist plywood products and architectural panel products. This acquisition was completed on an EBITDA multiple (4-year average) of 5 times which we believe is very sound for a business that has demonstrated fairly consistent growth since its establishment in 1992 and has no exposure to the New Zealand residential market. Post these acquisitions almost 90% of BRI's EBITDA will be attributable to their distribution division with the remainder coming from their manufacturing operations. We continue to believe that the large format, trade focused market for building distribution businesses remains ripe for consolidation, as there are a significant number of large unlisted businesses with strong business models that have few, if any, plans for succession. As BRI builds a larger network of distribution centres with a more complete product range, we believe it will lead to a more solidified customer base with clients of diversified scale, and therefore should command a similar valuation multiple to other building materials businesses, which would be an uplift on the multiple applied by the wider market at present.

INVESTMENT PORTFOLIO PERFORMANCE


	1 MONTH	6 MONTHS	1 YEAR	INCEPTION (P.A.)	INCEPTION (NOM.)
NSC Investment Portfolio Performance*	+0.69%	-4.31%	-9.71%	-9.29%	-12.87%
S&P/ASX Small Ordinaries Accumulation Index	+4.11%	+11.91%	+7.18%	+7.31%	+10.49%
Performance Relative to Benchmark	-3.42%	-16.22%	-16.89%	-16.60%	-23.36%


* 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)	3.79%
Enero Group Limited (ASX: EGG)	3.00%
Service Stream Limited (ASX: SSM)	1.31%
360 Capital Total Return Fund (ASX: TOT)	0.75%
360 Capital Group (ASX: TGP)	0.37%

KEY METRICS – SUMMARY DATA

Weighted Average Market Capitalisation of the Investments	\$184.8 million
Number of Holdings	10 Long Positions
Cash Weighting	5.07%
Standard Deviation of Returns (NSC)	9.83%
Standard Deviation of Returns (XSOAI)	13.06%
Downside Deviation (NSC)	7.01%
Downside Deviation (XSOAI)	8.25%
Percentage of Positive Months (NSC)	41%
Percentage of Positive Months (XSOAI)	53%
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$100.30
Shares on Issue	168,520,806
NSC Directors Shareholding (Ordinary Shares)	1,946,477

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%	+1.14%	+0.69%		
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 Cole

Chief Financial/
Operating Officer
Richard Preedy

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Julia Stanistreet

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Important Information:

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