

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 MAY 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
\$0.70	\$0.71	\$0.75	\$0.595	(15.00%)	9.24%

The above NTA figures include the 1.00 cent per share fully franked Q3 FY19 dividend, which went ex-dividend on 3 June 2019 and will be paid on 18 June 2019.

MARKET INSIGHT

For the month of May, the NSC Investment Portfolio fell by -5.17%, underperforming the Benchmark S&P/ASX Small Ordinaries Accumulation Index (ASX: XSOAI) which decreased by -1.25%. As at the end of May the NSC Investment Portfolio was made up of 11 long positions with a portfolio weighted average market capitalisation of \$174 million. There were no significant company events or announcements within the portfolio, with the exception of MNF Group, which is discussed below.

The month of May proved to be an extremely frustrating month from a performance perspective as the largest holding, MNF Group (ASX: MNF) fell by almost 15%, contributing approximately -4% to the investment portfolio's negative performance. What made this even harder to understand was that MNF released an updated investor presentation for their US roadshow which they completed at the beginning of May, within which the guidance for FY19 and FY20 was reiterated. Pleasingly, MNF also provided much improved disclosure regarding the industry dynamics around Communication Platform as a Service (CPaaS) and how this dynamic is driving significant recurring gross margin growth in MNF's business, which we believe will be >80% in FY20. Trading on a forecast FY20 NPATA multiple of 15 times, we firmly believe MNF could trade closer to 22 times or higher once the organic growth of the business is appreciated by the market.

There has been a significant amount of commentary around high growth stocks, or in the case of the Australian market, the 'WAAAX' index, which has provided much of the index's performance over the past 2-3 years. We also believe there is another more subtle phenomenon that is equally as important, especially in the case of the NAOS investment philosophy, which centres around long-term investing in smaller listed companies. On a calendar year to date basis, there has been a significant divergence in share price performance between listed companies (excluding resources) with a market capitalisation of over \$300 million, and those with a market capitalisation below \$300 million. The larger companies have delivered a return of +14.62%, significantly outperforming the smaller companies which have produced an average return of just +3.73%. Over the past 12-24 months it has been very noticeable that many investors both at the institutional and retail level simply do not want to have any exposure to the smaller ASX listed companies.

To further highlight this point, when we look at the trading volumes in MNF in CY17 and CY18, the dollar value of all shares traded was \$27 million and \$31 million respectively. As at the end of May 2019 the dollar value traded was just \$6 million, suggesting a CY19 annualised volume of circa \$14 million. Such examples are commonplace, particularly in companies smaller than MNF, and we believe investors who have the ability to invest in smaller, less liquid businesses, and take a long-term investment horizon will benefit in the long run. In addition, we see corporate activity remaining elevated as more sophisticated investors take advantage of these investment opportunities, with recent examples including Legend Corporation (ASX: LGD), Ruralco Holdings (ASX: RHL), GBST (ASX: GBT), Netcomm Wireless (ASX: NTC) and Superloop (ASX: SLC).

INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	6 MONTHS	1 YEAR	INCEPTION (P.A.)	INCEPTION (Total Return)
NSC Investment Portfolio Performance*	-5.17%	-6.41%	-13.37%	-11.96%	-17.37%
S&P/ASX Small Ordinaries Accumulation Index	-1.25%	+10.91%	+2.06%	+5.99%	+9.10%
Performance Relative to Benchmark	-3.92%	-17.32%	-15.43%	-17.95%	-26.47%

* 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 Total Return) 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)	3.09%
Enero Group Limited (ASX: EGG)	2.35%
Service Stream Limited (ASX: SSM)	1.23%
360 Capital Total Return Fund (ASX: TOT)	0.86%
360 Capital Group (ASX: TGP)	0.35%

KEY METRICS – SUMMARY DATA

Weighted Average Market Capitalisation of the Investments	\$173.7 million
Number of Holdings	11 Long Positions
Cash Weighting	3.79%
Standard Deviation of Returns (NSC)	10.17%
Standard Deviation of Returns (XSOAI)	12.78%
Downside Deviation (NSC)	7.40%
Downside Deviation (XSOAI)	8.02%
Percentage of Positive Months (NSC)	39%
Percentage of Positive Months (XSOAI)	50%
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$100.50
Shares on Issue	167,882,921
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%	-5.17%	
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

Business Development
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Julia Stanistreet

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ENQUIRIES

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Important Information:

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