

### MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 JULY 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	\$0.58	(17.14%)	6.90%

#### MARKET INSIGHT

For the month of July, the NSC Investment Portfolio produced a largely flat return of -0.18%, with the benchmark S&P/ASX Small Ordinaires Accumulation Index (XSOAI) registering another strong result, finishing up +4.51%. As at the end of July the NSC Investment Portfolio was made up of 13 long positions, with a portfolio weighted average market capitalisation of \$160.9 million. The two positive contributors to portfolio performance were Enero Group (ASX: EGG) and Motorcycle Holdings (ASX: MTO), both of which approximately contributed 1.20% and 0.50% respectively to the monthly return. There was one main detractor to the portfolio performance, again being MNF Group (ASX: MNF) which detracted from the monthly return by approximately -2.00%. All three of these stocks did not make any announcements over the month of July.

#### INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS\*

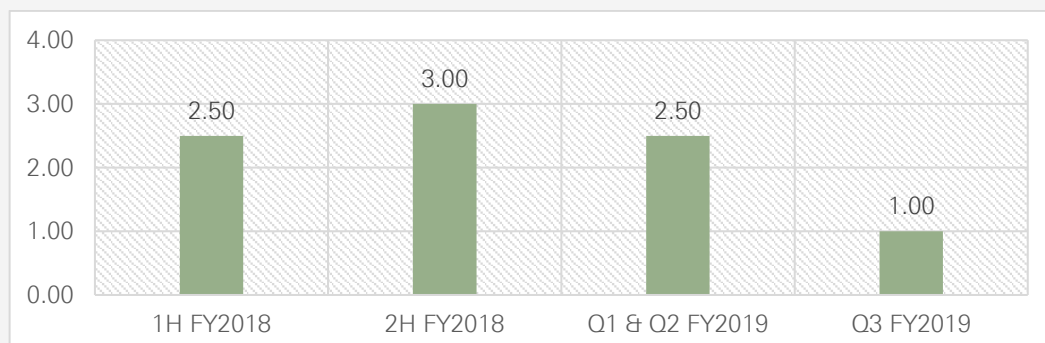
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FY Total Return
FY20	-0.18%												
FY19	-0.60%	+4.07%	-1.34%	-7.61%	-3.04%	-3.21%	+4.16%	-3.88%	+1.14%	+0.69%	-5.17%	+1.33%	-13.29%
FY18						+1.11%	-0.93%	-0.57%	+0.25%	-3.35%	-1.16%	+1.24%	-3.44%

\* 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.

From a stock perspective it was a relatively quiet month. There were only two minor announcements made by investments held within the NSC investment portfolio. The first came from Big River Group (ASX: BRI), which announced the acquisition of a building materials distribution business based in Townsville. Although only small in dollar terms (\$2 million) we believe the acquisition is sensible as BRI will be able to merge this business with its existing operations in Townsville and generate significant synergies. Just as importantly, it will leave BRI with a much stronger and more diversified product offering which should resonate well with current and potential customers. In industry-related news that is relevant for a number of the core investments within the NSC investment portfolio there were two notable events. Firstly, Wellcom Group (ASX: WLL), a listed comparable of strategy, insights and PR business Enero Group (ASX:EGG), has entered into an agreement with South Korean based advertising agency Innocean, to be acquired for \$266 million. Based on FY19 EBITDA consensus expectations, this equates to an EBITDA multiple of 10.75 times. Although not a direct comparable, WLL does operate in some of the same industries as EGG, and just as importantly Innocean owns businesses that would be considered very similar to those within the EGG stable. To highlight the potential value that we believe exists in EGG, assuming Enero can replicate its 1<sup>st</sup> half EBITDA result of \$10 million then applying this 10.75 times multiple would equate to an EGG share price of \$2.51.


#### FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)


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




#### 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 

## MARKET INSIGHT CONTINUED

Secondly, the Reserve Bank of Australia released its financial aggregates for June 2019. Notably, business credit growth was -0.1% which was the 1st negative reading in two years and the 3<sup>rd</sup> consecutive flat/or negative reading. When overlaying the APRA data around the market share of the big-4 banks and other market participants we can see that the majority of the big-4 banks have been reducing market share in business lending and therefore not providing credit to many SME's who require it. This is a trend that has been constant for a while, illustrated by the Commonwealth Bank of Australia (ASX: CBA) reducing its market share of all business lending from 17.80% to almost 16.50% in just 12 months. One trend that is not changing is the need for credit from SME's and we continue to believe that our investments in the 360 Total Return Fund (ASX: TOT), CML Group (ASX: CGR) and Consolidated Operations Group (ASX: COG) will benefit from the big-4 banks retreating from business lending. Personal lending in Australia has also changed significantly over the past 12-24 months with the arrival of Afterpay Touch (ASX: APT) and Zip Co (ASX: Z1P), and we believe the same will occur in the SME lending market. A key inflection point for us will be when COG announce its first debt funding product to SMEs' at the end of CY19, we will be looking for detail in their FY19 results to hopefully show that the lending volumes through their broker networks have continued to grow even in a soft SME lending environment.

## 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)
Enero Group Limited (ASX: EGG)	4.19%
Over The Wire Limited (ASX: OTW)	2.71%
Service Stream Limited (ASX: SSM)	1.24%
360 Capital Total Return Fund (ASX: TOT)	1.15%
Broadcast Services Australia Limited (ASX: BSA)	0.76%

## INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	6 MONTHS	1 YEAR	INCEPTION (P.A.)	INCEPTION (Total Return)
NSC Investment Portfolio Performance*	-0.18%	-6.10%	-12.92%	-10.21%	-16.42%
S&P/ASX Small Ordinaries Accumulation Index	+4.51%	+15.65%	+7.61%	+8.80%	+15.07%
<b>Performance Relative to Benchmark</b>	<b>-4.69%</b>	<b>-21.75%</b>	<b>-20.53%</b>	<b>-19.01%</b>	<b>-31.49%</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 Total Return) is from 1 December 2017.

## KEY METRICS – SUMMARY DATA

Weighted Average Market Capitalisation of the Investments	\$160.9 million
Number of Holdings	13 Long Positions
Cash Weighting	0.30%
Standard Deviation of Returns (NSC)	9.82%
Standard Deviation of Returns (XSOAI)	12.49%
Downside Deviation (NSC)	7.22%
Downside Deviation (XSOAI)	7.69%
Percentage of Positive Months (NSC)	40%
Percentage of Positive Months (XSOAI)	55%
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$102.00
Shares on Issue	166,190,354
NSC Directors Shareholding (Ordinary Shares)	1,960,054

## OUR TEAM

Chairman

Trevor Carroll (Independent)

Directors

Warwick Evans

Sebastian Evans

David Rickards (Independent)

Chief Investment Officer

Sebastian Evans

Portfolio Managers

Robert Miller

Ben Rundle

Investment Analyst

Rachel Cole

Chief Financial/

Operating Officer

Richard Preedy

Business Development

Manager

Julia Stanistreet

Compliance Officer

Julie Coventry

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