

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 AUGUST 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
\$0.81	\$0.83	\$0.83	\$0.61	(24.69%)	6.56%

The above NTA figures include the 0.50 cents per share fully franked FY19 final quarterly dividend, which went ex-dividend on 2 September 2019 and will be paid on 16 September 2019.

MARKET INSIGHT

For the month of August, the NSC Investment Portfolio produced a positive return of +12.91%, with the benchmark S&P/ASX Small Ordinaires Accumulation Index (XSOAI) falling by -3.85%. As at the end of August the NSC Investment Portfolio was made up of 12 long positions, with a portfolio weighted average market capitalisation of \$192.8 million. The major positive contributors to portfolio performance were MNF Group (ASX: MNF), Motorcycle Holdings (ASX: MTO), BSA Group (ASX: BSA), and Enero Group (ASX: EGG) with each producing a respective share price movement of 38%, 66%, 15% and 11% for the month of August after exceeding the expectations of the market with their full-year results. The only major detractor to performance was Over The Wire (ASX: OTW), which fell by more than 15% over the month.

INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS*

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FY Total Return
FY20	-0.18%	+12.91%											
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%

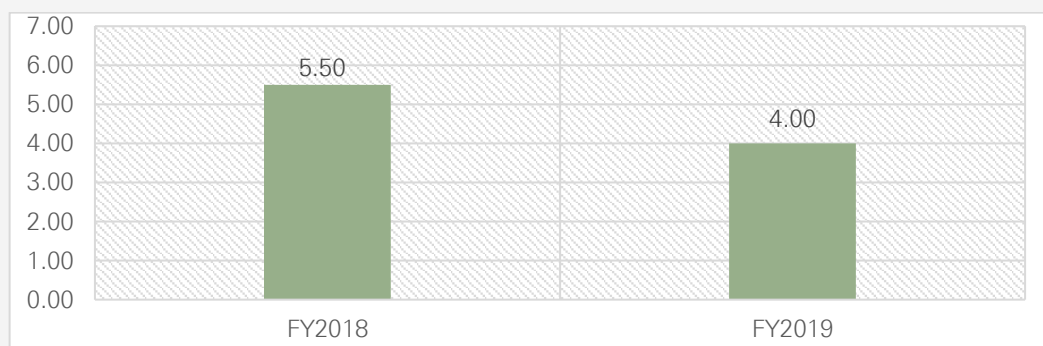
* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders.

The most notable event in the portfolio over the course of August came from MNF Group, which provided a sound result that met guidance and also provided an update to its FY20 guidance, which was re-affirmed at the EBITDA level. Clearly, after recent underwhelming results the market was sceptical as to what sort of result MNF would deliver, and any resultant effect on the FY20 guidance. Importantly, management provided much greater transparency and disclosure around the core business drivers which we believe has resulted in a change in investor mentality around how MNF should be valued and what the customer proposition is. Examples include stating the recurring level of gross profit both in FY19 and previous years, together with clear and concise examples of customer uses, and greater disclosure around the end clients, being Microsoft, Skype, Google and Uber just to name a few.

Pleasingly, the management team also provided clarity around the total customer retention rate and what the opportunity for MNF to expand into South East Asia looks like over the long term. With an FY20 valuation under 12 times EV/EBITDA and with significant cash flow generation to organically fund its offshore growth, we continue to believe MNF has significant upside potential both in the short and long term.

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

BSA made two significant announcements, the first being the sale of their heating and ventilation construction business, and secondly the release of their FY19 full year result, which at both a profitability and cash flow level was significantly ahead of market expectations. What made the FY19 result even more impressive was that management have guided revenue to be approximately \$500 million for FY20, post the disposal of the construction business. We continue to believe that BSA is significantly undervalued and there remains significant scope for profit margin expansion over the next 1-3 years as well as further revenue growth in areas such as smart metering, NBN network maintenance, fire system maintenance, in addition to potential acquisition opportunities which we believe can be funded from the current balance sheet. It is also important to note that the level of recurring/multi-year contract revenue will also continue to increase substantially to a level that we believe will represent over 75% of the business's total revenue.

It is worth highlighting although a number of NSC investments generated significant performance in August, we strongly believe that even after these re-rating events there remains significant value within many of the core positions such as BSA, MNF, OTW and EGG. As these businesses continue to grow in scale, their business models should de-risk and their financial flexibility increase through an improved cash generating ability, which often leads to higher valuation multiples being applied by the wider market. There may also be potential opportunities for growth through acquisition, which would again increase the scale and durability of the respective businesses.

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)	5.82%
Broadcast Services Australia Limited (ASX: BSA)	2.98%
Over The Wire Limited (ASX: OTW)	1.82%
Service Stream Limited (ASX: SSM)	1.40%
360 Capital Total Return Fund (ASX: TOT)	1.40%

INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	6 MONTHS	1 YEAR	INCEPTION (P.A.)	INCEPTION (Total Return)
NSC Investment Portfolio Performance*	+12.91%	+10.31%	-5.53%	-3.26%	-5.63%
S&P/ASX Small Ordinaries Accumulation Index	-3.85%	+4.14%	+0.95%	+5.95%	+10.64%
Performance Relative to Benchmark	+16.76%	+6.17%	-6.48%	-9.21%	-16.27%

* 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	\$192.8 million
Number of Holdings	12 Long Positions
Cash Weighting	5.18%
Standard Deviation of Returns (NSC)	13.96%
Standard Deviation of Returns (XSOAI)	12.66%
Downside Deviation (NSC)	7.14%
Downside Deviation (XSOAI)	7.80%
Percentage of Positive Months (NSC)	43%
Percentage of Positive Months (XSOAI)	52%
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$102.35
Shares on Issue	165,328,106
NSC Directors Shareholding (Ordinary Shares)	1,960,054



Important Information:

This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS.

OUR TEAM

Chairman

Trevor Carroll (Independent)

Directors

Warwick Evans

Sebastian Evans

David Rickards (Independent)

Chief Investment Officer

Sebastian Evans

Portfolio Managers

Robert Miller

Ben Bundle

Investment Analyst

Rachel Cole

Chief Financial/

Operating Officer

Richard Preedy

Business Development

Manager

Julia Stanistreet

Compliance Officer

Julie Coventry

ENQUIRIES

Telephone: (02) 9002 1576

Email: enquiries@naos.com.au

www.naos.com.au