

### MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 JULY 2020

#### 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
\$0.69	\$0.73	\$0.74	\$0.505	(26.81%)	7.92%

#### MARKET INSIGHT

The NSC Investment Portfolio returned +1.53% for the month of July, compared to the benchmark S&P/ASX Small Ordinaires Accumulation Index (XSOAI) which posted a positive monthly return of +1.39%. Over the past 3-4 months as the COVID-19 situation has unfolded, the majority of the NSC investments have provided detailed market updates as trading conditions change rapidly. In July this pattern slowed, with just one of the core NSC investments providing a meaningful update, which in this case was Consolidated Operations Group (ASX: COG).

#### PERFORMANCE MONTHLY RETURNS\*

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FY Total Return
FY21	+1.53%												+1.53%
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%	-10.15%	-18.50%	-1.65%	+8.22%	+7.77%	+2.59%
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%

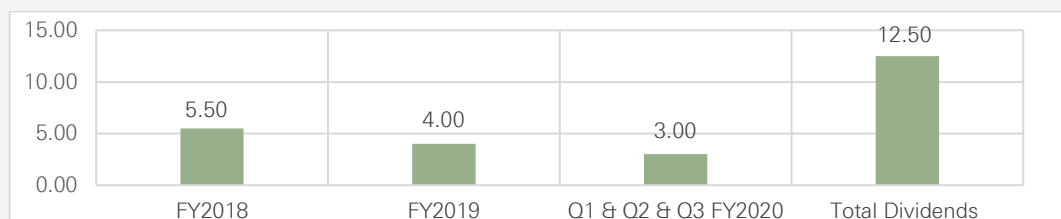
\* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders.

COG released a market update with its unaudited FY20 results, stating that NPATA is expected to come in +6% ahead of last year's result, which we believe is an excellent outcome in the current environment. Most of the earnings were derived from the broking and aggregation division which contributed \$11.1 million in EBITDA for the year. These businesses are very similar in nature to insurance broking businesses Steadfast (ASX: SDF) or PSC Insurance (ASX:PSI), which exhibit excellent cash flow conversion and minimal ongoing capex requirements. We would implore the COG board to use these earnings to fund capital management initiatives such as a buyback or a maiden dividend.

Looking forward to the August reporting season, it is an important month for the highly concentrated NSC Investment Portfolio with all investments reporting their full year results. We detail below what we will be looking for in the results and outlook provided by core holdings MNF Group (ASX: MNF), BSA Group (ASX: BSA), Over The Wire (ASX: OTW) and Eureka Group (ASX: EGH). MNF has not provided a financial update to the market since the two trading updates provided back in late April. We believe the core earnings drivers of the MNF business have experienced, and continue to experience, significant industry tailwinds which was clear in the Q2 results provided by MNF peer Bandwidth (US: BAND) at the end of July. BAND reported that CPaaS annual revenue had grown by 40% YOY, together with customer accounts up 30% YOY. Looking forward management provided guidance for ~30% revenue growth in its CPaaS division for Q3 as businesses return to a more normal working environment. In our view, MNF should be a beneficiary of similar trends and we expect a strong FY20 result with solid growth in group recurring gross margin together with an update on the opening of their Singapore network, and the potential for further geographic expansion in FY21.

#### 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



CONSTRUCTIVE ENGAGEMENT



## MARKET INSIGHT CONTINUED

For OTW we are hopeful that the FY20 result will be the start of a road to redemption for OTW and its management team after a 24 month period of unpredictable results for what should be a highly predictable business. The key focus points will be on the organic revenue growth of the recurring business, together with margin expansion that should occur due to this organic revenue growth. The management team has provided a detailed forecast of what they believe the organic revenue trajectory of the business should be over the next 18 month period, and it will be key to see whether not this is on track in a volatile market environment, but also one that potentially benefits OTW as many businesses look to upgrade their IT capability across many facets of their business operations. Finally, OTW has not made an acquisition for almost 2 years and with significant balance sheet capability it will be interesting to see if management will provide any update on this part of their strategy.

Regarding BSA and EGH, these results should be somewhat simpler in nature due to their respective operations but the key for both businesses is how they develop and then execute on a strategy to grow their respective revenue bases and as well as their margins both organically and inorganically. Both businesses have had historical issues that have now been resolved, so it will be key for us to see how they can execute on growth strategies and prove their respective service offerings possess a competitive advantage and add real value to their client base.

## STOCK CONTRIBUTION ANALYSIS

The table below lists the top 5 positive stock contributors to the investment portfolio since inception, December 2017. The stocks listed below may or may not be current holdings within the portfolio.

TOP 5 POSITIVE CONTRIBUTORS	CONTRIBUTION TO RETURN (%NAV)
MNF Group Limited (ASX: MNF)	5.11%
Over The Wire Holdings Limited (ASX: OTW)	4.20%
Enero Group Limited (ASX: EGG)	3.46%
Service Stream Limited (ASX: SSM)	1.24%
360 Capital Total Return Fund (ASX: TOT)	0.74%

## INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	6 MONTHS	1 YEAR	2 YEARS (P.A.)	INCEPTION (P.A.)	INCEPTION (Total Return)
NSC Investment Portfolio Performance*	+1.53%	-14.72%	+4.34%	-4.68%	-5.00%	-12.79%
S&P/ASX Small Ordinaries Accumulation Index	+1.39%	-10.95%	-8.49%	-0.77%	+1.96%	+5.30%
Performance Relative to Benchmark	+0.14%	-3.77%	+12.83%	-3.91%	-6.96%	-18.09%

\* 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	\$177.4 million
Number of Holdings	9 Long Positions
Cash Weighting	0.76%
Standard Deviation of Returns (NSC)	19.30%
Standard Deviation of Returns (XSOAI)	21.22%
Downside Deviation (NSC)	13.13%
Downside Deviation (XSOAI)	15.13%
Percentage of Positive Months (NSC)	47%
Percentage of Positive Months (XSOAI)	53%
Shares on Issue	158,190,839
NSC Directors Shareholding (Ordinary Shares)	2,213,910

## 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

Chief Financial/

Operating Officer

Richard Preedy

Business Development

Manager

Nina Dunn

Compliance Officer

Julie Coventry

Marketing & Communications

Manager

Angela Zammit

## ENQUIRIES

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