

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 30 JUNE 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	\$0.72	\$0.75	\$0.565	(19.29%)	7.08%

MARKET INSIGHT

For the month of June, the NSC Investment Portfolio increased by +1.33%, outperforming the Benchmark S&P/ASX Small Ordinaries Accumulation Index (ASX: XSOAI) which increased by +0.92%. As at the end of June the NSC Investment Portfolio was made up of 13 long positions with a portfolio weighted average market capitalisation of \$171 million. There was one notable event for the portfolio in an otherwise quiet month which came from Consolidated Operations Group (ASX: COG).

INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS*

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FY Total Return
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 an investor presentation which provided much needed detail about the current business operations together with a detailed progress report on the development of their white label loan product. To put this into context we believe this is the first ever presentation that has been released outside of financial results and AGM periods. The most significant piece of information was that COG anticipate that their first loan product will be a prime (low credit risk) equipment (e.g. car loan) product which is scheduled to go live at the start of CY20. With over \$4 billion of equipment currently financed to SME clients through the COG network the opportunity clearly exists to offer their own loan products that fit the end SME client's needs. If COG can gain 10% market share through its network of finance brokers, then it is not inconceivable that COG could write over \$400 million of prime equipment loans per annum. Whilst not stating the net interest margin (NIM) COG might be able to generate, the presentation did provide some detailed information on the spread breakdown for both prime and mid-prime products as well as a potential return on equity profile. Assuming a 1% NIM on all loans, then a revenue line of circa \$10 million p.a. could be generated. The next step for COG will be to announce how this prime loan product will be funded, from both an equity and debt perspective. We believe that any number of large financial institutions would be eager to fund a prime loan product with a firm such as COG which has an established distribution network. We expect an update to be made in respect of these funding arrangements before the end of the CY and potentially at the FY result.


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

A new investment was added to the portfolio in June, a business called Experience Co (ASX: EXP). EXP listed in mid-2015 at a share price of circa \$0.40 and reached a high of approximately \$0.90 in late 2017. Since then the company has issued numerous downgrades, and more recently announced a complete overhaul of the board and management team. From a business perspective we believe EXP has a number of strong attributes, the first of which is a dominant position in its two main markets, namely the skydiving market in Australia and New Zealand where it has over 60% market share; and the tourism cruise market in Far North Queensland where it has one of the two licences to offer cruise services from Cairns to the Great Barrier Reef. Secondly, from a financial perspective, EXP has little gearing on the balance sheet and in theory its cash conversion should be excellent as most customers either pre-pay or pay on the day of attendance. Thirdly, and perhaps most importantly, EXP has recently brought in an Executive Chairman and CEO, both of whom have significant experience operating tourism-related businesses. Bob East, who has taken over the role of Executive Chairman, is the current Chairman of Tourism Australia and prior to this was the former CEO of hotel company Mantra Group. The incoming CEO John O'Sullivan was the former Managing Director of Tourism Australia, recently stepping down after leading that organisation for the last 5 years. We believe that over the longer term these Board and management changes will be an important catalyst in reversing the recent fortunes of EXP.

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)	3.01%
Enero Group Limited (ASX: EGG)	2.95%
Service Stream Limited (ASX: SSM)	1.25%
360 Capital Total Return Fund (ASX: TOT)	1.07%
Broadcast Services Australia Limited (ASX: BSA)	0.51%

INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	6 MONTHS	1 YEAR	INCEPTION (P.A.)	INCEPTION (Total Return)
NSC Investment Portfolio Performance*	+1.33%	-2.02%	-13.29%	-10.63%	-16.27%
S&P/ASX Small Ordinaries Accumulation Index	+0.92%	+16.81%	+1.92%	+6.28%	+10.10%
Performance Relative to Benchmark	+0.41%	-18.83%	-15.21%	-16.91%	-26.37%

* 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	\$170.8 million
Number of Holdings	13 Long Positions
Cash Weighting	3.18%
Standard Deviation of Returns (NSC)	10.06%
Standard Deviation of Returns (XSOAI)	12.45%
Downside Deviation (NSC)	7.33%
Downside Deviation (XSOAI)	7.85%
Percentage of Positive Months (NSC)	42%
Percentage of Positive Months (XSOAI)	53%
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$101.20
Shares on Issue	166,936,029
NSC Directors Shareholding (Ordinary Shares)	1,960,054

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

Manager

Julia Stanistreet

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