

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 30 SEPTEMBER 2018

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
\$0.91	\$0.93	\$0.90	\$0.795	(12.64%)	6.92%

MARKET INSIGHT

For the month of September, the NSC Investment Portfolio fell by -1.34%, compared to the Benchmark Small Ordinaries Accumulation Index (XSOAI) which fell by -0.35%. During September, NSC paid a 3 cent per share fully franked dividend and completed a Dividend Re-Investment Plan (DRP) with all shares acquired on-market, eliminating any dilution for shareholders. The first quarterly dividend for FY2019 will be announced later in October.

The most notable event within the month was the announcement by the Federal Government to hold a Royal Commission into the aged care sector within the next year. Subsequently, all three listed aged care providers were sold off heavily with Japara Healthcare (ASX: JHC) falling by over 22% (excluding the dividend that was paid in the same period). Although this is a disappointing result, we believe that over the medium term this will ultimately end up being a positive for the larger listed operators, given their ability to better manage the cost of running aged care facilities due to their size and scale. In the short term however, it is likely the share prices will be subject to increased volatility given the uncertainty of what the Royal Commission report may contain. Currently there are roughly 200,000 residential aged care beds in Australia, of which Japara manage around 4,000, and the other listed providers Estia (ASX: EHE) and Regis (ASX: REG) manage 6,000 and 6,700 respectively. The average occupancy of their facilities is close to 94%. The companies make approximately \$270-\$280 in revenue per bed, per occupied day, of which the government contributes around 70%. Over the past three years, the Government has removed a significant amount of funding from the sector with estimates ranging between \$1bn - \$3bn. Further to this, a report by StewartBrown suggested that 40% of facilities are loss making. Recently, Japara acquired Riviera Healthcare which was previously run by a small loss-making operator and had failed to provide a high standard of care. Due to their scale, Japara was able to significantly enhance the level of care provided, and they acquired the portfolio at well below replacement cost.

It is our view that the alternatives to residential aged care are lacking and it appears the Government is reluctant to increase funding for the sector, so to see an improvement in the quality of care, we believe they need to incentivise the private sector to fund it. In our view, residential aged care companies will find it hard to make excess profits due to the sensitive nature of the services that they provide. However, we do believe that a more stable regime in government funding will allow companies like Japara to provide the quality of care that is needed, whilst also allowing for a satisfactory return on invested capital. It is also our view that a consolidation of the sector will significantly improve care levels, and the larger players like JHC will benefit. Even so, we have reduced the size of our investment in JHC due to significant regulatory noise that is bound to eventuate over the next 12-18 months, and which may well put pressure on short term occupancy levels. There is a strong case to be made for taking aged-care providers out of the public spotlight, not being publicly listed businesses, where they would be better off with access to more patient and stable private capital.

INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	3 MONTH	6 MONTH	INCEPTION (NOM.)
NSC Investment Portfolio Performance*	-1.34%	+2.06%	-1.29%	-1.44%
S&P/ASX Small Ordinaries Accumulation Index	-0.35%	+1.10%	+8.86%	+9.22%
Outperformance Relative to Benchmark	-0.99%	+0.96%	-10.15%	-10.66%

* 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 nom) 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



FY18 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)	+2.89%
Enero Group Limited (ASX: EGG)	+1.94%
Consolidated Operations Group Limited (ASX: COG)	+1.86%
Service Stream Limited (ASX: SSM)	+1.48%
360 Capital Total Return Fund (ASX: TOT)	+0.94%

KEY METRICS – SUMMARY DATA

Weighted Average Market Capitalisation of the Investments	\$202 million
Number of Holdings	12 Long Positions
Cash Weighting	6.44%
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$102.40
Shares on Issue	168,995,806
NSC Directors Shareholding (Ordinary Shares)	1,919,792

INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS*

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
FY19	-0.60%	+4.07%	-1.34%									
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 Folder

Chief Financial/
Operating Officer
Richard Preedy

Business Development
Manager
Julia Stanistreet

Communications
& Marketing
Megan Walker

Distribution &
Sales Manager
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