

NAOS Small Cap Opportunities Company Limited

ABN 47 107 617 381

MONTHLY INVESTMENT REPORT AND NTA UPDATE



KEY CHARACTERISTICS

1. Concentrated Small Cap Exposure with a Long Term Value Focus

NSC seeks to provide investors with exposure to high quality, undervalued small cap companies (market capitalisation generally >\$20 million to <\$1 billion) with an industrial bias in a concentrated structure.

2. Sustainable Growing Dividend Stream

NSC aims to deliver shareholders with a sustainable growing stream of dividends franked to the maximum extent possible over the longer term.

3. Focus on Quality of Companies Not Quantity or Size

Our primary focus is on developing a deep understanding and appreciation of the companies in our portfolio. We believe the best way to achieve this is to focus on a select number (target 0-30) of high quality investment ideas, in order to capitalise on our 'long term knowledge & liquidity advantage'.

4. Portfolio Flexibility with a Benchmark Unaware Approach

This means we are not forced holders of stocks with large benchmark/index weightings that we are not convinced are attractive investment propositions.

5. Significant Alignment of Interests with Shareholders

NAOS Directors have established initial shareholdings in NSC and intend to create meaningful positions, providing shareholders with a significant alignment of interests.

6. Environmental, Social and Governance (ESG) NAOS adopts an ESG screen across its investments.

Net Tangible Asset Value Breakdown as at 28 February 2018

Pre Tax NTA:	\$1.02
Post Tax & Pre Unrealised Gains Tax NTA:	\$0.97
Post Tax NTA:	\$0.96
Share Price:	\$0.94

Investment Portfolio Performance & Market Insight

The NSC Investment Portfolio produced a return of -0.57% for the month of February, compared to the Benchmark Small Ordinaries Accumulation Index (XSOAI) which returned +0.03%. February was a month full of activity within the NSC investment portfolio as all the positions held within the portfolio updated the market with their half yearly results for FY2018.

This reporting season brought with it increased price volatility, as investor expectations were both elevated and somewhat skittish. This allowed the investment team to establish the first large core position (>10% weighting) in a software telecommunications business called MNF Group (ASX: MNF). The market update provided by MNF confirmed that the business continues to grow organically at a strong rate, due to the unique software services that MNF provides to enterprise businesses both domestically and around the world. What took the market by surprise was the announcement of a \$3.5 million investment (that will be fully expensed in FY18) into the launch of a mobile brand called Pennytel. MNF will spend \$3.5 million initially in FY18, yet the reduction in market capitalisation since the announcement has been circa \$100 million, which we believe has been a short-term over-reaction by the wider market. MNF provided some further detail to their business plan, which included an expected EBITDA contribution from Pennytel in FY20 of \$7.9 million, based on 250,000 users.

Over the years the MNF management team has proved themselves as very conservative when it comes to both investing internally in new initiatives, as well as acquiring external business, and we believe this time is no different. Overlaying key strengths such as the competitive advantage MNF has in launching a Mobile Virtual Network Operator (MVNO) due to their back-end software, a net cash balance sheet, a strong core business with tier-1 customers such as Skype and Twilio (US: TWLO) and a highly aligned and proven management team, we believe the recent sell-off may represent an exceptional buying opportunity on a 2-3-year view.

Pleasingly most of the other smaller core positions within the NSC investment portfolio also reported results that were in-line with our expectations. Pleasingly, Service Stream (ASX: SSM) reported a standout result and announced an on-market share buyback. Japara Healthcare (ASX: JHC) provided a result that was in line with the recent market update, though they continue to expect profit growth from FY19 onward to be driven by better occupancy, and the initial completion of the development pipeline into operational centres.

Investment Portfolio Performance to 28 February 2018

	1 Month	2 Month	Inception (nom.)
NSC Investment Portfolio Performance*	-0.57%	-1.49%	-0.40%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+0.03%	-0.51%	+2.67%
Outperformance Relative to Benchmark	-0.60%	-0.98%	-3.07%

* 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.

Positive Stock Contribution Analysis

(Contribution is what has attributed to NSC's performance since 1 December 2017)

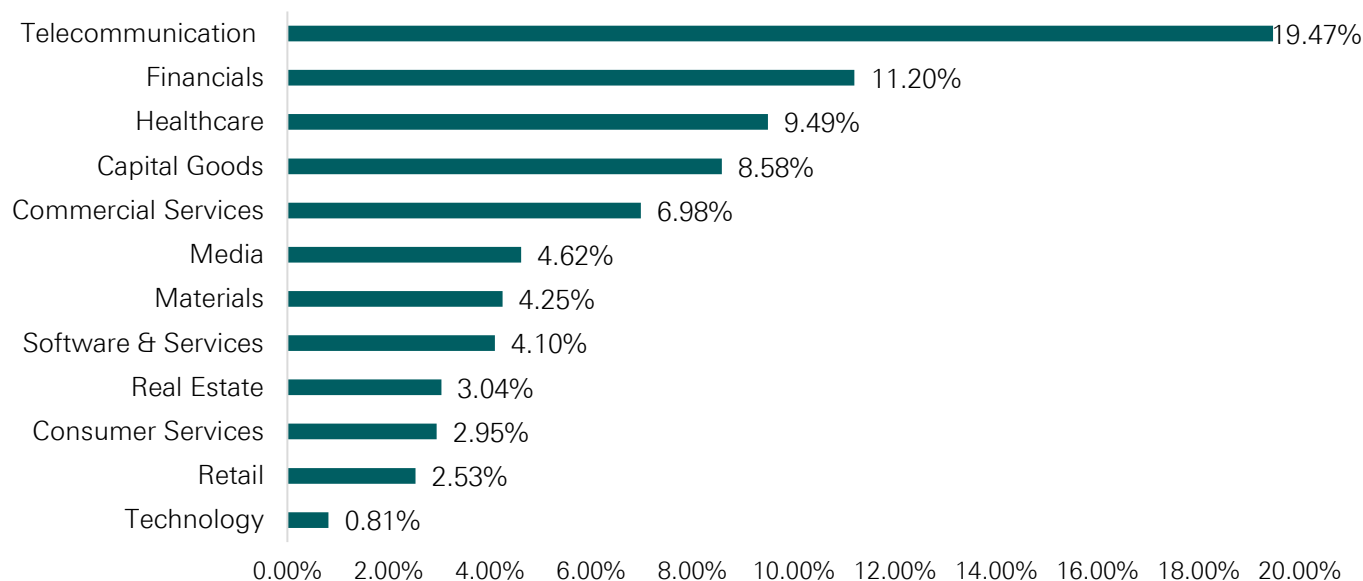
The table below lists the top positive contributors to NSC's total return since 1 December 2017. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-30 securities at any one time. We will disclose securities in which NSC has a current substantial holding, or when we have exited the position.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Service Stream Ltd	+1.53%	Australian Ethical Investment	+0.20%
360 Capital Group	+0.66%	Pro Medicus Ltd	+0.14%
Over The Wire Ltd	+0.43%	360 Capital Total Return Fund	+0.12%
Enero Group	+0.40%	Oceania Healthcare Ltd	+0.03%

Portfolio Positioning as at 28 February 2018

As at 28 February 2018, the portfolio's net equity exposure was 78.02% with a subsequent cash weighting of 21.98%. As at month end, the portfolio was comprised of 15 long positions and no short positions.

Net Industry Exposure



Company Meetings

The NAOS investment philosophy is based around the belief that for a small-cap company to succeed and generate strong returns for shareholders it must be led by a motivated, proven and experienced management team. This is why the NAOS Investment Team has direct contact with many listed and unlisted emerging companies across a wide range of industries. A selection of the companies the team had contact with during the month were as follows:

- Helloworld Travel Ltd (HLO AU)
- Beacon Lighting Group (BLX AU)
- Service Stream Ltd (SSM AU)
- Over The Wire Ltd (OTW AU)
- Sealink Travel Group (SLK AU)
- DWS Limited (DWS AU)
- Consolidated Operations Group (COG AU)
- iSentia Group Ltd (ISD AU)
- Wellcom Group Ltd (WLL AU)
- Australian Ethical Investment Ltd (AEF AU)

Portfolio Characteristics – Summary Data as at 28 February 2018

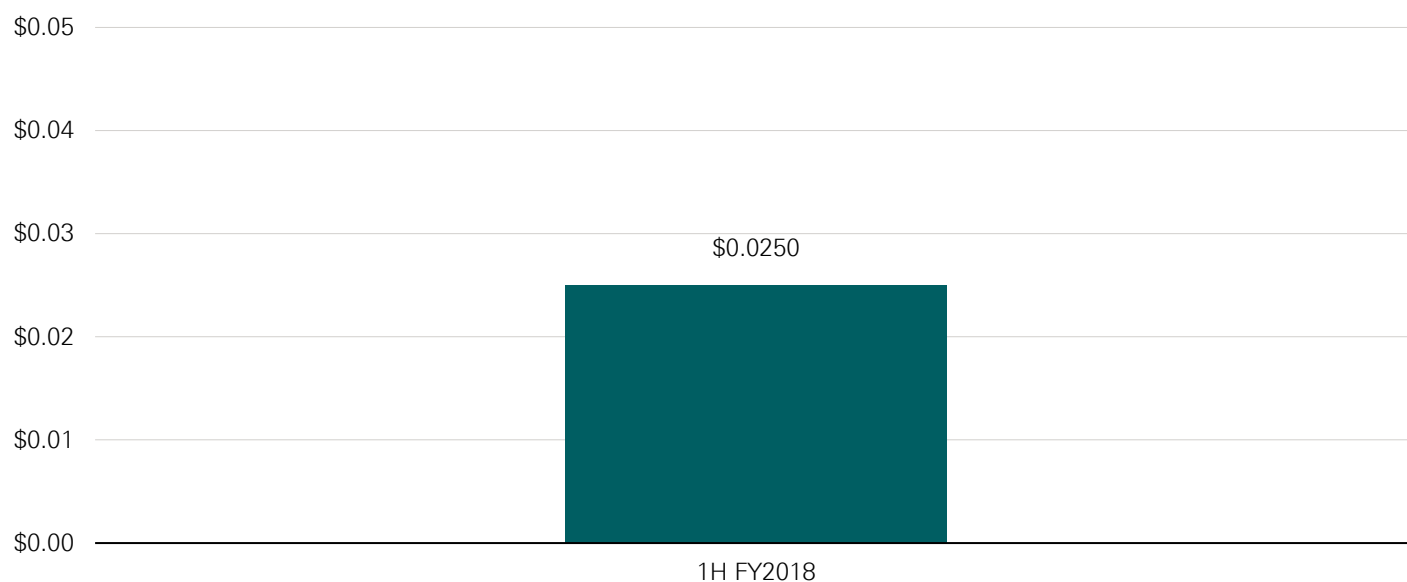
Below are a number of historical portfolio risk measures calculated from 1 December 2017. Our aim in providing these metrics is to demonstrate to investors how NSC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and to also preserve investors' capital. A glossary of the terms used below and the method used for calculating them can be found on the last page of this report.

Average Market Capitalisation of the Portfolio's Equity Holdings	\$331 million
Percentage of Positive Months (NSC)	33%
Percentage of Positive Months (XSOAI)	67%
Standard Deviation of Returns (NSC)	-
Standard Deviation of Returns (XSOAI)	-
Correlation of Returns to XSOAI	-
Sortino Ratio	-
Downside Deviation (NSC)	-
Downside Deviation (XSOAI)	-
Current Estimated Portfolio Beta (6 Month Historical)	0.24

Capital Structure – Summary Data as at 28 February 2018

Share Price	\$0.94
Premium/(Discount) to NTA (Pre-Tax)	(-7.84%)
Shares on Issue	168,995,806
NSC Directors Shareholding (Ordinary Shares)	1,007,288
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$101.21

Dividend Profile – Fully Franked Dividends (Cents per share)



A Description of Statistical Terms/Glossary

Average Market Capitalisation of the Portfolio's Equity Holdings – The sum of, the percentage of each individual position relative to the total value of all Equity Holdings multiplied by each company's respective market capitalisation (Cash and Income/Debt securities are excluded).

Standard Deviation of Returns – A historical analysis of the volatility in monthly returns also known as historical volatility.

Correlation of Returns – A statistical measure of how two variables move in relation to each other. In this case the two variables are NSC and XSOAI. If the correlation is 1 then the two securities should have the same monthly returns and if the correlation is -1 and XSOAI had a return of -1.00% then NSC would be expected to have a return of +1.00%

Sortino Ratio – A modification of the Sharpe ratio that differentiates harmful volatility from general volatility by taking into account the standard deviation of negative asset returns, called downside deviation. A large Sortino Ratio may potentially indicate that there is a low probability of a large capital loss. Returns less than that of the benchmark (Small Ordinaries Accumulation Index - XSOAI) are classified as negative asset returns.

Downside Deviation - A measure of downside risk that focuses on returns that fall below a minimum threshold or minimum acceptable return (MAR). For our calculations, we use returns negative to zero for the calculation of portfolio downside deviation.

Portfolio Beta – A measure of the volatility, or systematic risk of a portfolio or security. A beta of 1 indicates a portfolio/security's price will move with the market. A beta of less than 1 indicated that a security/portfolio should be less volatile than the market.

XSOAI – S&P/ASX Small Ordinaries Accumulation Index

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.

CORPORATE DIRECTORY

Directors

Trevor Carroll (Independent Chairman)
David Rickards (Independent Director)
Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Rajiv Sharma

Registered Office

Level 34, MLC Centre
19 Martin Place
Sydney NSW 2000

Share Registry

Boardroom Pty Limited
12/225 George Street
Sydney NSW 2000
Telephone: 1300 737 760
Facsimile: 1300 653 459

Investment Manager

NAOS Asset Management Limited
Level 34, MLC Centre
19 Martin Place
Sydney NSW 2000
(AFSL: 273529)

Investment Team

Sebastian Evans (Chief Investment Officer)
Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Ben Rundle (Portfolio Manager)
Chadd Knights (Investment Analyst)

Chief Financial/Operating Officer

Richard Preedy

Senior Legal Counsel

Rajiv Sharma

Communications & Marketing

Megan Walker

Business Development Manager

Julia Stanistreet

Distribution & Sales Manager

Scott Hildebrand

ENQUIRIES

Julia Stanistreet

Telephone: (02) 9002 1576
Email: jstanistreet@naos.com.au

Megan Walker

Telephone: (02) 9002 1577
Email: mwalker@naos.com.au
Email: enquiries@naos.com.au

www.naos.com.au