

# NAOS Small Cap Opportunities Company Limited (NSC)

ABN 47 107 617 381

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

NAOS

### 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 and employees (including related parties) own over 1.2 million NSC shares, 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 31 March 2018

Pre Tax NTA:	\$0.99
Post Tax & Pre Unrealised Gains Tax NTA:	\$0.95
Post Tax NTA:	\$0.93
Share Price:	\$0.865

The above NTA figures are after the 2.5 cents per share fully franked interim dividend paid on 29 March 2018.

### Investment Portfolio Performance & Market Insight

The NSC Investment Portfolio produced a return of +0.25% for the month of March, compared to the Benchmark S&P/ASX Small Ordinaries Accumulation Index ('XSOAI') which returned -2.29%.

Throughout March there were notable events across some of the holdings within the Investment Portfolio, including Japara Healthcare (ASX: JHC), Helloworld Travel (ASX: HLO) and Consolidated Operations Group (ASX: COG). Firstly, JHC released two announcements throughout March, the first relating to the legal ruling on the ability to charge capital refurbishment deductions, which resulted in JHC allocating a one-off expense to the FY18 guidance and therefore downgrading this from a statutory point of view. We would note that the downgraded guidance was purely due to this specific issue and if we were to add back this one-off, it highlights the significantly stronger second half that JHC were expecting. JHC also announced the acquisition of a private aged care operator, Riviera Health for \$39 million, inclusive of all freehold property rights. We believe this was a sound acquisition and will give JHC two brand new facilities, a significant land portfolio for future Greenfield developments, as well as 507 bed licences, of which just 265 are currently allocated and can be sold if ever needed for a significant sum.

Secondly, HLO announced the acquisition of a web-based flight booking technology services provider called Flight Systems Pty Ltd. Although only a small acquisition, we believe this will further provide the systems and service offering that is required for HLO to slowly increase their profit margins to that of their industry peers, without comprising their client offering.

Finally, COG announced an on-market buyback of up to 10% of the total shares on issue. With COG providing guidance for FY18 and FY19, coupled with the surplus funds on the COG balance sheet, the Board have concluded that their own equity is clearly undervalued, especially in relation to unlisted acquisitions which they have completed in the past. What remains consistent is the continued disintermediation of the market place, a further example being the announcement by ANZ in March that they will suspend operations within their consumer asset financing division. As this trend continues, more customers will be forced to look for funding alternatives such as COG, while the big-4 banks continue to downsize and focus purely on mortgage lending products.

### Investment Portfolio Performance to 31 March 2018

	1 Month	3 Month	Inception (nom.)
NSC Investment Portfolio Performance*	+0.25%	-1.24%	-0.15%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	-2.29%	-2.79%	+0.32%
Outperformance Relative to Benchmark	+2.54%	+1.55%	-0.47%

\* 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)

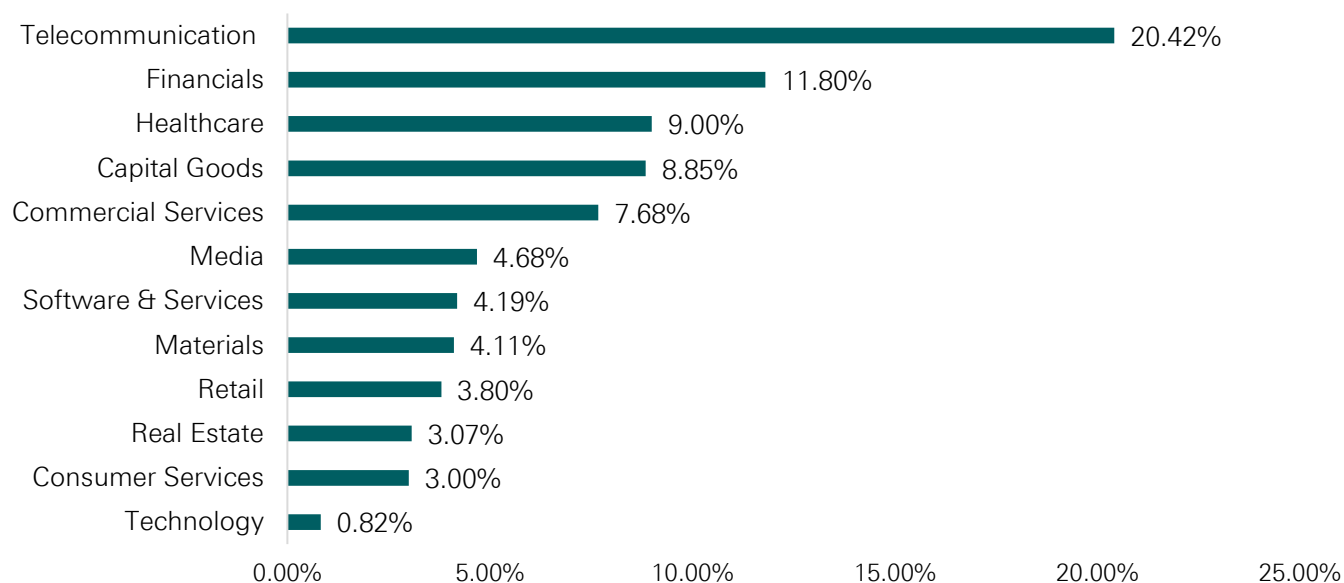
The table below lists the top positive contributors to NSC's total return since 1 December 2017. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated 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	+1.77%	Enero Group Ltd	+0.31%
360 Capital Group Ltd	+0.68%	Australian Ethical Investment Ltd	+0.20%
360 Capital Total Return Fund	+0.35%	Pro Medicus Ltd	+0.14%
Over The Wire Ltd	+0.31%	Japara Healthcare Ltd	+0.03%

### Portfolio Positioning as at 31 March 2018

As at 31 March 2018, the portfolio's net equity exposure was 81.42% with a subsequent cash weighting of 18.58%. As at month end, the portfolio was comprised of 14 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:

- MotorCycle Holdings Ltd (MTO AU)
- Objective Corporation Ltd (OCL AU)
- Macquarie Telecom Group Ltd (MAQ AU)
- Fiducian Group Ltd (FID AU)
- Integral Diagnostics Ltd (IDX AU)
- Clover Corporation Ltd (CLV AU)
- Southern Cross Electrical Engineer Ltd (SXE AU)
- Adairs Ltd (ADH AU)
- IVE Group Ltd (IGL AU)
- Helloworld Travel Ltd (HLO AU)

### Portfolio Characteristics – Summary Data as at 31 March 2018

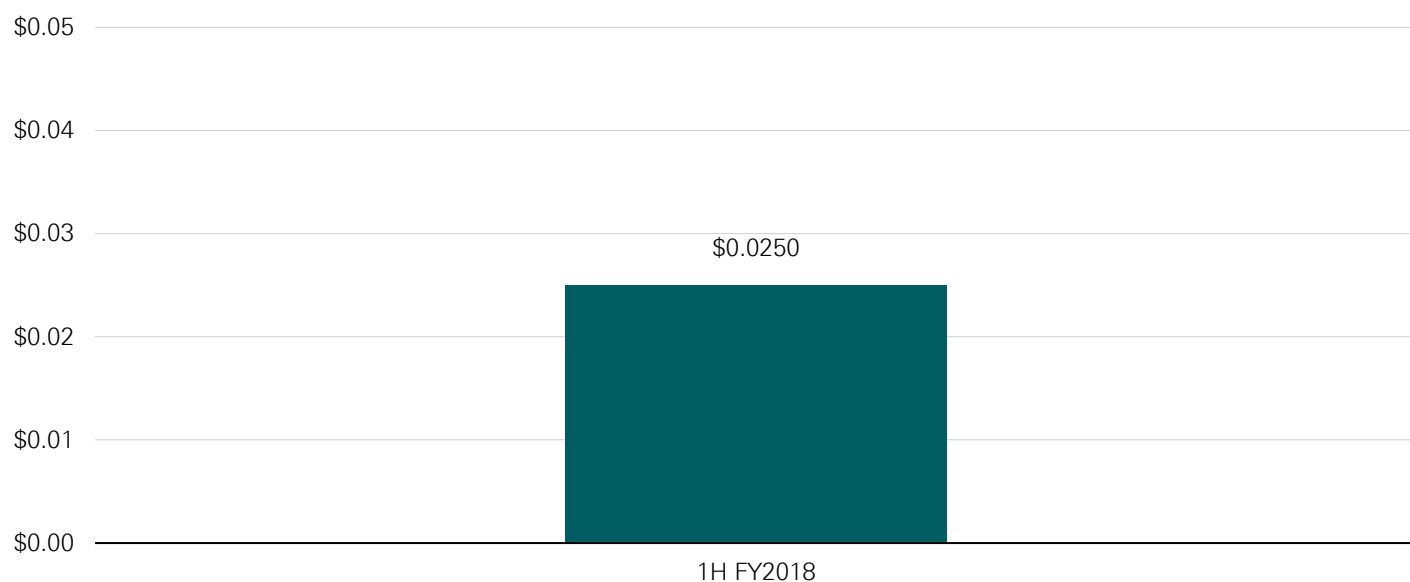
Below are a number of historical portfolio risk measures calculated from 1 December 2017. Our aim in providing these metrics is to demonstrate to investors how NSC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and to also preserve investors' 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	\$339 million
Percentage of Positive Months (NSC)	50%
Percentage of Positive Months (XSOAI)	50%
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)	0.20

### Capital Structure – Summary Data as at 31 March 2018

Share Price	\$0.865
Premium/(Discount) to NTA (Pre-Tax)	(-12.63%)
Shares on Issue	168,995,806
NSC Directors Shareholding (Ordinary Shares)	1,035,380
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$101.80

### 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 (S&P/ASX 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:

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### CORPORATE DIRECTORY

#### Directors

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

#### Company Secretary

Rajiv Sharma

#### Registered Office

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Sydney NSW 2000

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#### Investment Manager

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#### 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

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