

ASX: NSC

NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED

ABN 47 107 617 381

NSC generally invests in small-cap industrial companies with a market cap of \$100m-\$1b

MONTHLY INVESTMENT REPORT & NTA UPDATE

AS AT 31 JULY 2021

Net Tangible Asset Value Breakdown

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings	Cumulative Fully Franked Dividends	Fully Franked Dividend Yield
\$1.08	\$1.10	\$1.01	\$0.97	8	\$0.1725	4.89%

Market Insight

The NSC Investment Portfolio finished slightly down for July, producing a negative return of -0.68% and underperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +0.68%. It was a relatively quiet month across the portfolio with just one of the core investments providing any update of significance, namely COG Financial Services (ASX: COG). The August reporting season will provide great insight into a number of the core investments, particularly those which have not updated the market for some time such as BSA Limited (ASX: BSA) and Big River Industries (ASX: BRI). The only core investment which we will not receive an update from will be Gentrack (ASX: GTK), as they have a financial year-end of 30 September.

Investment Portfolio Performance Monthly and FY Returns*

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY22	-0.68%												-0.68%
FY21	+1.53%	+3.17%	-0.09%	+2.38%	+6.19%	+4.25%	+1.05%	+11.30%	+4.51%	6.33%	+6.52%	+0.32%	+58.40%
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%

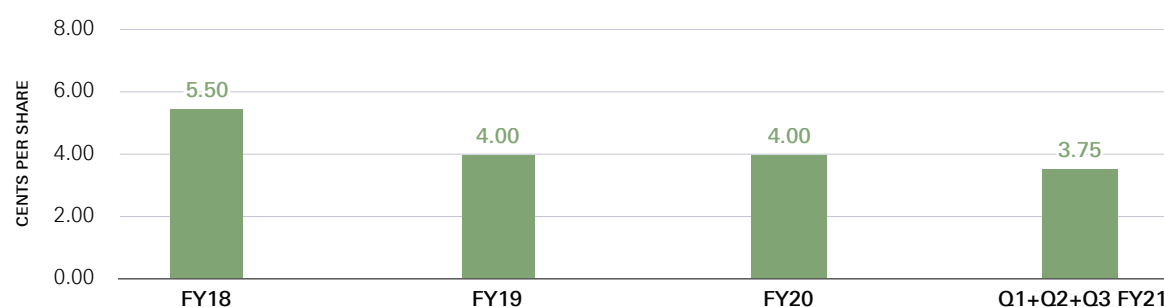
*Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Performance has not been grossed up for franking credits received by shareholders.

COG released profit guidance for FY21 after providing a Q4 update and as has been the trend for the entire financial year the results didn't disappoint with FY21 NPATA +130% ahead of FY20. This result was driven by two main factors, firstly the earnings in the finance broking and aggregation (FB&A) business which almost doubled, and secondly by COG increasing their shareholding in Westlawn Finance Group. COG also stated that a slowdown in Q4 due to delays in deliveries for new equipment means that COG is entering FY22 with a strong forward orderbook. Even though FY21 was a stellar year for COG we believe this financial year may be the year that solidifies COG as an industry leader. FY22 provides an opportunity for COG to focus on growing their insurance broking offering which is run by former Steadfast (ASX: SDF) executive Cameron Bott. The run-off lease book should continue to generate a significant amount of free cash flow and we believe the strategic investment in Earlypay (ASX: EPY) also provides further options for COG. If COG can execute on the above and continue to build out its FB&A software to an industry leading standard whilst continuing to bolt-on further brokers, then the future will look very bright for a business that assisted in funding over \$5 billion of equipment finance through its network in FY21.

As we enter the August reporting season, we will be eagerly awaiting announcements from BSA Limited (ASX: BSA) and Big River Industries (ASX: BRI), both of which have not provided any significant update for some time. With regards to BSA this will arguably be one of its most important updates for some time as much of the hard work relating to new contract wins has

Fully Franked Dividend Profile (Cents Per Share)

NSC aims to deliver shareholders a sustainable growing stream of dividends, franked to the maximum extent possible.



Conviction. Long Term. Aligned

NAOS

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

been completed and in our view the focus must now turn to execution, capital management and inorganic growth options. We will be looking for clarity around the potential for further NBN work due to the upgrade works planned for the network over the next 3 years, and a significant update on capital management given the share buyback which was announced 8 months ago has not acquired one share. It will also be interesting to see if BSA has made any progress on the M&A front, either to leverage its significant cost base and/or provide a complementary offering. We remain favourably disposed to BSA and its potential but are increasingly concerned about the pace of change/execution to realise shareholder value in a satisfactory timeframe. Finally, the BRI result will be of interest where we hope to see specific detail relating to the integration of the recently acquired Timberwood business and an update on cost and revenue synergy targets. We will also be looking for any commentary on the demand environment, how BRI has been able to manage margins in such a dynamic environment, along with any commentary around the pipeline for strategic bolt-on acquisitions.

Core Investment Portfolio Examples



Over The Wire
ASX: OTW

Over The Wire is a founder led B2B provider for IT & telecommunication systems. OTW's purpose is to simplify technology to empower business through service offerings such as a national voice network, public cloud, PaaS/ IaaS, cyber security services and on demand cloud connectivity.



Eureka Group
ASX: EGH

Eureka Group is a provider of quality and affordable rental accommodation for independent seniors within a community environment. EGH owns 30 villages and manages a further 9 villages with a total of 2,147 units across Queensland, Tasmania, South Australia, Victoria and New South Wales.



Big River
ASX: BRI

Big River is a large distributor of building material products as well as a manufacturer of high value niche timber products. Big River is an integrated Australian timber products business that operates across the full continuum from procurement of raw materials through to sale of finished products to end users which are then distributed across 21 sites across Australia and New Zealand.

Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
NSC Investment Portfolio Performance*	-0.68%	+31.27%	+54.96%	+27.13%	+12.08%	+8.56%	+35.14%
S&P/ASX Small Ordinaries Accumulation Index	+0.68%	+11.80%	+32.30%	+10.02%	+9.21%	+9.47%	+39.31%
Performance Relative to Benchmark	-1.36%	+19.47%	+22.66%	+17.11%	+2.87%	-0.91%	-4.17%

*Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Returns compounded for periods greater than 12 months. 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	\$198.8 million
Cash Weighting	0.30%
Standard Deviation of Returns (NSC)	18.61%
Standard Deviation of Returns (XSOAI)	19.40%
Downside Deviation (NSC)	11.59%
Downside Deviation (XSOAI)	13.19%
Shares on Issue	152,749,272
NSC Directors Shareholding (Ordinary Shares)	2,285,956
NSC Options Closing Price (ASX: NSCOA)	\$0.050
NSC Options on Issue	50,907,960

NAOS Asset Management Giving Back

NAOS Asset Management Limited, the Investment Manager, donates approximately 1% of all management fees to the following charities.



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